

Report of the Auditors

Ho and Ho & Company

Certified Public Accountants
Room 304, Arion Commercial Centre,
2-12 Queen's Road West,
Hong Kong.

To the shareholders of

Dongfang Electrical Machinery Company Limited

(Incorporated in The People's Republic of China with limited liability)

We have audited the financial statements on pages 31 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ho and Ho & Company

Certified Public Accountants

Hong Kong, 19th March 2004

Consolidated Income Statement

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2003 RMB'000	2002 RMB'000 (As restated)
Turnover	4	1,199,622	979,253
Cost of sales		(894,105)	(758,533)
Gross profit		305,517	220,720
Other revenue	5	27,781	50,714
Distribution costs		(15,035)	(15,031)
Administrative expenses		(268,478)	(165,230)
Impairment losses on property, plant and equipment		(1,211)	—
Profit from operations	6	48,574	91,173
Finance costs	7	(28,453)	(40,001)
Share of results of associates		5	8
Profit before taxation		20,126	51,180
Income tax charge	10	(1,510)	(552)
Profit before minority interests		18,616	50,628
Minority interests		2	(8)
Net profit for the year		18,618	50,620
Basic earnings per share	12	RMB0.041	RMB0.112
Diluted earnings per share		Not applicable	Not applicable

Balance Sheets

As at 31st December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)


		THE GROUP		THE COMPANY	
	NOTES	2003 RMB'000	2002 RMB'000 (As restated)	2003 RMB'000	2002 RMB'000 (As restated)
Non-current assets					
Intangible assets	13	1,222	2,833	1,158	1,679
Property, plant and equipment	14	536,063	432,459	515,909	408,367
Construction in progress	15	94,002	88,648	92,207	88,517
Investments in subsidiaries	16	—	—	50,672	55,294
Interests in associates	17	172	167	172	167
Investment securities	18	1,499	1,499	1,499	1,499
		632,958	525,606	661,617	555,523
Current assets					
Inventories	19	581,338	453,455	530,491	405,872
Amounts due from customers for contract works	20	160,719	144,669	160,443	144,111
Trade receivables	21	775,240	733,583	718,950	686,344
Bills receivables		46,961	6,557	15,871	6,157
Prepayment		181,829	86,623	172,518	76,204
Other receivables		47,066	62,864	45,895	58,915
Trading securities	22	—	62	—	62
Amounts due from subsidiaries	29	—	—	3,122	23,740
Amount due from an associate	29	6,964	6,533	6,964	6,533
Pledged bank deposits		123,574	155,528	111,460	154,478
Bank deposits with maturity over three months		215,553	257,584	211,553	255,584
Bank balances and cash		958,550	354,827	926,164	335,861
		3,097,794	2,262,285	2,903,431	2,153,861
Current liabilities					
Trade payables	23	86,962	81,834	52,974	45,504
Bills payables		172,006	124,222	172,006	124,222
Other payables		173,935	128,242	162,360	116,777
Accrued expenses		74,647	57,006	60,189	40,969
Receipts in advance		1,556,591	379,496	1,464,973	373,136
Amounts due to customers for contract works	20	109,628	125,577	94,705	111,736
Tax liabilities	24	145,330	161,975	135,287	161,153
Unsecured long-term loans					
- amount due within one year	25	255,000	140,000	255,000	140,000
Unsecured short-term bank loans		125,600	262,100	125,600	262,100
		2,699,699	1,460,452	2,523,094	1,375,597
Net current assets		398,095	801,833	380,337	778,264
		1,031,053	1,327,439	1,041,954	1,333,787

Balance Sheets *(continued)*

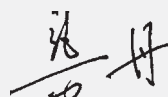
As at 31st December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

		THE GROUP		THE COMPANY	
		2003	2002	2003	2002
	NOTES	RMB'000	RMB'000 (As restated)	RMB'000	RMB'000 (As restated)
Capital and reserves					
Share capital	26	450,000	450,000	450,000	450,000
Reserves	27	515,171	496,553	526,954	503,787
		965,171	946,553	976,954	953,787
Minority interests		882	886	—	—
Non-current liability					
Unsecured long-term loans	25	65,000	380,000	65,000	380,000
		1,031,053	1,327,439	1,041,954	1,333,787

The financial statements on pages 31 to 55 were approved and authorised for issue by the Board of Directors on 19th March 2004 and are signed on its behalf by :



ZHU YUANCHAO
CHAIRMAN



GONG DAN
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	Total equity <i>RMB'000</i>
At 1st January 2001	1,146,059
Loss for the year	
- As previously reported	(262,085)
- Prior year adjustments (Note 28)	11,959
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At 31st December 2001 and 1st January 2002 (As restated)	895,933
Profit for the year	
- As previously reported	34,740
- Prior year adjustments (Note 28)	15,880
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At 31st December 2002 and 1st January 2003 (As restated)	946,553
Profit for the year	18,618
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At 31st December 2003	<u>965,171</u>

Consolidated Cash Flow Statement

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	2003 RMB'000	2002 RMB'000 (As restated)
OPERATING ACTIVITIES		
Profit before taxation	20,126	51,180
Adjustments for :		
Share of results of associates	(5)	(8)
Interest expense	28,453	40,001
Interest income	(14,768)	(12,081)
Impairment losses on property, plant and equipment	1,211	—
Depreciation and amortisation	55,387	40,944
Written off of and provision for / (reversal of) doubtful debt	31,553	(8,492)
Written off of inventories to net realizable value	10,904	925
Loss / (gain) on disposals of property, plant and equipment	2,602	(119)
Gain on disposal of trading securities	(20)	(9,250)
Operating cash flows before movements in working capital	135,443	103,100
Increase in net amounts due from / to customers for contract works	(31,999)	(215,400)
Increase in inventories	(138,786)	(19,809)
Increase in trade receivables, other receivables, bills receivables and prepayment	(192,735)	(9,993)
Increase in amount due from an associate	(719)	—
Increase in trade payables, bills payable, other payables, accrued expenses and receipts in advance	1,293,341	272,280
Decrease in tax liabilities	(17,456)	(11,827)
Cash generated from operations	1,047,089	118,351
PRC enterprise income tax paid	(699)	(1,226)
NET CASH FROM OPERATING ACTIVITIES	1,046,390	117,125
INVESTING ACTIVITIES		
Decrease in bank deposits with maturity over three months and pledged bank deposits	73,985	63,458
Purchase of property, plant and equipment, construction in progress and intangible assets	(165,599)	(133,016)
Proceeds from disposal of trading securities	82	39
Interest received	14,768	12,081
Proceeds from disposal of property, plant and equipment	1,869	747
Acquisition of a business	—	(7,042)
Proceeds from disposal of investment securities	—	42,537
NET CASH USED IN INVESTING ACTIVITIES	(74,895)	(21,196)
FINANCING ACTIVITIES		
Repayment of borrowings	(471,100)	(368,459)
Interest paid	(31,270)	(42,249)
Dividends paid to minority shareholders	(2)	—
New bank borrowings raised	134,600	282,100
NET CASH USED IN FINANCING ACTIVITIES	(367,772)	(128,608)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	603,723	(32,679)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	354,827	387,506
CASH AND CASH EQUIVALENTS AT END OF THE YEAR - Bank balances and cash	958,550	354,827

Notes to the Financial Statements

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

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 organisation 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 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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice 12 "Income Taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants.

INCOME TAXES

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 years. Accordingly, no prior year adjustment has been required.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows :

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

INTERESTS IN ASSOCIATES

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the amount of the investment in an associate reached zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

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

INTANGIBLE ASSETS

(i) Goodwill

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

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

(ii) Technology know-how

Expenditure on acquired technology know-how is capitalised and amortised using the straight-line method over their useful lives of 5 years.

(iii) Impairment of intangible assets

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

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

Land use rights are stated in the balance sheet date at cost less accumulated amortisation and accumulated impairment losses. The value of land use rights is amortised on a straight line basis over the period of the land use rights.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation and amortisation are provided to write off the cost of other items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum :

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

INVESTMENT IN SECURITIES

Investment securities are stated at cost less any provision for impairment losses.

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

INVENTORIES

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

CONSTRUCTION CONTRACTS

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

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

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

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

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

REVENUE RECOGNITION

(i) Sale of goods

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

(ii) Construction contracts

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

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

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

(iii) Repair, upgrade and maintenance service income

Revenue from repair, upgrade and maintenance services is recognised when services are rendered.

(iv) Interest income

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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are treated as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

FOREIGN CURRENCIES

The Company and its subsidiaries in the PRC maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the rates quoted by The People's Bank of China prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are re-translated into RMB at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2003 RMB'000	2002 RMB'000 (As restated)
Turnover		
Sales revenue from Hydro power generators, steam power generators and AC/DC electrical motors	1,085,191	838,061
Rendering of repair, upgrade, maintenance and other services	114,431	141,192
	1,199,622	979,253

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.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

5. OTHER REVENUE

	2003 RMB'000	2002 RMB'000 (As restated)
Interest income	14,768	12,081
Gain on disposal of trading securities	20	9,250
Tax refund	34	21,765
Gain on disposal of raw materials and work in progress	7,667	1,726
Other income	5,292	5,892
	27,781	50,714

6. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations is stated after charging / (crediting) :-		
Depreciation on property, plant and equipment**	50,482	35,565
Written off of inventories to net realisable value	10,904	925
Staff costs ** (Note 8)	203,952	168,955
Auditors' remuneration	970	1,070
Research and development costs **	36,319	28,269
Amortisation of intangible assets	585	676
Loss / (gain) on disposals of property, plant and equipment	2,602	(119)
Written off of and provision for / (reversal of) doubtful debts	31,553	(8,492)

** Included in the research and development costs are staff costs and depreciation on property, plant and equipment of RMB26,264,000 (2002 : RMB19,389,000) and RMB4,320,000 (2002 : RMB4,703,000) respectively, which have not been included in staff costs and depreciation of property, plant and equipment as disclosed above.

7. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank loans, wholly repayable within 5 years	24,347	33,050
Interest on other loans, wholly repayable within 5 years	6,923	9,199
	31,270	42,249
Total borrowing costs	(2,817)	(2,248)
Less : Amount capitalised in respect of construction in progress		
	28,453	40,001

8. STAFF COSTS

	2003 RMB'000	2002 RMB'000
Salaries and wages	200,048	124,207
Staff welfare	30,168	64,137
	230,216	188,344

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2003 RMB'000	2002 RMB'000
Fees	—	—
Other emoluments :		
- basic salaries and allowances		
- Executive directors	444	347
- Non-executive directors	—	54
- Independent non-executive directors	—	14
- Supervisors	86	89
	530	504
- bonuses		
- Executive directors	—	6
- Supervisors	26	3
	26	9
- contributions to pension schemes		
- Executive directors	94	20
- Non-executive directors	—	4
- Supervisors	25	7
	119	31
	675	544

Except for the directors' and supervisors' emoluments disclosed above, certain directors and supervisors of the Company have received emoluments from the holding company, DFEW, which totaling RMB130,000, part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors and supervisors consider it is impractical to apportion this amount between their services to the Group and their services to the Company's holding company.

The emoluments of the directors and supervisors fell within the following bands :

	Number of individuals	
	2003	2002
Emolument bands		
Nil - RMB1,000,000	9	10

No directors waived any emoluments for the years ended 31st December 2003 and 2002. In addition, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group or as compensation for loss of office.

(b) FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Group in 2003 and 2002 were all directors of the Company and the details of their emoluments are included in note 9a.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

10. INCOME TAX CHARGE

	2003 RMB'000	2002 RMB'000
Income tax charge comprises :		
Taxation attributable to the Company and its subsidiaries		
PRC enterprise income tax		
- Provided for the year	1,009	552
- Under-provision in prior years	501	—
	1,510	552

Enterprises 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 financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

The tax charge for the year can be reconciled to the profit before tax per the income statement as follows :

	2003 RMB'000	2002 RMB'000 (As restated)
Profit before tax	20,126	51,180
Tax charge at applicable tax rate of 15% (2002 : 15%)	3,019	7,677
Tax effect of tax losses not recognised	(2,560)	(7,426)
Under-provision in prior years	501	—
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	550	301
Tax charge for the year	1,510	552

Pursuant to a document issued by the State Tax Bureau of the PRC on 23rd February 1994, the income tax provided should be subject to an income tax rate of 15% on the assessable profit for the Company. Other companies of the Group are subject to the income tax rate prevailing in the territories in which they operate.

At the balance sheet date, deferred tax assets arising from estimated unused tax losses and other temporary differences of RMB8,134,000 (2002 : RMB14,131,000) and RMB 21,051,000 (2002 : RMB17,032,000) respectively have not been recognised in the financial statements due to the unpredictability of future profit streams.

At the balance sheet date, the estimated unused tax losses are RMB54,228,000 (2002 : RMB94,208,000) that will expire at various dates up to and including 2006.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB18,618,000 (2002 (as restated) : RMB50,620,000).

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB18,618,000 (2002 (as restated) : RMB50,620,000) and the number of 450,000,000 ordinary shares (2002 : 450,000,000 shares) in issue throughout the year.

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

13. INTANGIBLE ASSETS

	Goodwill RMB'000	Technology know-how RMB'000	Total RMB'000
THE GROUP			
Cost			
At 1st January 2003	1,228	2,664	3,892
Addition	—	38	38
Written off	(1,228)	—	(1,228)
At 31st December 2003	—	2,702	2,702
Accumulated amortisation			
At 1st January 2003	164	895	1,059
Charge for the year	—	585	585
Written back on written off	(164)	—	(164)
At 31st December 2003	—	1,480	1,480
Net book value			
At 31st December 2003	—	1,222	1,222
At 31st December 2002	1,064	1,769	2,833
THE COMPANY			
Cost			
At 1st January 2003			2,553
Addition			33
At 31st December 2003			2,586
Accumulated amortisation			
At 1st January 2003			874
Charge for the year			554
At 31st December 2003			1,428
Net book value			
At 31st December 2003			1,158
At 31st December 2002			1,679

Technology
know-how
RMB'000

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

14. PROPERTY, PLANT AND EQUIPMENT

	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP						
Cost						
At 1st January 2003	35,626	274,246	476,552	81,281	7,327	875,032
Reclassification	—	774	(1,688)	914	—	—
Addition	—	51,348	108,731	978	1,967	163,024
Disposal	—	(4,544)	(6,805)	(7,513)	(28)	(18,890)
At 31st December 2003	35,626	321,824	576,790	75,660	9,266	1,019,166
Accumulated depreciation, amortisation and impairment						
At 1st January 2003	6,413	97,560	276,376	56,051	6,173	442,573
Reclassification	—	268	(52)	(216)	—	—
Charge for the year	713	8,553	40,665	4,327	544	54,802
Eliminated on disposals	—	(2,795)	(7,919)	(4,747)	(22)	(15,483)
Impairment losses	—	—	1,211	—	—	1,211
At 31st December 2003	7,126	103,586	310,281	55,415	6,695	483,103
Net book value						
At 31st December 2003	28,500	218,238	266,509	20,245	2,571	536,063
At 31st December 2002	29,213	176,686	200,176	25,230	1,154	432,459

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY						
Cost						
At 1st January 2003	35,626	265,531	414,550	77,412	6,354	799,473
Reclassification	—	506	(1,420)	914	—	—
Additions	—	50,777	107,053	509	1,920	160,259
Disposals	—	(4,544)	(5,080)	(6,990)	—	(16,614)
At 31st December 2003	35,626	312,270	515,103	71,845	8,274	943,118
Accumulated depreciation, amortisation and impairment						
At 1st January 2003	6,413	97,191	228,054	53,534	5,914	391,106
Reclassification	—	—	215	(215)	—	—
Charge for the year	713	7,747	36,480	3,421	280	48,641
Eliminated on disposals	—	(2,795)	(6,602)	(4,302)	—	(13,699)
Impairment losses	—	—	1,161	—	—	1,161
At 31st December 2003	7,126	102,143	259,308	52,438	6,194	427,209
Net book value						
At 31st December 2003	28,500	210,127	255,795	19,407	2,080	515,909
At 31st December 2002	29,213	168,340	186,496	23,878	440	408,367

As at 31st December 2003, the Group and the Company have not obtained the building ownership certificates for certain buildings with net book value of RMB154,967,000.

15. CONSTRUCTION IN PROGRESS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost				
As at 1st January	88,648	63,938	88,517	63,910
Additions	161,374	122,255	132,260	122,152
Capitalisation of interest expenses	2,817	2,248	2,817	2,248
	252,839	188,441	223,594	188,310
Transfer to property, plant and equipment	(158,837)	(99,793)	(131,387)	(99,793)
As at 31st December	94,002	88,648	92,207	88,517

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 RMB'000	2002 RMB'000 (As restated)
Unlisted investments in the PRC, at cost less impairment losses recognised	50,672	55,294

Particulars of the subsidiaries as at 31st December 2003, all of which were limited companies established and operating in the PRC, are as follows :

Name of subsidiary	Issued and fully paid-up registered share capital RMB'000	Percentage of equity interests owned by the Company		Principal activities
		Directly %	Indirectly %	
DFEM Equipment Engineering Co., Ltd.	13,500	97.04	2.22	Provision of services for repair and upgrade of electrical machinery equipment
DFEM Power Equipment Co. Ltd.	42,754	98.83	—	Manufacture and sales of AC/DC electrical motors
DFEM Tooling and Moulding Co., Ltd.	14,600	99.32	—	Manufacture and sales of tools and moulds
DFEM Control Equipment Co., Ltd.	13,000	96.15	—	Manufacture and sales of control equipment of power generators

17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted investments in the PRC	—	—	172	167
At cost less impairment losses recognised	172	167	—	—
Share of net assets	172	167	172	167

Particulars of the associates as at 31st December 2003, all of which were limited liability companies established and operating in the PRC, are as follows :

Name of associate	Percentage of equity interests owned by the Company	Principal activities
	%	
Leshan City Dongle Heavy Piece Handling Co., Ltd.	49	Provision of transportation and warehousing services
Sichuan Dongfang Jiaxin Construction Supervisory Co., Ltd.	40	Provision of construction supervisory services

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

18. INVESTMENT SECURITIES

THE GROUP AND THE COMPANY

2003	2002
RMB'000	RMB'000

Unlisted equity shares in the PRC, at cost less impairment losses recognised	1,499	1,499
--	-------	-------

19. INVENTORIES

THE GROUP

2003	2002
RMB'000	RMB'000

(As restated)

Raw materials	225,869	235,647
Work in progress	275,476	169,651
Finished goods	76,964	46,221
Spare parts and consumables	3,029	1,936
	581,338	453,455

At 31st December 2003, the carrying amount of inventories of the Group that are carried at net realisable value amounted to RMB17,559,000 (2002 : RMB23,675,000).

20. AMOUNTS DUE FROM / (TO) CUSTOMERS FOR CONTRACT WORKS

THE GROUP

2003	2002
RMB'000	RMB'000

(As restated)

Construction contracts in progress at the balance sheet date :

Contract cost incurred	287,530	271,361
Attributable profits less foreseeable losses	39,713	41,879
	327,243	313,240
Less : Progress billings	(276,152)	(294,148)
	51,091	19,092

Represented by :

Amounts due from customers for contract works	160,719	144,669
Amounts due to customers for contract works	(109,628)	(125,577)
	51,091	19,092

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

21. TRADE RECEIVABLES

The Group and the Company offer 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. In order to manage the credit risks associated with trade receivables effectively, credit of customers are evaluated periodically.

An ageing analysis of the trade receivables is as follows :-

	THE GROUP	
	2003 RMB'000	2002 RMB'000 (As restated)
Within 1 year	550,314	431,652
1 - 2 years	84,217	57,361
2 - 3 years	20,031	59,007
More than 3 years	120,678	185,563
	775,240	733,583

22. TRADING SECURITIES

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Listed shares in Hong Kong, at market value	—	62

23. TRADE PAYABLES

An ageing analysis of the trade payables is as follows :-

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Within 1 year	80,633	79,233
1 - 2 years	4,397	1,751
2 - 3 years	1,368	626
More than 3 years	564	224
	86,962	81,834

24. TAX LIABILITIES

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Value added tax	123,633	137,961
Business tax	1,767	1,227
Enterprise income tax	1,864	1,054
Others	18,066	21,733
	145,330	161,975

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

25. LONG-TERM LOANS

THE GROUP AND THE COMPANY

	2003 RMB'000	2002 RMB'000
Bank loans, unsecured	260,000	371,000
Other loans, unsecured	60,000	149,000
	320,000	520,000

The long-term loans are repayable as follows :-

	Bank loans		Other loans		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	225,000	110,000	30,000	30,000	255,000	140,000
More than one year but not exceeding two years	35,000	225,000	30,000	30,000	65,000	255,000
More than two years, but not exceeding five years	—	35,000	—	89,000	—	124,000
More than five years	—	1,000	—	—	—	1,000
	260,000	371,000	60,000	149,000	320,000	520,000
Less : Amount due within one year shown under current liabilities	(225,000)	(110,000)	(30,000)	(30,000)	(255,000)	(140,000)
	35,000	261,000	30,000	119,000	65,000	380,000

Interest on other loans wholly repayable within five years was charged at 3.51% to 5.94% per annum.

26. SHARE CAPITAL

	2003 and 2002	
	No. of shares '000	Amount RMB'000
Registered, issued and fully paid up capital of RMB1 each :		
Legal person shares	220,000	220,000
A shares	60,000	60,000
H shares	170,000	170,000
	450,000	450,000

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

27. RESERVES

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated losses RMB'000	Total RMB'000
THE GROUP					
At 1st January 2001	636,061	27,592	25,998	6,408	696,059
Loss for the year	—	—	—	(262,085)	(262,085)
Prior year adjustments (Note 28)	—	—	—	11,959	11,959
At 1st December 2001 (As restated)	636,061	27,592	25,998	(243,718)	445,933
Profit for the year	—	—	—	34,740	34,740
Prior year adjustments (Note 28)	—	—	—	15,880	15,880
As restated Transfer	636,061	27,592	25,998	(193,098)	496,553
	—	49	24	(73)	—
At 31st December 2002 (As restated)	636,061	27,641	26,022	(193,171)	496,553
Profit for the year	—	—	—	18,618	18,618
Transfer	—	213	107	(320)	—
At 31st December 2003	636,061	27,854	26,129	(174,873)	515,171
	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated losses RMB'000	Total RMB'000
THE COMPANY					
At 1st January 2001	636,061	27,592	25,998	9,558	699,209
Loss for the year	—	—	—	(257,557)	(257,557)
Prior year adjustments (Note 28)	—	—	—	11,959	11,959
At 1st December 2001 (As restated)	636,061	27,592	25,998	(236,040)	453,611
Profit for the year	—	—	—	34,296	34,296
Prior year adjustments (Note 28)	—	—	—	15,880	15,880
At 31st December 2002 (As restated)	636,061	27,592	25,998	(185,864)	503,787
Profit for the year	—	—	—	23,167	23,167
At 31st December 2003	636,061	27,592	25,998	(162,697)	526,954

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

27. RESERVES *(continued)*

(a) STATUTORY RESERVES

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

As the Company's net profit in 2003 was not sufficient to cover the accumulated losses brought forward from previous years, the board of directors made the resolution on 19th March 2004 that no statutory reserve was appropriated from the net profit of 2003.

(b) DISCRETIONARY SURPLUS RESERVE

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

As the Company's net profit in 2003 was not sufficient to cover the accumulated losses brought forward from previous years, the board of directors made the resolution on 19th March 2004 that no discretionary surplus reserve was appropriated from the net profit of 2003.

28. CHANGE IN ACCOUNTING POLICY

In prior years, the Group and the Company recognised the construction contract revenue for hydro power generators by percentage of completion method when the stage of completion of the contract activity reached 70% and the outcome of the construction contracts can be estimated reliably.

The Board of directors resolved that the above method of revenue recognition of hydro power generators was inappropriate. They resolved that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date.

This change in accounting policy has been applied retrospectively- resulting in an increase in the Group's profit for the year ended 31st December 2002 by RMB15,880,000 (2001: decrease the loss by RMB11,959,000), and an increase in net assets as at 31st December 2002 by RMB27,839,000 (2001: RMB11,959,000). Comparative information has been restated to reflect this change in accounting policy.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

29. RELATED PARTY TRANSACTIONS AND BALANCES

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

(A) TRANSACTION WITH DFEC AND ITS SUBSIDIARIES :

	2003 RMB'000	2002 RMB'000
Expenditure		
- Interest paid and payable	7,135	9,199
Revenue		
- Sales on behalf	35,513	27,947

(B) TRANSACTIONS WITH DFEW AND ITS SUBSIDIARIES :

	2003 RMB'000	2002 RMB'000
Expenditure		
- Purchase of materials	46,901	16,626
- Packaging costs	21,327	15,935
- Freight and maintenance	39,952	29,758
- Others	22,733	14,486
	130,913	76,805
Revenue		
- Provision of power supply	4,624	8,450
- Proceeds on sales of raw materials	11,085	693
- Others	3,416	941
	19,125	10,084

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003

(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

29. RELATED PARTY TRANSACTIONS AND BALANCES

(continued)

(C) CURRENT ACCOUNTS WITH RELATED PARTIES ARE AS FOLLOWS :

Name of related company	Related balances	2003 RMB'000	2002 RMB'000
DFEC	Trade receivables	29,068	34,093
	Receipts in advance	30,690	8,267
DFEC Finance Company (subsidiary of DFEC)	Bank balances	13,891	53,785
	Unsecured short-term bank loans	10,000	—
DFEW and its subsidiaries	Trade receivables	8,808	—
	Prepayment	651	—
	Other receivables	—	851
	Trade payables	16,849	1,255
	Bills payable	7,869	5,023
	Other payables	2,331	28,076
	Receipts in advance	808	—

At the balance sheet date, DFEW provide guarantees for the banking facilities amounting to RMB325,600,000 (2002 : RMB418,100,000) granted to the Group at no charge.

Except as disclosed above, other loans advanced from DFEC amounting to RMB60,000,000 (2002 : RMB149,000,000), interest is charged at 3.51% to 5.94% per annum.

Balances with subsidiaries and associate are unsecured, interest free and have no fixed terms of repayment. Details of the balances with subsidiaries and associate of the Group are set out in the balance sheet of the Group and the Company.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2003
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

30. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments arising from acquisition of construction in progress:

	2003 RMB'000	2002 RMB'000
Contracted but not provided for	61,637	15,902
Authorised but not contracted for	53,275	61,850
	114,912	77,752

31. RETIREMENT BENEFITS PLANS, HEALTH CARE ASSURANCE AND HOUSING FUND

The Group's full-time employees are covered by a government sponsored defined contribution pension scheme, and are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the pension scheme on 20% of employees' salaries, which are charged as an expense when the contributions are due. In addition, the Group has offered an additional pension scheme to the key staffs and major technical staffs, as a medium to long-term encouragement. The additional pension scheme, which is an insurance scheme and operated by China Life Insurance Company Limited. Staffs under the scheme are entitled to a yearly pension at their retirement dates. The above pension schemes are wholly contributed by the Group. The amount of contribution depends on the result for the year. For the year ended 31st December 2003, the pension scheme contributions made by the Group amounted to RMB26,572,000 (2002 : RMB17,908,000).

On 26th June 2003, the Group has abolished the socialised health care scheme and carried out a defined contribution health care scheme. Under this scheme, the Group is required to make annual contributions to the health care scheme on 7% of employees' salaries. The maximum amount of reimbursed medical expenses for each staff is RMB34,000 per annum. In addition, the Group has offered additional health care scheme to the staffs, which is also an insurance scheme and operated by China Life Insurance Company Limited. This additional healthcare scheme covered the protection over the basis maximum amount of reimbursed medical expenses. For the year ended 31st December 2003, the health care scheme contributions made by the Group amounted to RMB6,213,000 (2002 : Nil).

The Group's full-time employees are entitled to a housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund on 8% of employees' salaries. From 1st July 2003, the contribution rate was changed to 9%. For the year ended 31st December 2003, the housing fund contributions made by the Group amounted to RMB9,318,000 (2002 : RMB 7,500,000).

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in conformity to the presentation of the financial statements for the year.

33. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 19th March 2004.

Report of the Auditors

SPCSCPA (2004) NO.11

To the Shareholders of

Dongfang Electrical Machinery Company Limited

We have audited the Balance Sheet, Consolidated Balance Sheet of Dongfang Electrical Machinery Company Limited (hereinafter referred to as "DFEM") as at December 31, 2003, the related Statement of Income and Profit Appropriation, Consolidated Statement of Income and Profit Appropriation, and the Statement of Cash Flow, and Consolidated Cash Flow Statement for the year then ended. The Company's management is responsible for preparing these financial statements and our responsibility is to express an opinion on them based on our audit.

We conducted our audit in accordance with "Independent Auditing Standards of Certified Public Accountants of China", these standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement or omission. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors, as well as evaluating the overall presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the audited financial statements are in conformity with "Accounting Standards for Enterprises" and "Accounting System for Business Enterprises" of the People's Republic of China, and present fairly, in all material aspects, the financial position of the Company as at December 31, 2002, the results of its operation and cash flow for the year then ended.

**Shenzhen Pan-China Schinda
Certified Public Accountants**

Chinese Certified Public Accountant

Chinese Certified Public Accountant

Shenzhen
The People's Republic of China

March 19, 2004

Consolidated Balance Sheet

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003.12.31 RMB	2002.12.31 RMB
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	1,297,677,203.31	767,939,260.04
Short-term investments	2(7)	—	62,100.00
Notes receivable	6	46,961,000.00	6,556,629.00
Accounts receivable	2(8), 7, 44(3)	775,239,494.19	733,582,932.10
Other receivable	2(8), 7, 44(3)	53,709,580.87	54,510,716.67
Prepayments	8, 44(3)	181,829,359.42	86,623,426.59
Inventories	2(9), 9	581,337,419.48	453,455,060.69
Amount due from customer	10	160,719,286.12	144,669,248.55
Deferred expenses		38,643.63	159,631.33
Total Current Assets		3,097,511,987.02	2,247,559,004.97
LONG TERM INVESTMENTS:			
Long-term investment	2(10), 4, 11	(3,592,095.29)	(4,218,527.16)
Including: Equity investment difference		(5,263,150.30)	(5,885,000.38)
Total long-term investments		(3,592,095.29)	(4,218,527.16)
Fixed Assets:			
Fixed assets at cost	2(11), 12	953,956,746.54	858,443,209.65
Less: Accumulated depreciation	2(11), 12	457,415,642.36	419,733,431.38
Fixed assets, net		496,541,104.18	438,709,778.27
Less: Provision for impairment of fixed assets	2(11), 12	1,211,724.50	—
Fixed assets, net		495,329,379.68	438,709,778.27
Construction materials		19,327,922.65	2,534,334.53
Construction-in-progress	2(12), 13	74,673,968.51	37,913,583.96
Total fixed assets		589,331,270.84	479,157,696.76
INTANGIBLE ASSETS AND OTHER ASSETS			
Intangible assets	2(14), 14	29,723,256.65	32,046,262.33
Long term deferred expenses	2(15), 15	1,746,408.32	2,315,883.00
Other long-term assets		—	200,000.00
Total intangible assets and other assets		31,469,664.97	34,562,145.33
TOTAL ASSETS		3,714,720,827.54	2,757,060,319.90

Consolidated Balance Sheet *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003.12.31 RMB	2002.12.31 RMB
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings	16	125,600,000.00	262,100,000.00
Notes payable	17, 44(3)	172,005,817.24	124,221,640.95
Trade creditors	18, 44(3)	86,962,353.14	81,834,279.93
Receipts in advance	19, 44(3)	1,556,590,902.21	379,496,573.04
Salaries payable		15,813,772.68	30,788,231.87
Staff welfare payable		17,883,887.50	14,903,502.76
Tax payable	20	145,329,774.50	161,975,096.15
Other unpaid amounts	21	6,212,254.02	8,630,078.07
Other payable	22, 44(3)	43,511,688.69	45,196,006.48
Accruals	23	74,647,344.36	57,006,421.71
Provision for estimated contract losses	10	19,684,346.69	32,619,197.20
Current portion of long-term liabilities	24	255,000,000.00	140,000,000.00
Amount due to customer	10	89,943,976.69	92,957,785.49
Total current liabilities		2,609,186,117.72	1,431,728,813.65
LONG TERM LIABILITIES:			
Long-term loans	25	65,000,000.00	380,000,000.00
Long-term payables	26	685,252.84	685,252.84
Specific loans	27	89,827,896.52	28,038,634.66
Other long-term liabilities		155,513,149.36	408,723,887.50
Total long-term liabilities		2,764,699,267.08	1,840,452,701.15
Minority interests	2(20)	884,490.98	886,092.13
Shareholders' equity:			
Share capital	28	450,000,000.00	450,000,000.00
Capital reserve	29	607,787,161.81	607,497,970.47
Surplus reserve	2(20), 30	53,982,903.38	53,663,084.67
Including: Statutory public welfare fund		26,128,160.86	26,021,554.62
Undistributed profits (Accumulated Losses)	31	(162,632,995.71)	(195,439,528.52)
Total shareholders' equity		949,137,069.48	915,721,526.62
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,714,720,827.54	2,757,060,319.90

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

Legal Representative

General Accountant

Finance Manager

Balance Sheet

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003.12.31 RMB	2002.12.31 RMB
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,249,177,330.91	745,923,358.67
Short-term investments	2(7)	—	62,100.00
Notes receivable		15,871,000.00	6,156,629.00
Accounts receivable	2(8), 42(1)	735,266,097.28	694,893,837.83
Other receivable	2(8), 42(1)	52,820,541.91	96,436,996.02
Prepayments		205,126,864.56	97,124,673.45
Inventories	2(9)	530,490,819.04	405,874,865.24
Amount due from customer		160,443,183.11	144,110,793.66
Deferred expenses		38,643.63	134,076.53
Total Current Assets		2,949,234,480.44	2,190,717,330.40
LONG TERM INVESTMENTS:			
Long-term investment	2(10), 42(2)	49,699,401.18	51,562,259.91
Total long-term investments		49,699,401.18	51,562,259.91
FIXED ASSETS:			
Fixed assets at cost	2(11)	885,517,813.02	790,225,439.21
Less: Accumulated depreciation	2(11)	417,110,255.41	383,536,323.43
Fixed assets, net		468,407,557.61	406,689,115.78
Less: Provision for impairment of fixed assets	2(11)	1,160,754.10	-
Fixed assets, net		467,246,803.51	406,689,115.78
Construction materials		19,477,922.65	4,026,255.53
Construction-in-progress	2(12)	75,085,658.06	37,783,182.51
Total fixed assets		561,810,384.22	448,498,553.82
INTANGIBLE ASSETS AND OTHER ASSETS			
Intangible assets	2(14)	29,658,387.23	30,891,957.23
Long term deferred expenses	2(15)	1,464,498.46	1,707,977.14
Other long-term assets		—	200,000.00
Total intangible assets and other assets		31,122,885.69	32,799,934.37
TOTAL ASSETS		3,591,867,151.53	2,723,578,078.50

Balance Sheet *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003.12.31 RMB	2002.12.31 RMB
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings		125,600,000.00	262,100,000.00
Notes payable		176,005,817.24	124,571,708.95
Trade creditors		79,222,406.27	67,107,580.11
Receipts in advance		1,479,248,926.36	373,135,755.58
Salaries payable		15,511,237.97	28,808,480.52
Staff welfare payable		12,516,796.37	10,467,450.04
Tax payable		135,287,041.90	161,152,832.30
Other unpaid amounts		5,735,856.85	8,465,142.98
Other payable		38,626,708.29	41,263,971.59
Accruals		63,825,946.61	71,095,651.69
Provision for estimated contract losses		19,684,346.69	31,249,200.00
Current portion of long-term liabilities		255,000,000.00	140,000,000.00
Amount due to customer		75,020,810.40	80,487,131.97
Total current liabilities		2,481,285,894.95	1,399,904,905.73
LONG TERM LIABILITIES:			
Long-term loans		65,000,000.00	380,000,000.00
Long-term payables		685,252.84	685,252.84
Specific loans		89,283,566.52	27,471,634.66
Other long-term liabilities		154,968,819.36	408,156,887.50
Total long-term liabilities		2,636,254,714.31	1,808,061,793.23
Shareholders' equity:			
Share capital		450,000,000.00	450,000,000.00
Capital reserve		607,787,161.81	607,497,970.47
Surplus reserve	2(17)	53,589,830.54	53,589,830.54
Including: Statutory public welfare fund		25,997,136.58	25,997,136.58
Undistributed profits (Accumulated Losses)		(155,764,555.13)	(195,571,515.74)
Total shareholders' equity		955,612,437.22	915,516,285.27
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,591,867,151.53	2,723,578,078.50

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

Legal Representative

General Accountant

Finance Manager

Consolidated Statement of Profit and Profit Distribution

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003 RMB	2002 RMB
Revenue	2(17), 32	1,199,621,959.95	979,253,371.36
Less: Cost of Sales	32	900,757,480.88	744,075,360.61
Sales tax and surcharge	3(1), 33	6,282,709.70	2,720,631.10
Profit from principal operations		292,581,769.37	232,457,379.65
Add: Other operating profit	34	10,371,251.15	2,957,706.29
Less: Operating expenses		15,035,030.54	15,031,237.22
Management expenses		261,115,240.53	181,716,820.82
Provision for expected loss		(12,934,850.51)	11,737,297.20
Finance expenses	2(13), 35	16,213,929.32	28,606,967.08
Operating profit (loss)		23,523,670.64	(1,677,236.38)
Add: Investment gain	36	646,702.97	9,530,560.27
Subsidy income	37	13,629,149.95	8,170,000.00
Non-operating income	38	2,391,999.25	3,190,795.63
Less: Non-operating expenses	39	6,064,817.23	2,040,478.92
Total profit (loss)		34,126,705.58	17,173,640.60
Less: Income tax	2(18), 3(2)	1,008,907.36	552,514.17
Minority interests	2(20)	(8,553.30)	8,115.16
Net profit (loss)		33,126,351.52	16,613,011.27
Add: Retained earnings, beginning of period	31	(195,439,528.52)	(211,979,285.66)
Distributable profits		(162,313,177.00)	(195,366,274.39)
Less: Statutory surplus reserve fund	31	213,212.47	48,836.09
Statutory public welfare fund	31	106,606.24	24,418.04
Profit available for distribution to shareholders		(162,632,995.71)	(195,439,528.52)
Less: Common stock dividend payable		—	—
Retained earnings, end of period	31	(162,632,995.71)	(195,439,528.52)

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

Legal Representative

General Accountant

Finance Manager

Statement of Profit and Profit Distribution

December 31, 2003
(prepared under PRC Accounting Standards)

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Annual Report 2003

	NOTES	2003 RMB	2002 RMB
Revenue	2(18), 42(3)	1,122,291,642.11	884,017,372.21
Less: Cost of Sales	42(3)	867,237,764.79	679,603,494.39
Sales tax and surcharge	3(1)	4,857,032.18	1,686,039.47
Profit from principle operations		250,196,845.14	202,727,838.35
Add: Other operating profit		23,946,187.17	5,517,923.63
Less: Operating expenses		11,667,089.42	8,806,283.53
Management expenses		228,166,474.82	152,989,580.64
Provision for expected loss		(11,564,853.31)	10,367,300.00
Finance expenses	2(13)	14,470,933.19	27,633,126.04
Operating profit (loss)		31,403,388.19	8,449,471.77
Add: Investment gain	42(4)	(1,843,092.16)	(1,228,303.35)
Subsidy income		13,595,149.95	8,030,000.00
Non-operating income		2,269,854.56	3,041,209.14
Less: Non-operating expenses		5,618,339.93	1,619,001.07
Total profit (loss)		39,806,960.61	16,673,376.49
Less: Income tax	2(18), 3(2)	—	—
Minority interests	2(20)	—	—
Net profit (loss)		39,806,960.61	16,673,376.49
Add: Retained earnings, beginning of period		(195,571,515.74)	(212,244,892.23)
Distributable profits		(155,764,555.13)	(195,571,515.74)
Less: Statutory surplus reserve fund		—	—
Statutory public welfare fund		—	—
Profit available for distribution to shareholders		(155,764,555.13)	(195,571,515.74)
Less: Common stock dividend payable		—	—
Retained earnings, end of period		(155,764,555.13)	(195,571,515.74)

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

Legal Representative

General Accountant

Finance Manager

Consolidated Cash Flow Statement

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003 RMB
1. Cash flow from operating activities		
Cash received from sales of goods or rendering of services		2,525,687,375.64
Refund of tax		74,341,081.81
Other cash received from operating activities	40	75,529,081.05
Sub-total of cash inflows		2,675,557,538.50
Cash paid for goods and services		1,099,466,441.11
Cash paid to and on behalf of employees		284,233,562.90
Payment of all types of taxes		90,721,211.01
Other cash paid for operating activities	41	109,821,398.39
Sub-total of cash outflows		1,584,242,613.41
Net cash flows from operating activities		1,091,314,925.09
2. Cash flows from investing activities		
Cash received from investment		75,960.00
Cash received from investment earnings		6,411.00
Cash received from disposal of fixed assets, intangible assets, and other long-term assets		1,447,809.00
Other cash received relate to investing activities		44,031,014.81
Sub-total of cash inflows		45,561,194.81
Cash paid to acquire of fixed assets, intangible assets and other long-term assets		168,079,102.45
Cash paid to acquire investments		—
Other cash paid relate to investing activities		3,182,101.84
Sub-total of cash outflows		171,261,204.29
Net cash flows from investing activities		(125,700,009.48)
3. Cash flows from financing activities		
Cash received from raising new capitals		—
Cash received from borrowing		134,600,000.00
Other proceeds relate to financing activities		—
Sub-total of cash inflows		134,600,000.00
Cash repayments of amounts borrowed		471,100,000.00
Cash payments of dividends, profit or interests		24,775,979.04
Other cash payments relate to financing activities		—
Sub-total of cash outflows		495,875,979.04
Net cash flows from financing activities		(361,275,979.04)
4. Effect of foreign exchange rate change on cash flow		(616,025.72)
5. Net increase (decrease) in cash and cash equivalents	2(6)	603,722,910.85

Consolidated Cash Flow Statement (continued)

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003 RMB
1. Reconciliation of net profit to cash flows from operating activities		
Net profit		33,126,351.52
Add: Minority interests		(8,553.30)
Provision for impairment loss of assets		(4,411,185.88)
Provision for estimated loss of assets		(12,934,850.51)
Depreciation of fixed assets		53,166,603.43
Amortization for intangible assets		1,260,884.22
Amortization of long-term deferred expenditure		602,724.68
(Increase) Decrease in deferred expense		120,987.70
(Decrease) Increase in accrued expense		17,640,922.65
(Gain) Loss on disposal of fixed assets, intangible assets and other long-term assets		2,790,067.47
Finance expenses		28,453,051.75
(Gain) Losses arising from investments		(646,702.97)
(Increase) Decrease in inventories		(118,600,020.76)
(Increase) Decrease in operating receivables		(164,235,102.57)
(Decrease) Increase in operating payables		1,256,040,493.79
Others		(1,050,746.13)
Net cash flows from operating activities		1,091,314,925.09
2. Net Increase in cash and cash equivalents		
Cash and cash equivalents, end of the period	5(2)	958,550,327.26
Less: cash and cash equivalents, beginning of the period	5(2)	354,827,416.41
Net Increase (Decrease) in cash and cash equivalents	2(6)	603,722,910.85

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

Legal Representative

General Accountant

Finance Manager

Cash Flow Statement

December 31, 2003
(prepared under PRC Accounting Standards)

	NOTES	2003 RMB
1. Cash flow from operating activities		
Cash received from sales of goods or rendering of services		2,430,053,047.15
Refund of tax		74,307,081.81
Other cash received from to operating activities		114,976,141.47
Sub-total of cash inflows		2,619,336,270.43
Cash paid for goods and services		1,144,659,714.44
Cash paid to and on behalf of employees		250,713,863.59
Payment of all types of taxes		80,491,622.71
Other cash paid for operating activities		71,456,741.72
Sub-total of cash outflows		1,547,321,942.46
Net cash flows from operating activities		1,072,014,327.97
2. Cash flows from investing activities		
Cash received from investment		75,960.00
Cash received from investment earnings		295,097.81
Cash received from disposal of fixed assets, intangible assets, and other long-term assets		1,592,809.00
Other cash received relate to investing activities		44,031,014.81
Sub-total of cash inflows		45,994,881.62
Cash paid to acquire of fixed assets, intangible assets and other long-term assets		166,542,470.05
Cash paid to acquire investments		—
Other cash paid relate to investing activities		—
Sub-total of cash outflows		166,542,470.05
Net cash flows from investing activities		(120,547,588.43)
3. Cash flows from financing activities		
Cash received from raising new capitals		—
Cash received from borrowing		134,600,000.00
Other proceeds relate to financing activities		—
Sub-total of cash inflows		134,600,000.00
Cash repayments of amounts borrowed		471,100,000.00
Cash payments of dividends, profit or interests		23,947,302.53
Other cash payments relate to financing activities		—
Sub-total of cash outflows		495,047,302.53
Net cash flows from financing activities		(360,447,302.53)
4. Effect of foreign exchange rate change on cash flow		(616,025.72)
5. Net increase (decrease) in cash and cash equivalents	2(6)	590,403,411.29

Cash Flow Statement *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

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Annual Report 2003

	NOTES	2003 RMB
1. Reconciliation of net profit to cash flows from operating activities		
Net profit		39,806,960.61
Add: Minority interests		—
Provision for impairment loss of assets		(5,586,475.73)
Provision for estimated loss of assets		(11,564,853.31)
Depreciation of fixed assets		47,245,859.97
Amortization for intangible assets		1,233,570.00
Amortization of long-term deferred expenditure		384,592.32
(Increase) Decrease in deferred expense		95,432.90
(Decrease) Increase in accrued expense		(7,269,705.08)
(Gain) Loss on disposal of fixed assets, intangible assets and other long-term assets		1,068,154.54
Finance expenses		26,922,946.67
(Gain) Losses arising from investments		1,843,092.16
(Increase) Decrease in inventories		(114,541,960.76)
(Increase) Decrease in operating receivables		(88,739,951.85)
(Decrease) Increase in operating payables		1,159,446,764.43
Others		21,669,901.10
Net cash flows from operating activities		1,072,014,327.97
2. Net Increase in cash and cash equivalents		
Cash and cash equivalents, end of the period	42(5)	926,163,651.72
Less: cash and cash equivalents, beginning of the period	42(5)	335,760,240.43
Net Increase (Decrease) in cash and cash equivalents	2(6)	590,403,411.29

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

Legal Representative

General Accountant

Finance Manager

Notes to the Financial Statements

December 31, 2003
(prepared under PRC Accounting Standards)

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.

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 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 Company changed its business registration with the Industrial Commercial Administration Bureau on 19 July 1995.

On 2 April 2003, the Company obtained its new business license under NO. 5106001800189. 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 installment for power station, and the company is allowed to engage in following import and export trade, export 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; Carry out joint venture with foreign enterprises, and international cooperation; pump, environmental protection machine, tooling, module designing, manufacturing and marketing; manufacturing and marketing of computer and its accessories, networking system development; manufacturing and marketing of castings; selling of casting materials (except those are prohibited by the government); contracting overseas power generating equipments, machineries, sets of engineering projects and bid for international project within China; importing materials used in above mentioned overseas projects; sending personnel overseas to carry out above mentioned overseas projects; marketing of equipments for wind power generator, and selling of casting and insulation equipments.

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY

(1) ACCOUNTING SYSTEM

The Company and its subsidiaries implement the "Accounting Standards for Enterprises of the PRC" and "Accounting Systems for Enterprises of the PRC" and supplementary rules.

(2) FINANCIAL YEAR

The fiscal year is from 1 January to 31 December under the Gregorian calendar.

(3) REPORTING CURRENCY

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

(4) BASIS OF PREPARATION 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 Standards for Enterprises of the PRC".

Notes to the Financial Statements *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

(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.

Bank fixed deposit over three months and other restricted deposit of the bank are not treated as cash and cash equivalent in the cash flow statement.

(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. Dividends and interests received during holding period of the investments will reduce the investment cost of the respective investments. At time of disposal of the short-term investments, the income received in excess of the weighted average cost of the investments will be recognized as investment income.

As of the balance sheet date, short-term investments are stated at the lower of weighted average cost or the market price. Provision for impairment on short-term investment is made equal to the amount of investment cost in excess to the net realizable value of the investments and charged against current year's profit and loss account.

(8) COMPUTATION FOR BAD DEBTS

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

Loss on bad debts is accounted for with the allowance method. Provision for bad debts shall be made on receivables in the light of the Company's past experience, the financial position and cash flow of the debtors and other relevant information, and based on the age of the accounts receivables. The provision on bad debts has been recorded in the current year's profit and loss account.

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.

Notes to the Financial Statements *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

(8) COMPUTATION FOR BAD DEBTS *(Continued)*

The Company recognize individual receivables which are apparently not in the same class of the majority of receivable, if apply the same rule for provision of bad debts will not state a true and fair of the financial statements, in such situation the Company applies individual recognition method for these receivables.

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

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

(9) INVENTORIES

Inventories are made up of raw materials, work-in-progress, self-produced semi-finished goods, consigned reprocessing goods, finished products, low value and short-lived articles, and other spare parts and materials. 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 brining the closing inventories to actual costs.

Daily raw material transactions are accumulated for using the actual cost by DFEM Power System Company Limited (the Company's subsidiary, "DFEM Power System Co. Ltd.")

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. Any inventory price loss is charged to the profit and loss account of the year.

Consumable stores and low value and short-lived articles are charged to the income statement when they are brought to the production line.

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

(10) LONG-TERM INVESTMENTS

A. Investments in securities are stated at cost.

B. The long-term investments in equity of the Company and its subsidiaries are accounted for as follows:

Invested companies in which the Company and its subsidiaries holds less than 20% of the equity are stated using cost method. Invested companies in which the Company and its subsidiaries holds more than 20% and less than 50% of the equity are stated using equity method. Invested companies in which the Company and its subsidiaries holds more than 50% of the equity and the 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 using equity method and consolidated.

The Company and its subsidiaries apply the equity method on those long-term equity investments. "Equity investments difference" is the difference between initial investment cost and the Compnay's share of the invested company's owners' equity, which is amortized over 10 years on a straight-line basis. On consolidated financial statements, the difference between equity interest held in the subsidiaries and the share of owners' equity will be net off and those consolidation difference will be reflected in long term investment.

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

Details of long term investments are set out in Note 11.

Notes to the Financial Statements *(continued)*

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2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

(11) FIXED ASSETS AND DEPRECIATION

Fixed assets referred to those tangible assets having a useful life over one year and a unit cost above RMB2,000. 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 devaluation of fixed assets incurs due to the reasons including outdated technology, broken and slow moving on the balance day, the Company and its subsidiaries should make a provision of impairment on individual fixed assets based on the difference between the recoverable amount and the book value of such fixed assets, and the impairment loss is charged to the profit and loss account of the year.

Details of fixed assets and accumulated depreciation are set out in Note 12.

(12) CONSTRUCTION-IN-PROGRESS

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

On the balance day, impairment of construction-in-progress incurred due to the reasons of the three years' continuous adjourn, outdate 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 impairment loss is recorded in the income statement for the current year.

There is no evidence showing that any decrease in value of construction-in-progress has incurred during the year. Therefore, the Company has not made any provision of impairment on construction-in-progress in the current year.

Details of construction-in-progress are set out in Note 13.

(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 takes 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 income statement.

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

Notes to the Financial Statements *(continued)*

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2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

(13) BORROWING COST *(Continued)*

Capitalized interest should be calculated as follows:

$$\begin{array}{lcl} \text{Capitalized interest for} & = & \text{Weighted average of the accumulated} \\ \text{the accounting period} & & \text{fixed assets acquisition amount for the period} \end{array} \quad \times \quad \text{Capitalization ratio}$$

Details of capitalization of finance costs are in notes 13 and 35.

(14) INTANGIBLE ASSET AND AMORTIZATION

Intangible asset 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 the 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 impairment loss is charged to the profit and loss account of the year.

During the year, no impairment of intangible assets was provided, as there is no evidence to show that the recoverable amount of intangible assets less than its book value incurred.

Details of intangible asset and their amortization are set out in Note 14.

(15) AMORTIZATION OF LONG-TERM DEFERRED EXPENSES

Long-term deferred expense refers the lump-sum payment made for the Company's rental property. 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 15.

(16) ACCOUNTING OF CONSTRUCTION CONTRACTS

If one construction contract includes several construction assets, and every construction asset has individual construction plan, the Company and its subsidiaries negotiate every construction asset individually with clients, and they could agree upon or refuse the terms and conditions of every single construction asset, and every individual construction asset's cost and revenue could be identified and measured reliably, then the individual construction asset could be treated as a construction contract itself; if a construction contract is signed with one client or several clients in one deal, and the construction assets within the contract are closed related constitute an integral part of the contract, it is should be treated as a single contract.

The contract cost of the Company and its subsidiaries includes the direct and indirect costs incurred from the beginning of the contract to the end of the contract.

The Company and its subsidiaries recognize contract percentage of completion base on actual cost and its estimated total cost.

The Company and its subsidiaries record the result of the contract to current year's income statement when the contract cost and revenue could be reliable measured; if the contract result could not be reliable measured the cost incurred for the year should be treated as expense. If the estimated total cost exceeds its estimated total revenue, the Company and its subsidiaries should recognize it as expense for the year.

Notes to the Financial Statements *(continued)*

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2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

(16) ACCOUNTING OF CONSTRUCTION CONTRACTS *(Continued)*

The difference between the accrued costs incurred for the contract of the construction-in-progress and the confirmed amount that the gross profit is greater than the settled amount for the contract of the construction-in-progress is stated by the Company as a "amount due from customer", 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 "amount due to customer", 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 the construction contract are set out in Note 10.

(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 could 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 percentage and cost incurred in order to perform the contract can be reliably measured on the balance sheet date, contract cost incurred can be clearly differentiated and reliably measured and the actual contract cost can be compared with the previous projected cost, the contract income is confirmed on the balance sheet date and stated at percentage of completion. When the result of the constructed contract could be measured using percentage of completion method.

When the completed result of the construction project can not 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 cost incurred and recognizes contract expense in the corresponding accounting period; for contract costs which deemed unrecoverable, such costs are expensed immediately with no revenue recognized.

B. Sales of goods

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, sales of goods are recognized.

C. Service revenue

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

Details of revenue from principal operations are set out in Note 32.

(18) ENTERPRISE INCOME TAX

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

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

Notes to the Financial Statements *(continued)*

December 31, 2003
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2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

(19) INFLUENCES OF CHANGES OF ACCOUNTING POLICY, ESTIMATED AND CORRECTION OF ACCOUNTING ERRORS

The Company and its subsidiaries previously recognized contract result when the result of the construction contract nets 70% completion and may be reliably estimated, that is the total contract cost can be reliably measured and the economic benefit relating to the contract can flow into the Company and its subsidiaries, where the completion percentage and cost incurred in order to perform the contract can be reliably measured on the date of the balance sheet, contract cost incurred can be clearly differentiated and reliably measured 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 percentage completion, but now the Company and its subsidiaries use percentage of completion method to record contract results. The Company and its subsidiaries restructured its debt from "Hei Ma Property Company" by its property according to "Accounting Standard for Enterprise - debt restructuring".

According to Board Meeting and "Accounting Standard - Changes of accounting policy, estimate and correction of accounting errors" (Ministry of Finance), adjust previous years' net profit, increase undistributed profit at the beginning of 2002 RMB11,959,245.87, and decrease RMB3,398,393.85 to year 2002's net profit, add together will increase undistributed profit at the beginning of 2003 RMB8,560,852.02.

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

3. TAXATION

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

(1) TURNOVER TAX

Taxable item	Tax item	Tax rate
Sales of goods and other sales income	VAT	17%
Revenue of production	VAT	17%
Revenue of consulting service	VAT	5%

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

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

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

Notes to the Financial Statements *(continued)*

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3. TAXATION *(Continued)*

(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%.

Because the accumulated losses of the Company have not been absorbed, so this year the Company did not prepare its Income Tax Return.

** 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

Land use tax is calculated on the actual occupation of the area of the land, from 1st September 2000 to 30th June 2003 RMB 1 per square meter, from 1st July 2003 RMB 1.5 per square meter.

(5) PERSONAL INCOME TAX

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

4. SUBSIDIARIES AND ASSOCIATES

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

Company Name	Nature of Business	Registered Capital RMB	Actual Investment	Interest Held RMB	Principal Operations	Corporate Classification
1. DFEM Control Equipment Manufacture Co. Ltd*	Manufacture	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**	Manufacture	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 & Manufacture Moulding Co. Ltd.***	Manufacture	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.****	Manufacture	13,500,000	13,100,000	97.04%	Maintenance of Machinery, Technology improvement, Sales machine system manufacturing, environment protection facilities, Specified tailored-made facilities, design, sales, etc.	Limited Liability Company

Notes to the Financial Statements *(continued)*

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4. SUBSIDIARIES AND ASSOCIATES *(Continued)*

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

* 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 verified 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% 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. Its actual capital was verified 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 State-owned Property Operation Co. Ltd., which was renamed to 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. On 8 April 2002, the Company injected cash of RMB 9,398,645.24 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 8,355,694.78. 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 RMB	Actual Investment RMB	Interest Held	Principal Operations	Corporate Classification
1. Leshan City Dongle Heavy Piece Handling Co., Ltd*	Manufactory	1,000,000.00	490,000.00	49%	Handling transportation and warehousing	Limited Liability Company
2. Sichuan Dangfang Jiaxin Construction Supervisory Co., Ltd**	Construction	500,000.00	200,000.00	40%	Consultancy and management of construction	Limited Liability Company
3. Daiyang Real Estate Real Estate 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 Ltd is a joint venture company with limited liability established by the Company and Leshan City Chuanjiang Harbor Shipping Development Company. Its actual capital was verified by Leshan Accounting Firm and recorded in Capital Verification Report of Le Kuai Shi (2001) No.005. The Company modified its accords using equity method based on the Capital Verification Report of Leshan Accounting Firm.						
** Sichuan Dangfang Jiaxin Construction Supervisory Co., Ltd is a joint venture with limited liabilities established by company and DFEW. Its actual capital was verified by Mantong Accounting Firm and recorded in Capital Verification Report of Tun Tong (2001) No. 185. The Company modified its accords using equity method based on the Capital Verification Report of Mantong Accounting Firm.						
*** 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.						

Notes to the Financial Statements *(continued)*

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5. CASH AND CASH EQUIVALENTS

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

Item	2003.12.31			2002.12.31		
	Original Currency	Ex. Rate	Amount in RMB	Original Currency	Ex. Rate	Amount in RMB
Cash on Hand	RMB	27,588.44	—	RMB	33,837.96	—
Cash in Bank	USD	17,795,588.35	8.2767	USD	34,449,005.74	8.2773
	HKD	2,823.54	1.0660	HKD	72.67	1.0611
	RMB	1,026,788,771.72	—	RMB	327,241,259.73	—
			RMB 1,174,076,138.79			RMB 612,377,993.23
Other Cash Equivalents	USD	738,524.18	8.2767	RMB	—	—
	RMB	117,460,670.21	—	RMB	155,527,428.85	—
			RMB 123,573,476.08			RMB 155,527,428.85
			RMB 1,297,677,203.31			RMB 767,939,260.04

* Including amount RMB13,891,114.46 saving deposit in DFEC Finance Company.

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

	2003.12.31 RMB	2002.12.31 RMB
Cash and Bank Deposit	1,297,677,203.31	767,939,260.04
Less: Term deposits with a fixed term longer than 3 months	(215,553,399.97)	(257,584,414.78)
Other restricted amount*	(123,573,476.08)*	(155,527,428.85)
	958,550,327.26	354,827,416.41

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

6. NOTES RECEIVABLE

Details of notes payable are as follows:

	2003.12.31 RMB	2002.12.31 RMB
Commercial Acceptance Notes	—	1,156,129.00
Bank Acceptance Notes	46,961,000.00	5,400,500.00
	46,961,000.00	6,556,629.00

As at 31 December 2003, the Company and its subsidiaries do no receivables, which were cashed at discount prior to the cashable date of the acceptance drafts.

Notes to the Financial Statements *(continued)*

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7. ACCOUNTS AND OTHER RECEIVABLES

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

	2003.12.31			2002.12.31		
	Balance RMB	Percentage	Provision for Bad Debts RMB	Balance RMB	Percentage	Provision for Bad Debts RMB
Within 1 year	571,971,599.53*	68.33	21,658,134.76	448,956,965.74	56.75	17,304,550.64
1-2 years	90,032,156.75	10.76	5,815,080.57	61,022,101.00	7.71	3,661,323.00
2-3 years	21,776,754.62	2.60	1,745,338.63	63,448,335.00	8.02	4,441,384.00
3-4 years	24,582,036.64	2.94	1,966,562.94	94,836,405.00	11.99	7,586,912.00
4-5 years	65,821,443.89	7.86	8,990,603.20	61,459,033.00	7.77	6,145,903.00
Over 5 years	62,901,747.09	7.51	21,670,524.13	61,428,808.00	7.76	18,428,643.00
	837,085,738.52	100.00	61,846,244.33	791,151,647.74	100.00	57,568,715.64

* As at December 31, 2003, the amount of accounts receive due within 1 year include Product Quality Deposits in the amount of RMB155,988,643.82.

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

	2003.12.31 RMB	2002.12.31 RMB
Top Five Largest Accounts Receivables	278,389,060.69	245,991,585.00
Total of Accounts Receivables	837,085,738.52	791,151,647.74
Ratio	33.26%	31.09%

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

	2003.12.31 RMB
Amount due from related parties	37,876,095.04
Fuet-GECanada- Siemens Three Gorges	121,800,575.79
Sichan Jialinjiang Tongzhihao Electric Development Co.	48,304,170.00
Mechanical Equipment Import and Export Company of Sichuan	43,361,714.90
Jiaxing Electric Company Ltd Second Term Construction	33,312,100.00
Yunnan Xuanwei Electric Co Ltd.	31,610,500.00

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

	2003.12.31			2002.12.31		
	Balance RMB	Percentage	Provision for Bad Debts RMB	Balance RMB	Percentage	Provision for Bad Debts RMB
Within 1 year	11,274,705.54	12.70	4,152,937.38*	12,505,092.31	13.87	2,891,680.64
1-2 years	2,462,443.36	2.77	945,124.58	135,500.00	0.15	54,200.00
2-3 years	654,995.00	0.74	205,758.00	183,864.00	0.20	73,545.00
3-4 years	88,568.70	0.10	35,427.48	150,000.00	0.17	60,000.00
4-5 years	587,627.63	0.66	235,051.05	603,046.00	0.67	241,218.00
Over 5 years	73,690,586.24	83.03	29,475,047.11	76,586,801.00	84.94	32,332,943.00
	88,758,926.47	100.00	35,049,345.60	90,164,303.31	100.00	35,653,586.64

* Fixed deposit interest receivable for this year is RMB579,683.99 has not made any provision for bad debt.

Notes to the Financial Statements (continued)

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7. ACCOUNTS AND OTHER RECEIVABLES (Continued)

- (5) The top five largest balances of other accounts receivables of the Company and its subsidiaries totals RMB 70,636,547.07, which constituted 79.58% of the total other accounts receivables.
- (6) The details other accounts receivables of the Company and its subsidiaries are shown as follows:

	2003.12.31 Receivable	Year of Inception
	RMB	
Chongqing Youji (Group) Co. Ltd., & Peiling Zhongshan Co. Ltd.	8,471,630.00*	1998
Chongqing Xinlongda Real Estate Development Co. Ltd.	40,000,000.00**	1999
Leshan City Dongle Heavy Piece Handling Company	11,607,300.40***	1999
Chengdu Dayang Property Company	7,030,000.00****	1996
Sichuan Mianzhu Tiankang Medical Equipment Co. Ltd.	3,527,616.67	1995
Reserves	22,737,861.58	—

* The Company originally owns accounts receivables from Chongqing Youji in the amount of RMB2,471,630, Chongqi Tengyi Automobile Co. Ltd. in the amount of RMB6,000,000.

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 RMB6,000,000.00 on behalf of Tengyi Co. Therefore, the Company owns account receivable from Chongqi Youji Co. and Peiling Co. in the amount of RMB8,471,630. Chongqing Youji Co., and Peiling Co. would provide security on the Company and Heima Property Company, Chongqing Yangguang Property Company's "Supplementary Contract of Chongqi World Trade Center Selling Contract" on September 24 1999 with their unquestionable equity investment.

Pursuant to the arbitration results of 30 April 2003 De Zhong Cai Zi No. 71: Chongqing Youji Co. and Peiling Co. bear the joint-responsibility in repaying the outstanding debt in the amount of RMB8,471,163, 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. Chongqi Youji Co., and Peiling Co. had not executed the arbitration, and the Company applied for force execution, Chongqing First Meddle Court issued (2003) Yuyizhongtazhizhi No.917 "Execution Notification", but the Company had not receive the payment at the end of the financial year yet.

** Chongqing Yangguang Real Estate Development Co. Ltd. ("Yangguang Co.") originally owes the Company in the amount of RMB40,000,000. According to the "Agreement" signed on 22 September 2002 between Yangguang Co., Heima Property Co. Ltd. Yangguang Co should give up its property in Chongqing World Trade Center (eara of 5,838 Square Meter, worth RMB30,000,000.00) as the repayment of its debt to the Company, but the Chongqing World Trade Center is still under construction, so the debt is still outstanding.

The Company signed an "Agreement" with Yangguang Co., Chongqing Yu Zhong Property and Tourist Development Co., and Chongqing Xinlongda Real Estate Company, the four parties agreed that Chongqing Xinlongda Co., responsible for the construction of "World Trade Center" and receives the property and land use right.

Pursuant to the agreement:

- (1) The debt owed by Yangguang Co. to the Company in the amount of RMB10,000,000 shall be repaid by Xinlongda Co. Chongqi World Trade Center remains to be the collateral of this loan (In addition the Company and Chongqing Xinlongda Co signed the Security Contract, secured period from September 2003 to December 2004, collateral remains unchanged.
- (2) The assets as a form of payment from Yangguang Co. to the Company in the amount of RMB30,000,000 shall be made by Xinlongda Co.
- (3) Xinlongda Do confirmed that it owes the Company in the amount of RMB40,000,000, and shall provide detailed payment schedule upon the signing of the "Agreement". Such debt bears no interest during the agreed 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.

Notes to the Financial Statements *(continued)*

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7. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

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

Therefore, Chongqi Xinlongda owes the Company debt in the amount of RMB40,000,000. Yangguang Co. is no longer responsible for such liabilities.

The Company and Chongqing Xinlongda Co., signed an "Supplementary Agreement" on 22 September 2003, according to the Agreement, Chongqing Xinlongda Co., must repay the RMB10,000,000.00 debt as mentioned in (1) before 31 December 2004.

*** *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 RMB12,000,000 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 RMB12,000,000 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, Dangfang Electrical Works Company Limited, Le Shan 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 using 100% invoice, the Company will only pay 60% of the charges, and the remaining 40% will be net off with the above mentioned loan. As at 31 December 2003, Leshan Heavy Piece Handling Company used its billings repaid RMB310,160.80 and cash repayment of RMB82,538.80, together the Company received RMB392,699.60 from Leshan Dongle Heavy Piece Handling Company.

**** *Originally Sichuan Ruixin Co., owed RMB8,030,000.00 to the Company.*

The Company and Chengdu Dayang Co. signed the "Guarantee Contract" under the contract Chengdu Dayang Co. provide guarantee for the Company's loan to Ruixin Co, the collateral is the majority of the property of "Xingfu Square". The Company and Ruixin Co, Chengdu Dayang Co signed the "Execution Agreement", Chengdu Dayang Co agreed to repay the debt owed by Ruixin Co to the Company, to secure the repayment Deyang Meddle Renmin Court sealed up Chengdu Dayang Company's property (an area of 3,500 square meter) at Wuhou District Chengdu City.

Chengdu Dayang Company returned RMB 1,000,000.00 to the Company until 3rd November 2003. Sichuan Meddle Renmin Court issued Defazhizhi No 94-3 "Civil Ruling", according to the court order the property Xingfu Square of Chengdu Dayang Company at Wuhou District Chengdu City area of 3,887.47 square meter worth RMB7,030,000.00 should be as the repayment to the Company. Transfer of title deed of above mentioned property has not completed as at 31 December 2003.

- (4) The amount due from related party and party that holding over 5% of shares (including 5%) of Company is shown in details in Note 44(3)

Notes to the Financial Statements (continued)

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8. PREPAYMENTS

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

	2003.12.31		2002.12.31	
	Balance RMB	Percentage	Balance RMB	Percentage
Within 1 year	168,253,528.67	92.54	82,547,608.59	95.29
1-2 years	12,966,980.69	7.13	3,740,232.00	4.32
2-3 years	608,850.06	0.33	319,736.00	0.37
Over 3 years	—	—	15,850.00	0.02
	181,829,359.42	100.00	86,623,426.59	100.00

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

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

Related Parties	2003.12.31 RMB	Payment Inception	Purpose
Wuyang Southwest Steelworks Company	650,916.79	2003	Material Procurement
Chengdu Tianrong Commercial Trade Co. Ltd.	36,058,875.00	2003	Material Procurement
The ANDRITZ Company of Austria	19,534,550.00	2003	Material Procurement
Switzerland ABB Company	14,001,722.00	2003	Material Procurement
Chongqing Steelworks Company Ltd	11,197,243.00	2003	Material Procurement
	8,665,930.00	2003	Material Procurement

- (3) Prepayments made to parties with 5% or above shareholdings in the Company are shown in Note 44(3).

9. INVENTORIES AND PROVISION FOR DIMINUTION OF INVENTORIES

Details of inventories and provision for impairment of inventories are shown as follows:

	2003.12.31			2002.12.31		
	Gross Amount RMB	Provision for Diminution RMB	Net Amount RMB	Gross Amount RMB	Provision for Diminution RMB	Net Amount RMB
Raw materials	224,455,814.25	—	224,455,814.25	238,082,793.00	5,406,346.20	232,676,446.80
Low-value consumables	3,028,919.69	—	3,028,919.69	1,935,718.00	—	1,935,718.00
Subcontracted for reprocessing	1,413,492.66	—	1,413,492.66	2,970,820.00	—	2,970,820.00
Work-in-process	277,048,264.22	1,572,673.01	275,475,591.21	173,664,333.38	4,013,175.01	169,651,158.37
Finished goods	78,100,549.37	1,661,152.65	76,439,396.72	49,317,560.00	3,096,642.48	46,220,917.52
Goods in transit	524,204.95	—	524,204.95	—	—	—
	584,571,245.14	3,233,825.66	581,337,419.48	465,971,224.38	12,516,163.69	453,455,060.69

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10. CONSTRUCTION CONTRACTS IN PROGRESS

When the sum of the accrued costs incurred for the construction contract and the confirmed portion of gross profit is greater than the settled amount of the construction contract, the Company states the difference as a "amount due from customer", a current asset in the balance sheet to reflect an account receivable of the Company from the client. When the sum of the accrued costs incurred for the construction contract and the confirmed portion of gross profit is less than the settled amount of the construction contract, the Company states the difference as "amount due to customer", 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 are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Cost incurred today	287,530,175.01	271,360,918.20
Add: Confirmed gross profit	59,397,000.02	74,497,987.11
Less: Payment received	276,151,865.60	294,147,442.25
Confirmed estimated loss	19,684,346.69	32,619,197.20
	51,090,962.74	19,092,265.86
Items on Consolidated Balance sheet	2003.12.31 RMB	2002.12.31 RMB
Amount due from customers	160,719,286.12	144,669,248.55
Amount due to customers	89,943,976.69	92,957,785.49
Provision for estimated contract loss	19,684,346.69	32,619,197.20

Total amount of the construction contracts in progress was RMB1,072,739,352.60 (without VAT) as at 31 December 2003.

11. LONG-TERM INVESTMENT

(1) Details of long term investment of the Company and its subsidiaries are listed as follows:

	2003.1.1				2003.12.31	
	Amount RMB	Provision for Impairment RMB	Increase RMB	Decrease RMB	Amount RMB	Provision for Impairment RMB
Equity investment	44,263.24	—	—	—	44,263.24	—
Other equity investment	(3,951,849.15)	310,941.25	4,581.79	(621,850.08)	(3,325,417.28)	310,941.25
Associate companies	1,933,151.23	310,941.25	4,581.79	—	1,937,733.02	310,941.25
Equity Investment Difference	(5,885,000.38)	—	—	(621,850.08)	(5,263,150.30)	—
	(3,907,585.91)	310,941.25	4,581.79	(621,850.08)	(3,281,154.04)	310,941.25

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

Invested Company	Category	Quantity of shares	2003.12.31 Ratio against invested company	Investment amount RMB	Provision for Impairment RMB
Chengdu Shudu Mension Co., Ltd	A shares	38,044	0.02%	4,263.24	—

Notes to the Financial Statements (continued)

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11. LONG-TERM INVESTMENT (Continued)

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

Invested Company	Investment term	Ratio against invested company	Initial investment RMB	2003.1.1 RMB	Provision for Impairment RMB	Increase (Decrease) RMB	Cash Dividend Received RMB	Accumulated equity RMB	2003.12.31 RMB	Provision for Impairment RMB
Leshan City Dangle Heavy Piece Handling Co., Ltd	1997.07	49.00%	490,000.00	—	—	—	—	(490,000.00)	—	—
Southwest Production Materials Trade Center	1984.12	Data not available	60,000.00	60,000.00	60,000.00	—	—	—	60,000.00	60,000.00
Deyang Import and Export Company of Mechanical and Electrical Equipment	1988.06	Data not available	100,941.25	100,941.25	100,941.25	—	—	—	100,941.25	100,941.25
Wuxi Electrical Power Hotel	1988.07	2.30%	150,000.00	150,000.00	150,000.00	—	—	—	150,000.00	150,000.00
Chengdu Sandian Co., Ltd.	1992.09	0.62%	455,373.41	455,373.41	—	—	—	—	455,373.41	—
Sichuan Deyang Jinshi Real Estate Company Limited	2001.04	12.50%	1,000,000.00	1,000,000.00	—	—	—	—	1,000,000.00	—
Sichuan Dongfang Jiazin Construction Supervisory Company Limited	2001.05	40.00%	200,000.00	166,836.57	—	4,581.79	—	(28,581.64)	171,418.36	—
Equity Investment Difference			(6,218,500.25)	(5,885,000.38)	—	621,850.08	—	955,349.95	(5,263,150.30)	—
Total			(3,762,185.59)	(3,951,849.15)	310,941.25	626,431.87	—	436,768.31	(3,325,417.28)	310,941.25

(4) Equity investment difference are listed in detail as follows:

Invested Company	Initial investment RMB	Amortization term	2003.1.1 RMB	Increase RMB	Amortization RMB	2003.12.31 RMB	Remaining term of amortization
DFEM Power System	(4,511,741.38)*	120 Months	(4,474,143.54)	—	(451,174.08)	(4,022,969.46)	107Months
DFEM Tooling and Molding	(1,082,220.62)**	120 Months	(874,794.89)	—	(108,222.12)	(766,572.77)	85Months
DFEM Equipment Engineering	(624,538.25)***	120 Months	(536,061.95)	—	(62,453.88)	(473,608.07)	91Months
	(6,218,500.25)		(5,885,000.38)	—	(621,850.08)	(5,263,150.30)	

* As noted in 4(1), the Company used its revalued asset as a consideration of RMB8,355,694.78 to invest in DFEM Power System on 1:1 basis. The difference between the Company's share of DFEM Power System owners' equity and increased asset carrying amount (RMB3,843,953.40) constitute the credit side of equity investment difference RMB4,511,741.38, amortize over ten years start from December 2002.

** As noted in 4(1), the investment cost of the Company to DFEM Tooling & Molding Co., Ltd is RMB13,417,779.38 compared with the share of the equity of DFEM Tooling & Molding Co., Ltd is RMB 14,500,000. The credit side equity investment difference is RMB1,082,221.62, and to be amortized over ten years start from February 2001.

*** As noted in 4(1), the investment cost of the Company to DFEM Equipment Engineering Co., Ltd is RMB12,475,461.75 compared with the share of the equity of DFEM Equipment Engineering Co., Ltd is RMB13,100,000. The credit side equity investment difference is RMB624,538.25 and to be amortized over ten years start from August 2001.

(5) Provision for impairment of long-term equity investment remains unchanged; see details in other financial references (3).

Notes to the Financial Statements *(continued)*

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12. FIXED ASSETS AND ACCUMULATED DEPRECIATION:

Details of fixed assets and accumulated depreciation are listed as follows:

	2003.1.1 RMB	Increase RMB	Decrease RMB	2003.12.31 RMB	Provision for Impairment RMB
Original cost of the fixed assets:					
Building	305,898,427.28	3,410,072.98	4,544,246.61	304,764,253.65*	—
Plant and machinery	465,036,685.10	103,595,751.35	6,805,183.09	561,827,253.36	1,211,724.50
Equipment	80,069,488.60	5,692,597.36	7,513,173.64	78,248,912.32	—
Motor vehicle	7,438,608.67	1,705,218.54	27,500.00	9,116,327.21	—
	858,443,209.65	114,403,640.23**	18,890,103.34	953,956,746.54	1,211,724.50
Accumulated depreciation:					
Building	95,158,849.70	9,543,642.11	2,794,849.59	101,907,642.22	
Plant and machinery	263,482,353.92	36,887,812.73	7,919,659.81	292,450,506.84	
Equipment	55,082,332.64	6,184,779.97	4,747,739.07	56,519,373.54	
Motor vehicle	6,009,895.12	550,368.62	22,143.98	6,538,119.76	
	419,733,431.38	53,166,603.43	15,484,392.45	457,415,642.36	
Net book value	438,709,778.27			496,541,104.18	

* Buildings without license amount to RMB137,895,686.49 at the end of 31 December 2003, and buildings have not transferred the title deed from DFEW amount to RMB5,135,676.99.

** An increase of RMB108,976,549.21 in the fixed assets of this year is transferred from construction-in-progress upon completion.

Notes to the Financial Statements *(continued)*

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13. CONSTRUCTION-IN-PROGRESS

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

Project Name	2003.1.1	Current Year	Transfer to fixed	Other Decrease	2003.12.31	Source of funding	Progress
	RMB	Increase RMB	asset this year RMB	RMB	RMB		
1. 260 boring machine	—	27,016,926.88	—	—	27,016,926.88	Loans and listing proceeds	95
2. Heavy span molding machine	4,736,884.91	22,820,304.69	—	—	27,557,189.60	Loans and listing proceeds	90
3. V.P.I System	—	4,897,596.98	—	—	4,897,596.98	Loans and listing proceeds	85
4. Research Center	138,400.00	3,633,523.20	—	—	3,771,923.20	Loans and listing proceeds	10
5. The ninth term of power machine factory	—	2,939,236.85	—	—	2,939,236.85	Loans and listing proceeds	80
6. 18MX24M Linear Platform	—	1,841,498.14	—	—	1,841,498.14	Loans and listing proceeds	80
7. Welding Factory	—	1,184,466.06	—	—	1,184,466.06	Loans and listing proceeds	90
8. Digital Control Milling Machine	—	1,081,284.50	—	—	1,081,284.50	Loans and listing proceeds	80
9. Vertical Digital Control System	—	741,619.20	—	—	741,619.20	Loans and listing proceeds	80
10. Horizontal Drilling Machine	—	637,663.28	—	—	637,663.28	Loans and listing proceeds	85
11. Welding Spraying Room	628,886.55	—	—	—	628,886.55	Loans and listing proceeds	99
12. 250 Boring Machine Movement	485,379.28	4,433.34	—	—	489,812.62	Loans and listing proceeds	80
13. Heave Rotor Machine	199,857.78	—	—	—	199,857.78	Loans and listing proceeds	99
14. Acquisition of Computer	—	489,288.00	312,330.00	—	176,958.00	Loans and listing proceeds	90
15. Coiling Factory Ventilate System	—	146,746.95	—	—	146,746.95	Loans and listing proceeds	80
16. 15MX15M Welding Platform	—	143,820.00	—	—	143,820.00	Loans and listing proceeds	80
17. Huge Automatic Welding Machine Movement	—	127,918.80	—	—	127,918.80	Loans and listing proceeds	80
18. Others	31,724,175.44	84,279,158.95	108,664,219.21	6,248,552.06	1,090,563.12	Loans and listing proceeds	
	37,913,583.96	151,985,485.82	108,976,549.21	6,248,552.06	74,673,968.51		
Interest capitalized	1,387,555.46	2,137,508.30	1,475,549.19		2,049,514.57		—

(2) The Company determined the capitalized borrowing cost on a quarterly basis, the percentage of capitalizing of borrowing cost for each quarter are as follows:

	First quarter	Second quarter	Third quarter	Fourth quarter
Capitalization rate	1.45%	1.48%	1.47%	1.47%

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14. INTANGIBLE ASSETS

Details of intangible assets are listed as follows:

Type	Original Amount RMB	2003.1.1 RMB	Increase this year RMB	Decrease this year RMB	Amortization this year RMB	Accumulated Amortization RMB	2003.12.31 RMB	Remaining month of amortization
Land use right	35,626,000.00	29,213,319.68	—	—	712,520.04	7,125,200.36	28,500,799.64	480
Technology Know-how	2,556,000.00	1,661,400.00	—	—	511,200.00	1,405,800.00	1,150,200.00	27
Goodwill	1,227,887.68	1,064,169.36	—	1,064,169.36	—	163,718.32	—	—
Software	145,520.90	107,373.29	2,047.90	—	37,164.18	73,263.89	72,257.01	13
	39,555,408.58	32,046,262.33	2,047.90	1,064,169.36	1,260,884.22	8,767,982.57	29,723,256.65	

* The revaluated amount as of 31 December 1993 of the land use right of an area of 470,955.31 square meters injected into the Company by the Company's holdings company DFEW on 28 January 1994 and confirmed by China Real Estate Consulting Center were RMB108,319,712. 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.

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

15. LONG TERM DEFERRED EXPENSES

Type	Original amount RMB	2003.1.1 RMB	Increase this year RMB	Amortized this year RMB	2003.12.31 RMB	Remaining month of amortization RMB
Rental	1,969,031.11	1,430,008.69	—	98,451.60	1,331,557.09	158
Software charge	725,135.28	277,968.45	—	145,027.08	132,941.37	12
VPI Special glue	883,458.12	607,905.86	33,250.00	359,246.00	281,909.86	9
	3,577,624.51	2,315,883.00	33,250.00	602,724.68	1,746,408.32	

16. SHORT-TERM BORROWINGS

Short term borrowings are listed as follows:

Loan type	2003.12.31 RMB	2002.12.31 RMB
Loan by credit	60,000,000.00*	105,100,000.00
Loan by guarantee	65,600,000.00**	157,000,000.00
	125,600,000.00	262,100,000.00

* The balance of the loan made by the Company from China Construction Bank Deyang Branch is RMB 50,000,000 as at 31 December 2003.

The Company and the Finance Department of Dongfang Group signed the "Loan Agreement" on 14 July 2003, which determines the monthly interest is 3.98%, and the balance of the loan made by the company from the Finance Department of Dongfang Group is RMB10,000,000.00 as at 31 December 2003.

** The holding company—DFEW of the Company signed the Maximum Guarantee Contract with China Industrial and Commercial Bank Deyang City Qiyang Branch on 25 March 2002, under the contract DFEW would provide guarantee for the balance of RMB 77,100,000 loan made by the Company from China Industrial and Commercial Bank Deyang City Qiyang Branch, the term of the guarantee is from 25 March 2002 to 24 March 2004. The balance of the loan made by the Company from China Industrial and Commercial Bank Deyang City Qiyang Branch was RMB65,600,000 on 31 December 2003.

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17. NOTES PAYABLE

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

	2003.12.31 RMB	2002.12.31 RMB
Commercial acceptable bill	72,132,816.27	43,452,708.95
Bank acceptable bill	99,873,000.97	80,768,932.00
	172,005,817.24	124,221,640.95

(2) The amounts due to related parties which are holding no less than 5% of the Company's shares are shown in notes 44(3).

18. TRADE CREDITORS

Details of trade creditors are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Amount due to related party	16,849,050.60*	1,255,460.00
Chengdu Tianrong Trading Company	5,729,718.50	4,096,680.00
Chengdu Wuyang Steelworks Southwest Selling Company	1,786,815.00	4,752,886.60
Shanghai Research Department for Sets of Power Generation Equipment	2,029,100.00	—
Estimated material received	28,232,660.09	56,269,093.40
Others	32,335,008.95	15,460,159.93
	86,962,353.14	81,834,279.93

Trade creditors over three years amount to RMB706,604.00, mainly because of the absence of the receipts.

* Details of the amount due to related parties which are holding no less than 5% of the Company's shares are listed in Note 44(3).

19. RECEIPTS IN ADVANCE

Details of receipts in advance are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Amount due to related parties	31,497,680.25*	8,266,561.00
Inner Mongolia Datangtuoke Power Supply Co., Ltd	97,791,500.00	22,581,000.00
Shanxi Lunenghe Power Generation Co., Ltd.	96,390,000.00	11,110,000.00
Changshu Second Power Supply Constructing Department	81,803,800.00	6,200,000.00
Longtan Hydro Power Co., Ltd	74,834,523.00	—
Sichuan Bashuijiang Oil & Coal Power Supply Company	46,404,000.00	—
Hengshui Hengbin Power Supply Co., Ltd	42,762,000.00	7,127,000.00
Others	1,085,107,398.96	324,212,012.04
	1,556,590,902.21	379,496,573.04

* Details of the amounts due to related parties which are holding no less than 5% of the Company's shares are listed in Note 44(3).

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20. TAX PAYABLE

Details of tax payable are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Product VAT	123,632,732.87	137,961,028.00
Sales tax	1,767,051.94	1,227,065.00
Urban development tax	15,739,754.90	16,046,596.00
Corporate tax	1,864,326.16	1,054,051.00
Real estate tax	2,207,140.47	4,500,772.00
Land use tax	—	922,756.00
Personal income tax	118,768.16	262,828.15
	145,329,774.50	161,975,096.15

21. OTHER UNPAID AMOUNTS

Details of other unpaid amounts are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Education surcharge	6,212,254.02	8,630,078.07

22. OTHER PAYABLE

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

	2003.12.31 RMB	2002.12.31 RMB	Contents
Amounts due to related parties	2,331,224.62*	28,075,809.00	Service charge payable to DFEW
Pension Contributions	7,021,093.58	—	Individual contribution payable to the Social Security Bureau
Union Expenses	4,718,277.06	2,741,505.00	Union Expenses
Education Expenses	5,924,057.57	3,529,413.00	Education Expenses
Others	23,517,035.86	10,849,279.48	Construction cost payables
	43,511,688.69	45,196,006.48	

(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 44(3).

(3) Other payables due for over three years amount to RMB224,460.47, where a majority of which relate to unpaid overseas expenses.

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23. ACCRUALS

Details of accruals are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB	Reason
Fixed cost of hydro power product	61,188,578.52*	42,010,785.00	Pay upon installation
Packing cost	2,667,559.46**	7,144,916.00	Pay upon repayment
Uniform cost	—	2,400,000.00	—
Loan interest	573,170.03***	872,820.00	Pay upon repayment
Others	10,218,036.35	4,577,900.71	Pay upon repayment
	74,647,344.36	57,006,421.71	

* Represent the installation and processing cost of hydropower, thermal power and technological renovation products.

** As states in Note 44(2) A, according to the service agreement signed between DEFW and the Company, the Company accrues 2.2% of turnover as packaging costs.

*** Loan interest to Bank from 21 December 2003 to 31 December 2003.

24. CURRENT PORTION OF LONG-TERM LIABILITIES

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

Bankers	2003.12.31 RMB	Loan term	Annual rate (%)	Conditions
State Development Bank	30,000,000.00*	1997.12-2004.11	5.76	Loan on behalf
Import & Export Bank of China	50,000,000.00**	1998.10-2004.1	3.51	Guarantee
Import & Export Bank of China	95,000,000.00**	1998.10-2004.2	3.51	Guarantee
Import & Export Bank of China	50,000,000.00**	1998.10-2004.5	3.51	Guarantee
Import & Export Bank of China	30,000,000.00**	1998.10-2004.7	3.51	Guarantee
	255,000,000.00			

* The superior organization of the Company's parent company—Dongfang Electric Group made the loan on behalf of the Company from State Development Bank.

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

25. LONG TERM LOANS

Details of long term loans are listed as follows:

Type of loan	2003.12.31 RMB	Loan term	Annual rate %	Conditions
State Development Bank	30,000,000.00*	1997.12-2005.11	5.76	Loan on behalf
Import & Export Bank of China	35,000,000.00**	1998.10-2005.1	3.51	Guarantee
	65,000,000.00			

* The superior organization of the Company's parent company—Dongfang Electric Group made the loan on behalf of the Company from State Development Bank.

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

Notes to the Financial Statements *(continued)*

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26. LONG-TERM PAYABLES

Details of long-term payables are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Authorized reserve fund	685,252.84	685,252.84

27. SPECIFIC LOANS

Details of specific loans are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Research and development fund	28,210,634.66	26,760,634.66
Demolish& renovation fund for San-xian enterprise	60,711,931.86	—
Other provisions	905,330.00	1,278,000.00
	89,827,896.52	28,038,634.66

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

** According to the notification of "Ministry of Finance and National Tax Bureau Approved tax policy on San-Xian enterprise in the period of tenth five years plan" (CAI SHUI [2001] NO.133) and "Ministry of Finance Approved DFEW enjoys tax policy of San-Xian enterprise" (CAI SHUI[2002]NO.145), on 7 July 2003 Sichuan provincial financial supervisor office which under Ministry of Finance qualified the tax rebate in an amount of RMB 60,711,931.86 for product VAT at 2002 according to CAI ZHU CHUAN JIAN TUI ZI (2003)NO.251". And the rebate could only be used for demolish and renovation expenditure of Sanxian enterprises, but not for other purposes, the company received the rebate in an amount of RMB 60,711,931.86 on 24 July 2003 and had been classified into "specific payables".

28. SHARE CAPITAL

Details of share capital are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Non-circulating shares:		
Promoters Shares:		
Domestic legal person shares:	220,000,000.00	220,000,000.00
Circulating shares:		
Overseas listing foreign investment shares (H Shares)	170,000,000.00	170,000,000.00
Domestic listing ordinary shares (A Shares)	60,000,000.00	60,000,000.00
Total number of circulating shares	230,000,000.00	230,000,000.00
Total number of shares issued	450,000,000.00	450,000,000.00

The above actual receipt of share capital has been audited by the Certified Public Accountants of P. R. China.

Notes to the Financial Statements *(continued)*

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29. CAPITAL RESERVE

Details of capital reserve changes are listed as follows:

	2003.1.1 RMB	Increase this year RMB	Decrease this year RMB	2003.12.31 RMB
Share capital premium	522,548,287.37	—	—	522,548,287.37
Provision for donation assets	323,000.00	—	—	323,000.00
Transfer from appropriation	3,262,173.83	—	—	3,262,173.83
Provision for equity investment	1,710,158.37	—	—	1,710,158.37
Other transfers to capital reserve	79,654,351.90	289,191.34*	—	79,943,543.24
	607,497,970.47	289,191.34	—	607,787,161.81

* According to the approval documents De Di Shui Zhi Sheng Fa (2003) No.032 "The approval to remit the enterprise income tax of the DFEM Control Equipment Company of 2002" and De Di Shui Zhi Sheng Fa (2003) No.033 "The approval to remit the enterprise income tax of the DFEM Tooling & Mould Company of 2002" issued by the State Tax Bureau, the DFEM Control Equipment Company and the DFEM Tooling & Mould Company can be released from enterprise income tax RMB 172,810.28 and RMB123,882.86. And it also ordained that these released taxes must be disclosed separately should be used on operational development but not for other purposes.

The DFEM Control Equipment Company and the DFEM Tooling & Mould Company transfer all these released taxes to "Capital Reserve" of the consolidated financial statements. The total amount is RMB289,191.34.

30. SURPLUS RESERVE

Details of surplus reserve are listed as follows:

	2003.1.1 RMB	Increase this year RMB	Decrease this year RMB	2003.12.31 RMB
Statutory surplus reserve	27,641,530.05	213,212.47	—	27,854,742.52
Statutory public welfare fund	26,021,554.62	106,606.24	—	26,128,160.86
	53,663,084.67	319,818.71	—	53,982,903.38

Notes to the Financial Statements *(continued)*

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31. UNDISTRIBUTED PROFITS

Details of undistributed profits are listed as follows:

	2003.12.31 RMB	2002.12.31 RMB
Undistributed profit at beginning of the year	(204,000,380.54)	(223,938,531.53)
Plus: Net profit of the year	33,126,351.52	20,011,405.12
Increase or (decrease) of net profit this year	—	(3,398,393.85)
Increase of undistributed profit at beginning of the year	8,560,852.02*	11,959,245.87
	213,212.47	48,836.09
Less: Transfer to statutory surplus reserve		
	106,606.24	24,418.04
Transfer to statutory welfare fund		
Undistributed profit at the end of the year	(162,632,995.71)	(195,439,528.52)

* Details of adjustment on undistributed profit at beginning of the 2002, net profit of 2002 and undistributed profit at beginning of the 2003 are shown in note 2(19).

32. REVENUE

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

	Income From principal operation		Cost of principal operation		Gross profit of principal operation	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Machinery Manufacturing:						
Sales from power generators	1,085,191,386.81	838,060,760.36	830,257,956.95	661,028,579.61	254,933,429.86	177,032,180.75
Income from labor and technology improvement	114,430,573.14	141,192,611.00	70,499,523.93	83,046,781.00	43,931,049.21	58,145,830.00
	1,199,621,959.95	979,253,371.36	900,757,480.88	744,075,360.61	298,864,479.07	235,178,010.75

(2) Aggregate income from the top five customers of the Company and its subsidiaries are as follows:

	Amount	Percentage
2003	458,979,272.71	38.26%

33. SALES TAX AND SURCHARGE

Details of principal operation taxes and surcharges are listed as follows:

	2003.1.1-12.31 RMB	2002.1.1-12.31 RMB
Urban development tax	4,305,792.03	1,801,554.01
Education surcharge	1,845,339.50	772,099.21
Basic infrastructure	—	39,509.25
Sales tax	131,578.17	107,468.63
	6,282,709.70	2,720,631.10

Notes to the Financial Statements *(continued)*

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34. OTHER OPERATING PROFIT

Details of other operating profit are listed as follows:

	2003			2002		
	Other operating income RMB	Other operating cost RMB	Other operating profit RMB	Other operating income RMB	Other operating cost RMB	Other operating profit RMB
Material and semimanufactures	39,805,615.63	32,139,079.62	7,666,536.01	55,714,738.00	53,988,537.00	1,726,201.00
Energy	7,162,225.13	8,291,389.25	(1,129,164.12)	8,449,597.00	9,867,608.00	(1,418,011.00)
Other	6,062,349.42	2,228,470.16	3,833,879.26	3,927,102.29	1,277,586.00	2,649,516.29
	53,030,190.18	42,658,939.03	10,371,251.15	68,091,437.29	65,133,731.00	2,957,706.29

35. FINANCE EXPENSES

Details of financial expenses are listed as follows:

	2003.1.1-12.31 RMB	2002.1.1-12.31 RMB
Interest expense	28,453,051.75	40,000,809.00
Less: Interest income	14,767,944.90	12,080,669.00
Loss on foreign exchange	834,114.94	112,041.00
Less: Gain on foreign exchange	195,449.72	87,289.00
Others	1,890,157.25	662,075.08
	16,213,929.32	28,606,967.08

36. INVESTMENT GAIN

Details of Investment gain (loss) are listed as follows:

	2003.1.1-12.31 RMB	2002.1.1-12.31 RMB
Equity investment difference	621,850.08	208,273.84
Entusted investment gain	—	2,537,155.36
Equity method adjustment for associate companies	4,581.79	—
Reverse back of provision for impairment of short	—	6,713,400.00
Other investment gain	20,271.10	71,731.07
	646,702.97	9,530,560.27

There is no major restriction on remittance of investment income.

Notes to the Financial Statements *(continued)*

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37. SUBSIDY INCOME

The details of subsidy income are listed as follows:

	2003.1.1-12.31 RMB	2002.1.1-12.31 RMB
Tax rebate for international bidder	13,595,149.95*	8,030,000.00
Other financial subsidy	34,000.00	140,000.00
	13,629,149.95	8,170,000.00

* According to Guo Shui Han (2002) No.185 "National Tax Bureau approved tax rebates on winning the bids for machinery and electrical products of DFEM Boiler Co., Ltd and DFEM Co., Ltd" on 5 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 14 May 2002, the Company qualified to a tax rebate in amount to RMB21,625,149.95 for winning the international bid for the Guigang Hydro Power Station Project and Mianhuatan Hydro Power Station Project. Previous years receive tax rebate accumulated to RMB8,030,000.00, and the rebate received in the current year was RMB13,595,149.95, and the accumulative rebate the company has received to date amounts to RMB21,625,149.95.

38. NON-OPERATING INCOME

Details of non-operating income are listed as follows:

	2003 RMB	2002 RMB
Income from disposal of fixed assets	1,356,722.04	281,091.00
Stock take gain of fixed assets	326,988.85	185,000.00
Other	708,288.36	2,724,704.63
	2,391,999.25	3,190,795.63

39. NON-OPERATING EXPENSES

Details of non-operating expenses are listed as follows:

	2003 RMB	2002 RMB
Loss from disposal of fixed assets	2,790,067.47	RMB 1,179,914.00
Provision for impairment of fixed assets	1,211,724.50	—
Education fund for primary secondary school	—	4,155,000.00
Reverse back of provision for impairment of construction in process	—	(3,317,503.00)
Others	2,063,025.26	23,067.92
	6,064,817.23	2,040,478.92

Notes to the Financial Statements *(continued)*

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40. OTHER CASH RECEIVED FROM OPERATING ACTIVITIES

Details of cash received from other activities related to operating are listed as follows:

	2003 RMB
The balance of employee's returned fund	5,733,619.93
Interested income	14,767,945.90
Received deposit	210,000.00
Received specific payable	1,100,000.00
Received fine	217,278.54
Transfer of funds	1,114,940.67
Received warranty	31,953,953.00
Income from selling of scrap materials	3,860,732.72
Other	16,570,610.29
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	75,529,081.05

41. OTHER CASH PAID FOR OPERATING ACTIVITIES

Details of cash paid from other activities related to operating are listed as follows:

	2003 RMB
Repairing expense	5,016,102.76
Charge for water and electricity	1,365,615.15
Administrative expenses	3,095,405.83
Traveling expenses	8,357,435.07
Advertisement expenses	493,657.39
Land use tax	588,694.14
Real estate tax	2,261,390.97
Technology development expense	4,620,274.83
Union expenses and education expenses	6,466,325.69
Auditing and counsel expenses	1,121,685.00
Drainage expenses	357,855.00
Directorate expenses	2,807,895.27
Entertainment expenses	3,941,956.16
Labor protection expenses	1,184,862.59
Financial insurance expenses	1,399,898.80
Warranty loss	3,991,113.29
Labor expenses	429,003.17
Transportation expenses	53,530.93
Operating fund	1,843,167.46
Company balances	12,686,680.81
Hospital retained fund	2,170,000.00
Governmental land use fee	2,800,000.00
Transfer to reserve fund	2,392,073.51
Other	40,376,774.57
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	109,821,398.39

Notes to the Financial Statements *(continued)*

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42. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY

(1) ACCOUNTS AND OTHER RECEIVABLES

A. Details of aging of accounts receivable are listed as follows:

	2003			2002		
	Amount RMB	Percentage (%)	Provision for bad debt RMB	Amount RMB	Percentage (%)	Provision for bad debt RMB
Within one year	540,558,152.67*	68.09	19,802,303.94	419,752,482.91	56.03	14,792,170.08
1 to 2 years	81,407,361.48	10.25	4,884,441.69	48,652,885.00	6.49	2,919,173.00
2 to 3 years	18,935,600.47	2.39	1,325,492.03	63,050,564.00	8.42	4,413,540.00
3 to 4 years	24,255,605.19	3.06	1,940,448.42	94,836,405.00	12.66	7,586,912.00
4 to 5 years	65,821,443.89	8.29	8,990,603.20	61,459,033.00	8.20	6,145,903.00
Over 5 years	62,901,747.09	7.92	21,670,524.13	61,428,809.00	8.20	18,428,643.00
	793,879,910.79	100.00	58,613,813.51	749,180,178.91	100.00	54,286,341.08

* As at 31 December 2003, accounts receivables within one year include quality deposit is RMB144,512,073.82

B. As at 31 December 2003, top five accounts receivables are as follows:

	2003.12.31 RMB	2002.12.31 RMB
Total amount of top five debtors	278,389,060.69	245,991,585.00
Total debtors	793,879,910.79	749,180,178.91
Percentage	35.07%	32.83%

C. Details of aging of other receivable are listed as follows:

	2003			2002		
	Amount RMB	Percentage (%)	Provision for bad debt RMB	Amount RMB	Percentage (%)	Provision for bad debt RMB
With in one year	10,509,343.87	11.99	3,971,864.22*	56,878,877.32	42.27	7,037,407.30
1 to 2 year	2,280,228.00	2.60	912,091.20	135,500.00	0.10	54,200.00
2 to 3 years	494,395.00	0.56	197,758.00	183,864.00	0.14	73,546.00
3 to 4 years	88,568.70	0.10	35,427.48	150,000.00	0.11	60,000.00
4 to 5 years	587,627.63	0.67	235,051.05	603,046.00	0.45	241,218.00
Over 5 years	73,687,617.77	84.08	29,475,047.54	76,586,801.00	56.93	30,634,721.00
	87,647,780.97	100.00	34,827,239.06*	134,538,088.32	100.00	38,101,092.30

* The interest receivables are RMB579,683.99 as at 31 December 2003 and no provision for bad debt is provided.

Notes to the Financial Statements *(continued)*

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42. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(Continued)*

(1) ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

D. As of 31 December 2003, the total top five other receivables are RMB70,636,547.07, account for 80.59% of the total other debtors.

E. Details of other receivables are listed as follows:

	2003.12.31 RMB	Date of inception	Content
Chongqing Youji Corporate company & Peilin industry company	8,471,630.00*	1998	Borrowing
Chongqing Xinlongda Real Estate Develop Co., Ltd	40,000,000.00*	1999	Borrowing
Dongle Heavy Piece Handling Company	11,607,300.40*	1999	Borrowing
Chengdu Dayang Corporate Company	7,030,000.00*	1996	Borrowing
Sichuan Mianzhutiankang Medical Equipment Company	3,527,617.67	1995	Borrowing
Reserve	21,847,347.78	—	Reserve borrowing by sub-plant and office

* See details in Note 7(6).

(2) LONG TERM INVESTMENTS

A. Long term investments are listed are follows:

	Amount RMB	2003.1.1 Provision for impairment	Increase this year RMB	Decrease this year RMB	2003.12.31 Amount	Provision for impairment RMB
Equity investment	44,263.24	—	—	—	44,263.24	—
Other equity investment	51,828,937.92	310,941.25	2,425,392.07	4,288,250.80	49,966,079.19	310,941.25
Subsidiaries	55,780,787.07	—	2,420,810.28	4,910,100.88	53,291,496.47	—
Associates	1,933,151.23	310,941.25	4,581.79	—	1,937,733.02	310,941.25
Equity investment difference	(5,885,000.38)	—	—	(621,850.08)	(5,263,150.30)	—
	51,873,201.16	310,941.25	2,425,392.07	4,288,250.80	50,010,342.43	310,941.25

B. Details of equity investments are listed as follows:

Invested Company	Category	Quantity of shares	2003.12.31 Percentage to invested company	Investment amount	Provision for devaluation
Chengdu Shudu Mansion Co., Ltd	Share A	38,044	0.02%	44,263.24	—

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42. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(Continued)*

(2) LONG TERM INVESTMENT *(Continued)*

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

Invested Provision Company	2003.1.1										2003.12.31	
	Investment	Percentage	Initial	Accumulated								
		to invested		Provision for	Increase in	Equity increase	Cash dividend	equity increase				
		company's										
term	share capital	investment	Amount	impairment	investment	(decrease)	received	(decrease)	Amount	for drop		
Leshan City Dongle Heavy Piece Handling Co. Ltd	1997.7	49.00%	490,000.00	—	—	—	—	—	(490,000.00)	—	—	
Southwest Production Information Trading Center	1984.12	Unknown	60,000.00	60,000.00	60,000.00	—	—	—	—	60,000.00	60,000.00	
Deyang Electric Equipment Import and Export Company	1988.6	Unknown	100,941.25	100,941.25	100,941.25	—	—	—	—	100,941.25	100,941.25	
Wuxi Electric Company	1988.7	2.30%	150,000.00	150,000.00	150,000.00	—	—	—	—	150,000.00	150,000.00	
Chengdu Sandian Company Ltd.	1992.9	0.62%	455,373.41	455,373.41	—	—	—	—	—	455,373.41	—	
Deyang Real Estate Developmen Co., Ltd.	2001.4	12.50%	1,000,000.00	1,000,000.00	—	—	—	—	—	1,000,000.00	—	
Sichuan Danglang Jiaxin Construction Supervisory Co. Ltd.	2001.5	40.00%	200,000.00	166,836.57	—	—	4,581.79	—	(28,581.64)	171,418.36	—	
DFEM Control Equipment Co., Ltd	2000.5.18-2010.5.17	96.15%	12,500,000.00	12,584,949.98	—	—	1,064,204.64	—	1,149,154.62	13,649,154.62	—	
DFEM Power Equipment Co., Ltd.	2000.7.10-2010.7.9	98.83%	42,254,340.02	15,193,853.07	—	—	(4,621,414.07)	—	(31,681,901.02)	10,572,439.00	—	
DEEM Tooling and Muddling Co., Ltd.	2001.3.13-2021.3.12	99.32%	14,500,000.00	14,839,614.45	—	—	1,076,836.05	288,686.81	1,127,763.69	15,627,763.69	—	
DFEM Equipment Engineering Co., Ltd	.2001.8.16-2021.8.15	97.04%	13,100,000.00	13,162,369.57	—	—	279,769.59	—	342,139.16	13,442,139.16	—	
Equity investment difference			(6,218,500.25)	(5,885,000.38)	—	—	621,850.08	—	955,349.95	(5,263,150.30)	—	
			78,592,154.43	51,828,937.92	310,941.25	—	(1,574,171.92)	288,686.81	(28,626,075.24)	49,966,079.19	310,941.25	

Notes to the Financial Statements *(continued)*

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42. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(Continued)*

(2) LONG TERM INVESTMENT *(Continued)*

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

Invested Company	Initial Investment RMB	Amortisation term	2003.1.1 RMB	Increase this year RMB	Amortization this year RMB	2003.12.31 RMB	Remaining term of amortization
DFEM Power System Co., Ltd	(4,511,741.38)*	120 months	(4,474,143.54)	—	(451,174.08)	(4,022,969.46)	107 months
DFEM Tooling and Moulding Company Limited	(1,082,220.62)*	120 months	(874,794.89)	—	(108,222.12)	(766,572.77)	85 months
DFEM Equipment Engineering Company Limited	(624,538.25)*	120 months	(536,061.95)	—	(62,453.88)	(473,608.07)	91 months
	(6,218,500.25)		(5,885,000.38)	—	(621,850.08)	(5,263,150.30)	

* See details in Note 11(4).

(3) REVENUE

A. Details of revenue are listed as follows:

Machinery Manufacturing:	Income from principal operation		Cost of principal operation		Gross profit of principal operation	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Sales of power generators	1,014,516,007.94	757,455,042.21	788,814,029.91	586,793,121.39	225,701,978.03	170,661,920.82
Income from labor and technology Improvement	107,775,634.17	126,562,330.00	78,423,734.88	92,810,373.00	29,351,899.29	33,751,957.00
Others	1,122,291,642.11	884,017,372.21	867,237,764.79	679,603,494.39	255,053,877.32	204,413,877.82

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

	Amount RMB	Percentage RMB
2003	458,979,272.71	40.89

Notes to the Financial Statements *(continued)*

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42. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(Continued)*

(4) INVESTMENT GAIN

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

	2003 RMB	2002 RMB
Amortization of Equity		
Investment Differences	621,850.08	208,273.84
Entrusted Investment Gain	—	2,537,155.36
Equity Method Adjustment		
for Subsidiaries Companies	(2,489,795.13)	(10,750,751.97)
Equity Method Adjustment		
for Associate Companies	4,581.79	—
Reverse back of Provision for		
Impairment of Short Term Investment	—	6,713,400.00
Other investment Gains	20,271.10	63,619.42
	(1,843,092.16)	(1,228,303.35)

There is no major restriction on remittance of investment gains.

(5) CASH AND CASH EQUIVALENT

Details of cash and cash equivalent are listed as follows:

	2003 RMB	2002 RMB
Cash at banks and cash in hand	1,249,177,330.91	745,923,358.67
Less: Bank fixed		
deposit over 3 months	(211,553,399.97)	(255,584,414.78)
Other restricted bank balances	(111,460,279.22)	(154,578,703.46)
	926,163,651.72	335,760,240.43

Notes to the Financial Statements (continued)

December 31, 2003
(prepared under PRC Accounting Standards)

43. EXCEPTIONAL ITEMS

The details of exceptional items of the Company and its subsidiaries:

	2003 RMB	2002 RMB
1. Gains on Sale or Disposal of Departments or Invested Companies	—	—
2. Loss on Natural Disasters	—	—
3. Gain or loss Caused by Changes of Accounting Policy and Estimate	—	15,881,606.15
4. Gain or Loss from Debt Restructuring	—	—
5. Other Non Operating Gain or Loss	3,082,994.78	12,905,050.99
Non Operating Income	2,391,999.25	3,190,795.63
Non Operating Cost	(4,853,092.73)	(2,537,740.00)
Interests Received from Non Financial Institutions	5,468,642.94	—
Gain or Loss from Entrusted Equity Investment	—	2,537,155.36
Reverse back of Previously Recognized Provision for Impairment	—	9,714,840.00
Effects of Corporate Income Taxes	75,445.32	—
	3,082,994.78	28,786,657.14

44. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

(1) DETAILS OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES ARE SHOWN BELOW:

A. Related parties with controlling relationships:

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	Holding 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	2003.1.1 RMB	Increase this year RMB	Decrease this year RMB	2003.12.31 RMB
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	13,500,000	—	—	13,500,000

Notes to the Financial Statements *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

44. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

(1) DETAILS OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES ARE SHOWED BELOW: *(Continued)*

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

Company Name	Increase this 2003.1.1		Decrease year		this year		2003.12.31	
	Amount	%	Amount	%	Amount	%	Amount	%
	RMB		RMB		RMB		RMB	
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	13,100,400	97.04	—	—	—	—	13,100,400	97.04

D. Related parties without controlling relationship.

Company name	Relationship with the company
Leshan City Dangle Heavy Piece Handling Co., Ltd	Associate company
Sichuan Dongfang Jiaxin Construction Supervisory Co., Ltd	Associate company
China Dongfang Electric Corporation (DFEC)	Superior administrative organization of DFEW
DFEC Finance Company	Subsidiary company of DFEW's superior administrative organization
Deyang Dongfang Electric Machinery Supplementary Equipment Company ("Supplementary Equipment")	Subsidiary company of DFEW
Deyang Dongfang Electric Machinery General Equipment Company ("General Equipment")	Subsidiary company of DFEW

(2) RELATED PARTIES TRANSACTIONS

A. The details of service expenses owing to DFEW by the Company and its subsidiaries are listed as follows:

	2003 RMB	2002 RMB
Staff accommodation management fees	2,323,903.00	1,772,401.00
Product packing fees	21,326,520.89*	15,972,180.00
Environmental, hygiene and greenery expenses	2,223,187.00	1,965,461.00
Refreshment	2,476,176.28	2,440,753.00
Nursery service for children of employees	1,327,500.00	5,212,751.00
Staff retirement plan	1,679,715.00	1,101,023.00
Transportation and repair	39,951,673.55	29,973,320.08
Medicare for staff and family members	1,088,482.00	996,270.00
Rental and land use fees	3,769,132.69	1,373,008.00
Others	938,122.82	1,273,788.45
	77,104,413.23	62,080,955.53

Above expenses are incurred according to the "Service Agreement" with DFEW, and this "Service Agreement" is expired as at 31 December 2003, the Company has signed the new "Service Agreement" for year 2004 - 2006 with DFEW, which had been approved by the Board Meeting and Extraordinary General Meeting.

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

Notes to the Financial Statements (continued)

December 31, 2003
(prepared under PRC Accounting Standards)

44. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(2) RELATED PARTIES TRANSACTIONS (Continued)

- B. The Company and DFEW signed the "Transference of Land Use Right Agreement" on 26 June 2003, under the agreement DFEW should transfer its state owned land use right (State owned land license No. Deshifuguoyong [1994] zhidi 1881) of 8,137 Square Meters which is located at Huanghe West Road No. 188 within the DFEW factory to the Company. The transfer price is based on the "Assets Appraisal Report" (Jindi 2003 Gu Zhi Di 390.) from Deyang Jindi Land Valuation Consulting Company on 18 June 2003, RMB310.41 per square meter, and total RMB 2,525,806.00.
- C. The details of raw material purchase and labour charges from DFEW and Dongfang Electric Supplementary Equipment Company and Dongfang Electric General Equipment Company are listed as follows:

		2003 RMB	2002 RMB
DFEW	Raw materials	18,247,075.94	20,202,499.89
DFEW	Labour	4,381,413.51	4,246,000.00
		22,628,489.45	24,448,499.89
Supplementary Equipment	Raw materials	21,174,527.36	—
General Equipment	Raw materials	7,479,579.48	—
		51,282,596.29	24,448,499.89

- D. The details of receivables from DFEW for raw material and finished product sales and labour charges by the Company and its subsidiaries.

	2003 RMB	2002 RMB
Raw material and finished product	11,085,428.85	1,714,173.21
Energy cost	4,623,763.43	4,178,810.07
Labour cost	3,415,899.83	940,993.00
	19,125,092.11	6,833,976.28

- E. As mentioned in Notes 16, 24, and 25 DFEW has provided guarantees on loans for the Company amount to RMB325,600,000.00 as at 31 December 2003.
- F. As mentioned in Notes 24 and 25 China Dongfang Electric Corporation (DFEC) has made loans on behalf of the Company from State Development Bank amount to RMB60,000,000.00 as at 31 December 2003, and the Company has paid RMB6,923,180.00 for the interests.
- G. As mentioned in Note 16 the Company has borrowed RMB10,000,000.00 from the Finance Company of Dongfang Group as at 31 December 2003, and the Company has paid RMB212,266.67 interest to the Finance Company of Dongfang Group.
- H. As mentioned in Note 5 the Company saved RMB13,891,114.46 in the Finance Company of Dongfang Group as at 31 December 2003.
- I. The details of sales on behalf of the Company and its subsidiaries by China Dongfang Electric Corporation (DFEC) is showed as follows:

	2003 RMB	2002 RMB
Revenue from sales on behalf	35,512,816.85	28,890,396.00

- J. The remuneration paid to the key management of the Company amount to RMB879,569.99.

Notes to the Financial Statements *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

44. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES *(Continued)*

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

Item	Related company names	2003.12.31		2002.12.31	
		Amount RMB	Percentage to the account balance	Amount RMB	Percentage to the account balance
Trade debtors	DFEC	29,068,394.57	3.47	34,093,099.00	4.55
	DFEW	8,807,700.47	1.05	—	—
		37,876,095.04	4.52	34,093,099.00	4.55
Prepayment	DFEW	650,916.79	0.36	—	—
Other Receivables	DFEW	—	—	851,035.00	0.63
	Dongle Heavy Piece Handling Co	11,607,300.40	13.08	11,857,852.00	13.15
		11,607,300.40	13.08	12,708,887.00	13.78
Payment in advance	DFEC	30,689,680.25	1.97	8,266,561.00	2.14
	DFEW	808,000.00	0.05	—	—
		31,497,680.25	2.02	8,266,561.00	2.14
Other Payables	DFEW	2,331,224.62	7.30	28,075,809.00	68.04
Trade creditors	DFEW	7,062,501.60	8.13	1,255,460.00	1.00
	Supplementary Equipment	3,175,694.00	3.65	—	—
	General Equipment	6,610,855.00	7.60	—	—
		16,849,050.60	19.38	1,255,460.00	1.00
Notes payables	DFEW	7,868,715.23	4.57	5,023,390.00	4.03

45. CONTINGENT ITEM

There exists no material contingent item necessary for disclosure during the year.

Notes to the Financial Statements *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

46. FINANCIAL COMMITMENTS

Details of the approved capital expenditures within the year as at 31 December 2003 are listed as follows:

	2003.12.31 RMB
Approved and signed	61,637,222.47
Approved but not signed	53,275,000.00

47. SUBSEQUENT EVENTS AFTER THE DATE OF BALANCE SHEET

There exists no material contingency item necessary for disclosure during the year.

48. OTHER MAJOR EVENTS

1. During the accounting period, the Company wrote off RMB24,413,349.99 in accounts receivables and RMB1,566,884.49 in other account receivables for those which have been outstanding for a prolonged period of time and are largely considered uncollectible; the Company also wrote off RMB13,998,218.51 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 by the 6th rounds of 4th, 7th rounds of 4th and 10th rounds of 4th directors' meeting.
2. As stated in Note 12 there are still RMB137,895,686.49 worth of buildings and plants have not applied for license, account for 67.96% of the consolidated buildings and plants, and account for 27.77% of the consolidated fixed assets.

49. COMPARATIVE FIGURES

To apply consistency principle the Company has made some reclassifications adjustments to prior year's figures.

50. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors on 19 March 2004.

Other Financial Information

December 31, 2003
(prepared under PRC Accounting Standards)

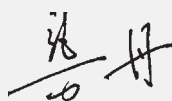
SUPPLEMENT INFORMATION ON DFEM'S CONSOLIDATED PROFIT AND LOSS STATEMENT

Details of exceptional items in profit and loss statement:

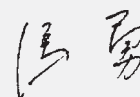
Items	Consolidated	
	2003 RMB	2002 RMB
1. Gains on disposal of department or investment	—	—
2. Losses on natural Disaster	—	—
3. Gains increase (decrease) due to change of accounting policy and accounting estimate	—	15,881,606.15
4. Gains or losses from debt restructuring	—	—
5. Other exceptional items	3,082,994.78	12,905,050.99
	3,082,994.78	28,786,657.14
Percentage to consolidated net profit	9.31%	173.28%



Legal Representative



General Accountant



Finance Manager

Other Financial Information (continued)

December 31, 2003
(prepared under PRC Accounting Standards)

RECONCILIATION FOR FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND PRC ACCOUNTING STANDARDS

	Note	Net assets 2003.12.31 RMB	Net profit For the year ended 31st December 2003 RMB
Financial statements prepared in accordance with accounting principles generally accepted in Hong Kong		965,171,319.53	18,618,300.63
Adjustments:			
— Fixed assets	1	(19,280,000.00)	—
— Subsidy income	2	—	13,595,149.95
— Investment gains	3	2,665,509.00	621,850.64
— Others		580,240.95	291,050.30
Sub-total		(16,034,250.05)	14,508,050.89
Financial statements prepared in accordance with PRC accounting standards		949,137,069.48	33,126,351.52

Note:

1. Fixed assets

In accordance with "Accounting Standards for Enterprise - Debt Restructuring" the value of buildings obtained from debt restructuring was reduced by RMB19,280,000.00. In accordance with accounting principles generally accepted in Hong Kong, the buildings obtained from debt restructuring was stated at their market value.

2. Subsidy income

In accordance with accounting principles generally accepted in Hong Kong subsidy income totaling RMB13,595,149.95 was recognized on accrual basis in 2002. In accordance with PRC accounting standards, the subsidy income was recognized on cash basis in 2003.

3. Investment income

In accordance with accounting principles generally accepted in Hong Kong, the difference on equity investment was recognized in the income statement in previous years. In accordance with PRC accounting standards, the difference on equity investment was amortized over 10 years.

Legal Representative

General Accountant

Finance Manager

Other Financial Information *(continued)*

December 31, 2003
(prepared under PRC Accounting Standards)

DETAILS OF RETURN ON NET ASSETS AND RETURN PER SHARE ARE LISTED AS FOLLOWS FOR THE PERIOD OF 2003

	Return on net asset (%)		Return on per share (RMB/share)		Ending value		Weighted average	
	Ending value		Weighted average					
	2003	2002	2003	2002	2003	2002	2003	2002
Profit from principal operations	30.83%	25.39%	31.38%	25.81%	0.65	0.517	0.65	0.517
Operating profit	2.48%	(0.18%)	2.52%	(0.19%)	0.052	(0.004)	0.052	(0.004)
Net profit	3.49%	1.81%	3.55%	1.84%	0.074	0.037	0.074	0.037
Profit exclude extraordinary gain or loss	3.17%	(1.33%)	3.22%	(1.35%)	0.067	(0.027)	0.067	(0.027)

Legal Representative

General Accountant

Finance Manager

Other Financial Information (continued)

December 31, 2003
(prepared under PRC Accounting Standards)

DETAILS OF PROVISION FOR IMPAIRMENTS OF ASSETS OF THE COMPANY FOR THE YEAR OF 2003

	opening balance RMB	increase this year RMB	fixed assets value this year RMB	reverse this year		closing balance RMB
				other reverse back RMB	sum RMB	
1. Provision for bad debt	93,222,302.28	4,277,528.69	—	604,241.04	604,241.04	96,895,589.93
Trade creditors	57,568,715.64	4,277,528.69	—	—	—	61,846,244.33
Other creditors	35,653,586.64	—	—	604,241.04	604,241.04	35,049,345.60
2. Provision for devaluation of short term investment	13,860.00	—	—	13,860.00	13,860.00	—
Equity investment	13,860.00	—	—	13,860.00	13,860.00	—
3. Provision for devaluation of inventory	12,516,163.69	—	—	9,282,338.03	9,282,338.03	3,233,825.66
Raw Material	5,406,346.20	—	—	5,406,346.20	5,406,346.20	—
Manufacturing in process	4,013,175.01	—	—	2,440,502.00	2,440,502.00	1,572,673.01
Finished product	3,096,642.48	—	—	1,435,489.83	1,435,489.83	1,661,152.65
4. Provision for devaluation of long term investment	310,941.25	—	—	—	—	310,941.25
Long term equity investment	310,941.25	—	—	—	—	310,941.25
5. Provision for drop of construction in process	—	1,211,724.50	—	—	—	1,211,724.50
	—	1,211,724.50	—	—	—	1,211,724.50

Legal Representative

General Accountant

Finance Manager

Other Financial Information *(continued)*

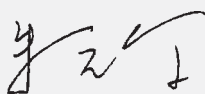
December 31, 2003
(prepared under PRC Accounting Standards)

DETAILS OF UNUSUAL CHANGES OF THE COMPANY FOR THE YEAR OF 2003

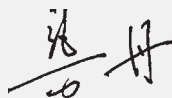
Details of unusual changes of the Company's consolidated financial statements

Items	2003 RMB	2002 RMB	Percentage of changes
Cash and cash equivalents	1,297,677,203.31	767,939,260.04	68.98%
Prepayment	181,829,359.42	86,623,426.59	109.91%
Construction in progress	74,673,968.51	37,913,583.96	96.96%
Notes payables	172,005,817.24	124,221,640.95	38.47%
Receive in advance	1,556,590,902.21	379,496,573.94	310.17%
Other operating profit	10,371,251.15	2,957,706.29	250.65%
Management expense	261,115,240.53	181,716,820.82	43.69%
Finance expense	16,213,929.32	28,606,967.08	(43.32%)

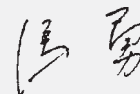
- A. Increase of cash and cash equivalent mainly because this year the Company signed more sales contracts and received more deposit;
- B. Increase of prepayment mainly because this year the Company signed more sales contracts, so increased its raw material purchase;
- C. Increase of construction in progress mainly because in order to expanded production capacity the Company need to purchase more manufacturing equipments;
- D. Increase of notes payable mainly because this year the company signed more sales contracts, so increased its raw material purchase;
- E. Increase of receive in advance mainly because this year the Company signed more sales contracts and received more deposit;
- F. Increase of other operating profit mainly because this year the Company received more consulting fees;
- G. Increase of management expense mainly because the raise of employees' salaries and related expenses, and inventory stock take loss;
- H. Decrease of finance expense mainly because this year repaid more loans from banks.



Legal Representative



General Accountant



Finance Manger