

## 6. Financial Reports (Unaudited)

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

#### CONSOLIDATED BALANCE SHEET

As at 30 June 2004

|   | Note         | 2004.6.30<br>RMB        | 2003.12.31<br>RMB       |
|---|--------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                   |              |                         |                         |
| <b>Current Assets</b>                           |              |                         |                         |
| Cash and bank balance                           | 5            | 1,957,231,544.77        | 1,297,677,203.31        |
| Notes receivable                                | 6            | 22,772,008.00           | 46,961,000.00           |
| Accounts receivable                             | 2(8),7,45(3) | 671,978,781.18          | 775,239,494.19          |
| Other receivable                                | 2(8),7,45(3) | 24,690,406.88           | 53,709,580.87           |
| Prepayment                                      | 8,45(3)      | 413,959,187.54          | 181,829,359.42          |
| Inventories                                     | 2(9),9       | 732,985,408.86          | 581,337,419.48          |
| Amount due from customers on contract works     | 10           | 255,653,897.46          | 160,719,286.12          |
| Deferred expenses                               |              | 60,667.67               | 38,643.63               |
| <b>Total Current Assets</b>                     |              | <b>4,079,331,902.36</b> | <b>3,097,511,987.02</b> |
| <b>Long Term Investments::</b>                  |              |                         |                         |
| Long-term equity investment                     | 2(10),4,11   | (3,304,880.97)          | (3,592,095.29)          |
| Including: Equity investment difference         |              | (4,952,225.26)          | (5,263,150.30)          |
| <b>Total long-term investments</b>              |              | <b>(3,304,880.97)</b>   | <b>(3,592,095.29)</b>   |
| <b>Fixed Assets:</b>                            |              |                         |                         |
| Fixed assets at cost                            | 2(11),12     | 983,157,733.07          | 953,956,746.54          |
| Less: Accumulated depreciation                  | 2(11),12     | 517,505,795.17          | 457,415,642.36          |
| Fixed assets, net                               |              | 465,651,937.90          | 496,541,104.18          |
| Less: Provision for impairment of fixed assets  | 2(11),12     | 1,211,724.50            | 1,211,724.50            |
| Fixed assets, net                               |              | 464,440,213.40          | 495,329,379.68          |
| Construction materials                          |              | 29,015,815.00           | 19,327,922.65           |
| Construction-in-progress                        | 2(12),13     | 123,860,620.64          | 74,673,968.51           |
| <b>Total fixed assets</b>                       |              | <b>617,316,649.04</b>   | <b>589,331,270.84</b>   |
| <b>Intangible assets and other assets</b>       |              |                         |                         |
| Intangible assets                               | 2(14),14     | 30,853,430.59           | 29,723,256.65           |
| Long term deferred expenditure                  | 2(15),15     | 284,056.57              | 1,746,408.32            |
| <b>Total intangible assets and other assets</b> |              | <b>31,137,487.16</b>    | <b>31,469,664.97</b>    |
| <b>TOTAL ASSETS</b>                             |              | <b>4,724,481,157.59</b> | <b>3,714,720,827.54</b> |

## Consolidated Balance Sheet (continued)

As at 30 June 2004

|   | Note     | 2004.6.30<br>RMB        | 2003.12.31<br>RMB       |
|---|----------|-------------------------|-------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |          |                         |                         |
| <b>Current liabilities:</b>                       |          |                         |                         |
| Short-term loans                                  | 16       | 50,000,000.00           | 125,600,000.00          |
| Notes payable                                     | 17,45(3) | 140,126,192.45          | 172,005,817.24          |
| Accounts payable                                  | 18,45(3) | 122,392,206.25          | 86,962,353.14           |
| Receipt in advance                                | 19,45(3) | 2,682,144,113.73        | 1,556,590,902.21        |
| Salaries payable                                  |          | 15,792,954.72           | 15,813,772.68           |
| Staff welfare payable                             |          | 13,406,425.92           | 17,883,887.50           |
| Taxes payable                                     | 20       | 117,925,809.79          | 145,329,774.50          |
| Other unpaid amount                               | 21,45(3) | 9,978,425.30            | 6,212,254.02            |
| Other payable                                     | 22       | 59,092,085.27           | 43,511,688.69           |
| Accruals  | 23       | 111,499,472.12          | 74,647,344.36           |
| Provision for estimated contract loss             | 10       | 17,698,118.46           | 19,684,346.69           |
| Current portion of long-term liabilities          | 24       | 30,000,000.00           | 255,000,000.00          |
| Amount due to customers on contract works         | 10       | 267,522,627.94          | 89,943,976.69           |
| <b>Total current liabilities</b>                  |          | <b>3,637,578,431.95</b> | <b>2,609,186,117.72</b> |
| <b>Long term liabilities:</b>                     |          |                         |                         |
| Long-term loans                                   | 25       | 10,000,000.00           | 65,000,000.00           |
| Long-term payables                                | 26       | 685,252.84              | 685,252.84              |
| Specific loans                                    | 27       | 89,093,567.72           | 89,827,896.52           |
| <b>Total long-term liabilities</b>                |          | <b>99,778,820.56</b>    | <b>155,513,149.36</b>   |
| <b>TOTAL LIABILITIES</b>                          |          | <b>3,737,357,252.51</b> | <b>2,764,699,267.08</b> |
| <b>Minority interests</b>                         | 2(20)    | <b>992,666.64</b>       | <b>884,490.98</b>       |
| <b>Shareholders' equity:</b>                      |          |                         |                         |
| Share capital                                     | 28       | 450,000,000.00          | 450,000,000.00          |
| Capital reserve                                   | 29       | 607,901,582.97          | 607,787,161.81          |
| Surplus reserve                                   | 2(20),30 | 53,982,903.38           | 53,982,903.38           |
| Including: Statutory public welfare fund          |          | 26,128,160.86           | 26,128,160.86           |
| Undistributed profits (Accumulated Losses)        | 31       | (125,753,247.91)        | (162,632,995.71)        |
| <b>Total shareholders' equity</b>                 |          | <b>986,131,238.44</b>   | <b>949,137,069.48</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |          | <b>4,724,481,157.59</b> | <b>3,714,720,827.54</b> |

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


**Balance Sheet**

As at 30 June 2004

|   | Note        | 2004.6.30<br>RMB        | 2003.12.31<br>RMB       |
|---|-------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                   |             |                         |                         |
| <b>Current Assets:</b>                          |             |                         |                         |
| Cash and bank balance                           |             | 1,858,669,649.62        | 1,249,177,330.91        |
| Notes receivable                                |             | 7,600,000.00            | 15,871,000.00           |
| Accounts receivable                             | 2(8),43(1)  | 666,536,916.85          | 735,266,097.28          |
| Other receivable                                | 2(8),43(1)  | 23,666,048.87           | 52,820,541.91           |
| Prepayments                                     |             | 436,765,507.40          | 205,126,864.56          |
| Inventories                                     | 2(9)        | 647,474,050.97          | 530,490,819.04          |
| Amount due from customers on contract works     |             | 246,115,983.57          | 160,443,183.11          |
| Deferred expenses                               |             | 60,667.67               | 38,643.63               |
| <b>Total Current Assets</b>                     |             | <b>3,886,888,824.95</b> | <b>2,949,234,480.44</b> |
| <b>Long Term Investments:</b>                   |             |                         |                         |
| Long-term equity investment                     | 2(10),43(2) | 54,535,904.19           | 49,699,401.18           |
| <b>Total long-term investments</b>              |             | <b>54,535,904.19</b>    | <b>49,699,401.18</b>    |
| <b>Fixed Assets:</b>                            |             |                         |                         |
| Fixed assets at cost                            | 2(11)       | 913,730,112.22          | 885,517,813.02          |
| Less: Accumulated depreciation                  | 2(11)       | 473,531,052.14          | 417,110,255.41          |
| Fixed assets, net                               |             | 440,199,060.08          | 468,407,557.61          |
| Less: Provision for impairment of fixed assets  | 2(11)       | 1,160,754.10            | 1,160,754.10            |
| Fixed assets, net                               |             | 439,038,305.98          | 467,246,803.51          |
| Construction materials                          |             | 29,015,815.00           | 19,477,922.65           |
| Construction-in-progress                        | 2(12)       | 120,100,813.11          | 75,085,658.06           |
| <b>Total fixed assets</b>                       |             | <b>588,154,934.09</b>   | <b>561,810,384.22</b>   |
| <b>Intangible assets and other assets:</b>      |             |                         |                         |
| Intangible assets                               | 2(14)       | 30,802,602.43           | 29,658,387.23           |
| Long term deferred expenditure                  | 2(15)       | 60,427.83               | 1,464,498.46            |
| <b>Total intangible assets and other assets</b> |             | <b>30,863,030.26</b>    | <b>31,122,885.69</b>    |
| <b>TOTAL ASSETS</b>                             |             | <b>4,560,442,693.49</b> | <b>3,591,867,151.53</b> |

## Balance Sheet (continued)

As at 30 June 2004

|   | Note  | 2004.6.30<br>RMB        | 2003.12.31<br>RMB       |
|---|-------|-------------------------|-------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |       |                         |                         |
| <b>Current liabilities:</b>                       |       |                         |                         |
| Short-term loans                                  |       | 50,000,000.00           | 125,600,000.00          |
| Notes payable                                     |       | 140,126,192.45          | 176,005,817.24          |
| Accounts payable                                  |       | 103,240,340.49          | 79,222,406.27           |
| Receipt in advance                                |       | 2,613,170,137.22        | 1,479,248,926.36        |
| Salaries payable                                  |       | 14,684,961.22           | 15,511,237.97           |
| Staff welfare payable                             |       | 7,968,569.39            | 12,516,796.37           |
| Taxes payable                                     |       | 117,847,078.98          | 135,287,041.90          |
| Other unpaid amount                               |       | 9,655,474.99            | 5,735,856.85            |
| Other payable                                     |       | 54,815,349.72           | 38,626,708.29           |
| Accruals  |       | 97,152,501.68           | 63,825,946.61           |
| Provision for estimated losses                    |       | 17,698,118.46           | 19,684,346.69           |
| Current portion of long-term liabilities          |       | 30,000,000.00           | 255,000,000.00          |
| Amount due to customers on contract works         |       | 213,208,161.94          | 75,020,810.40           |
| <b>Total current liabilities</b>                  |       | <b>3,469,566,886.54</b> | <b>2,481,285,894.95</b> |
| <b>Long term liabilities:</b>                     |       |                         |                         |
| Long-term loans                                   |       | 10,000,000.00           | 65,000,000.00           |
| Long-term payables                                |       | 685,252.84              | 685,252.84              |
| Specific loans                                    |       | 88,550,237.72           | 89,283,566.52           |
| <b>Total long-term liabilities</b>                |       | <b>99,235,490.56</b>    | <b>154,968,819.36</b>   |
| <b>TOTAL LIABILITIES</b>                          |       | <b>3,568,802,377.10</b> | <b>2,636,254,714.31</b> |
| <b>Shareholders' equity:</b>                      |       |                         |                         |
| Share capital                                     |       | 450,000,000.00          | 450,000,000.00          |
| Capital reserve                                   |       | 607,901,582.97          | 607,787,161.81          |
| Surplus reserve                                   | 2(20) | 53,589,830.54           | 53,589,830.54           |
| Including: Statutory public welfare fund          |       | 27,592,693.96           | 25,997,136.58           |
| Undistributed profits (Accumulated Losses)        |       | (119,851,097.12)        | (155,764,555.13)        |
| <b>Total shareholders' equity</b>                 |       | <b>991,640,316.39</b>   | <b>955,612,437.22</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>4,560,442,693.49</b> | <b>3,591,867,151.53</b> |

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

**Consolidated Statement of Profit and Profit Distribution**

For the six months ended 30 June 2004

|   | Note       | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|---|------------|----------------------|----------------------|
| Revenue   | 2(17),32   | 891,383,801.99       | 526,458,523.44       |
| Less: Cost of Sales                               | 32         | 582,933,507.84       | 374,969,477.57       |
| Sales tax and surcharge                           | 3(1),33    | 4,114,598.30         | 991,722.97           |
| Profit from principle operations                  |            | 304,335,695.85       | 150,497,322.90       |
| Add: Other operating profit                       | 34         | 8,573,045.43         | 3,707,222.48         |
| Less: Operating expenses                          |            | 6,610,402.93         | 16,500,652.67        |
| Management expenses                               |            | 259,524,937.74       | 106,581,385.22       |
| Provision for expected loss                       |            | (1,986,228.23)       | 2,129,234.00         |
| Finance expenses                                  | 2(13),35   | (1,943,826.25)       | 10,660,576.63        |
| Operating profit (loss)                           |            | 50,703,455.09        | 18,332,696.86        |
| Add: Investment income                            | 36         | 288,319.90           | 259,295.25           |
| Subsidy income                                    |            | —                    | 2,504,087.99         |
| Non-operating income                              | 37         | 5,701,271.36         | 597,185.73           |
| Less: Non-operating expenses                      | 38         | 3,781,427.36         | 2,783,623.72         |
| Total profit (loss)                               |            | 52,911,618.99        | 18,909,642.11        |
| Less: Income tax                                  | 2(18),3(2) | 15,920,590.02        | —                    |
| Minority Interest                                 | 2(20)      | 111,281.17           | (58,353.55)          |
| Net profit (loss)                                 |            | 36,879,747.80        | 18,967,995.66        |
| Add: Retained earnings, beginning of period       | 31         | (162,632,995.71)     | (195,439,528.52)     |
| Distributable profits                             |            | (125,753,247.91)     | (176,471,532.86)     |
| Less: Statutory surplus reserve fund              | 31         | —                    | —                    |
| Statutory public welfare fund                     | 31         | —                    | —                    |
| Profit available for distribution to shareholders |            | (125,753,247.91)     | (176,471,532.86)     |
| Less: Common stock dividend payable               |            | —                    | —                    |
| Retained earnings, end of period                  | 31         | (125,753,247.91)     | (176,471,532.86)     |

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

## Statement of Profit and Profit Distribution

For the six months ended 30 June 2004

|   | Note        | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|---|-------------|----------------------|----------------------|
| Revenue   | 2(17),43(3) | 844,865,247.66       | 499,507,551.29       |
| Less: Cost of Sales                               | 43(3)       | 578,264,217.79       | 366,868,302.27       |
| Sales tax and surcharge                           | 3(1)        | 3,837,621.70         | 766,240.65           |
| Profit from principle operations                  |             | 262,763,408.17       | 131,873,008.37       |
| Add: Other operating profit                       |             | 22,424,362.54        | 1,753,045.69         |
| Less: Operating expenses                          |             | 4,397,627.85         | 14,639,476.04        |
| Management expenses                               |             | 241,379,676.84       | 91,246,719.40        |
| Provision for expected loss                       |             | (1,986,228.23)       | 2,129,234.00         |
| Finance expenses                                  | 2(13)       | (1,683,824.25)       | 9,471,013.02         |
| Operating profit (loss)                           |             | 43,080,518.50        | 16,139,611.60        |
| Add: Investment income                            | 43(4)       | 5,098,503.01         | 6,193,535.65         |
| Subsidy income                                    |             | —                    | 2,070,087.99         |
| Non-operating income                              |             | 5,616,142.62         | 603,158.40           |
| Less: Non-operating expenses                      |             | 3,864,020.25         | 2,717,316.61         |
| Total profit (loss)                               |             | 49,931,143.88        | 22,289,077.03        |
| Less: Income tax                                  | 2(18),3(2)  | 14,017,685.87        | —                    |
| Net profit (loss)                                 |             | 35,913,458.01        | 22,289,077.03        |
| Add: Retained earnings, beginning of period       |             | (155,764,555.13)     | (195,571,515.74)     |
| Distributable profits                             |             | (119,851,097.12)     | (173,282,438.71)     |
| Less: Statutory surplus reserve fund              |             | —                    | —                    |
| Statutory public welfare fund                     |             | —                    | —                    |
| Profit available for distribution to shareholders |             | (119,851,097.12)     | (173,282,438.71)     |
| Less: Common stock dividend payable               |             | —                    | —                    |
| Retained earnings, end of period                  |             | (119,851,097.12)     | (173,282,438.71)     |

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

## CASHFLOW STATEMENTS

For the six months ended 30 June 2004

|   | Note | 2004.1.1-6.30<br>Consolidated | 2004.1.1-6.30<br>The Company |
|---|------|-------------------------------|------------------------------|
| <b>1. Cash flow from operating activities:</b>  |      |                               |                              |
| Cash received from sales of goods<br>or rendering of services                         |      | 2,194,229,123.05              | 2,101,679,875.24             |
| Refund of tax   |      | —                             | —                            |
| Other cash received relate to operating activities                                    | 39   | 25,057,975.16                 | 26,715,327.88                |
| <b>Sub-total of cash inflows</b>  |      | <u>2,219,287,098.21</u>       | <u>2,128,395,203.12</u>      |
| Cash paid for goods and services  |      | 860,451,866.50                | 864,585,307.49               |
| Cash paid to and on behalf of employees   |      | 143,177,597.65                | 121,741,326.21               |
| Payment of all types of taxes   |      | 91,383,055.91                 | 80,574,678.30                |
| Other cash paid relate to operating activities  | 40   | 41,498,065.76                 | 24,932,404.89                |
| <b>Sub-total of cash outflows</b>   |      | <u>1,136,510,585.82</u>       | <u>1,091,833,716.89</u>      |
| <b>Net cash flows from operating activities</b>                                       |      | <u>1,082,776,512.39</u>       | <u>1,036,561,486.23</u>      |
| <b>2. Cash flows from investing activities:</b>                                       |      |                               |                              |
| Cash received from investment   |      | —                             | —                            |
| Cash received from investment earnings  |      | —                             | —                            |
| Cash received from disposal of fixed assets,<br>intangible assets, and                |      | 1,730,000.00                  | 1,730,000.00                 |
| Other cash received relate to investing activities                                    | 41   | 304,860,415.57                | 300,860,415.57               |
| <b>Sub-total of cash inflows</b>  |      | <u>306,590,415.57</u>         | <u>302,590,415.57</u>        |
| Cash paid to acquire of fixed assets, intangible assets<br>and other long-term assets |      | 85,676,215.60                 | 80,634,246.00                |
| Cash paid to acquire investments  |      | —                             | —                            |
| Other cash paid relate to investing activities  | 42   | 480,518,075.76                | 480,518,075.76               |
| <b>Sub-total of cash outflows</b>   |      | <u>566,194,291.36</u>         | <u>561,152,321.76</u>        |
| <b>Net cash flows from investing activities</b>                                       |      | <u>(259,603,875.79)</u>       | <u>(258,561,906.19)</u>      |

## CASHFLOW STATEMENTS (continued)

For the six months ended 30 June 2004

|  | Note | 2004.1.1-6.30<br>Consolidated | 2004.1.1-6.30<br>The Company |
|--|------|-------------------------------|------------------------------|
| <b>3. Cash flows from financing activities:</b>                |      |                               |                              |
| Cash received from raising new capitals                        |      | —                             | —                            |
| Cash received from borrowing                                   |      | 20,000,000.00                 | 20,000,000.00                |
| Other proceeds relate to financing activities                  |      | 258,963.68                    | 258,963.68                   |
| <b>Sub-total of cash inflows</b>                               |      | <b>20,258,963.68</b>          | <b>20,258,963.68</b>         |
| Cash repayments of amounts borrowed                            |      | 375,600,000.00                | 375,600,000.00               |
| Cash payments of dividends, profit or interests                |      | 4,840,304.90                  | 4,846,304.90                 |
| Other cash payments relate to financing activities             |      | —                             | —                            |
| <b>Sub-total of cash outflows</b>                              |      | <b>380,440,304.90</b>         | <b>380,446,304.90</b>        |
| <b>Net cash flows from financing activities</b>                |      | <b>(360,181,341.22)</b>       | <b>(360,187,341.22)</b>      |
| <b>4. Effect of foreign exchange rate change on cash flow</b>  |      | <b>(156,486.07)</b>           | <b>(156,486.07)</b>          |
| <b>5. Net increase (decrease) in cash and cash equivalents</b> | 2(6) | <b>462,834,809.31</b>         | <b>417,655,752.75</b>        |



**CASHFLOW STATEMENTS (continued)**

For the six months ended 30 June 2004

|   | Note        | 2004.1.1-6.30<br>Consolidated | 2004.1.1-6.30<br>The Company |
|---|-------------|-------------------------------|------------------------------|
| <b>1. Reconciliation of net profit to cash flows from operating activities:</b>       |             |                               |                              |
| Net profit  |             | 36,879,747.80                 | 35,913,458.01                |
| Add: Minority interests   |             | 111,281.17                    | —                            |
| Provision for impairment loss of assets   |             | 128,166,269.65                | 126,735,739.19               |
| Provision for estimated loss of assets  |             | (1,986,228.23)                | (1,986,228.23)               |
| Depreciation of fixed assets  |             | 64,508,682.80                 | 60,833,202.33                |
| Amortization for intangible assets  |             | 759,707.21                    | 745,665.95                   |
| Amortization of long-term deferred expenditure  |             | 1,462,351.75                  | 1,404,070.63                 |
| (Increase) Decrease in deferred expense   |             | (22,024.04)                   | (22,024.04)                  |
| (Decrease) Increase in accrued expense  |             | 36,852,127.76                 | 33,326,555.07                |
| (Gain) Loss on disposal of fixed assets, intangible assets and other long-term assets |             | 1,783,659.12                  | 1,868,787.86                 |
| Finance expenses  |             | 3,003,857.29                  | 3,003,857.29                 |
| (Gain) Loss on investment   |             | (288,319.90)                  | (5,098,503.01)               |
| (Increase) Decrease in inventories  |             | (151,634,618.11)              | (116,983,231.93)             |
| (Increase) Decrease in operating receivables  |             | (298,775,201.39)              | (337,892,509.02)             |
| (Decrease) Increase in operating payables   |             | 1,277,209,905.69              | 1,252,029,154.13             |
| Others  |             | (15,254,686.18)               | (17,316,508.00)              |
| <b>Net cash flows from operating activities</b>                                       |             | <b>1,082,776,512.39</b>       | <b>1,036,561,486.23</b>      |
| <b>2. Net Increase in cash and cash equivalents:</b>                                  |             |                               |                              |
| Cash and cash equivalents, end of the period  | 5(2), 43(5) | 1,421,385,136.57              | 1,343,819,404.47             |
| Less: cash and cash equivalents, beginning of the period                              | 5(2), 43(5) | 958,550,327.26                | 926,163,651.72               |
| <b>Net Increase (Decrease) in cash and cash equivalents</b>                           | <b>2(6)</b> | <b>462,834,809.31</b>         | <b>417,655,752.75</b>        |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Reminbi yuan unless otherwise stated)

### 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 numbered 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 numbered 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) Fiscal 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”.

### (5) Foreign currency translation

Transactions in foreign currencies during the year are translated into RMB at the middle price of the market rates of exchange (“market rates”) promulgated by the People’s Bank of China on the first day of the respective month. At the end of the month, monetary assets and liabilities denominated in foreign currencies are adjusted at the RMB market rates on that date. Differences in RMB value arising therefrom are charged against the current year profit and loss account.

### (6) Determination for cash equivalent

Cash equivalent refers to the 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 payment out of a debtor's estate 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 using the allowance method. As at 31 Dec. 2003, the Company determines the provision for bad debts of the other receivable at 40% of the other receivable balances at the year end; the provision for bad debts of receivables based on the age of the accounts. 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%                  |

According to resolution of the board meeting, from the date of 1 Jan. 2004 to the balance sheet date, the Company and its subsidiaries determined that the provision for bad debts(including the Account Receivables and other account receivables) 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   | 10%                  |
| 2 to 3 years   | 20%                  |
| 3 to 4 years   | 40%                  |
| 4 to 5 years   | 50%                  |
| Over 5 years * | 100%                 |

\* *Provision for bad debt of accounts receivables of the related party over 5 years shall be made 90% at the balance receivables at the end of the period.*

In addition, the Company identifies individual receivables where the recoverability are apparently different from the same classes of receivables, if applying the same rule for provision of bad debts will not reflect the true view of the recoverable amount, in such situation the Company applies individual recognition method of provision for bad debts.

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 bringing the closing inventories to actual costs.

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 Company'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.

(11) Fixed assets and depreciation

Fixed assets referred to those tangible assets having a useful life over one year and a unit cost above RMB 2,000.00. Fixed assets are stated at cost. Fixed assets as at 1 April 1994 are stated at the higher of the carrying values or the valuations made by the asset valuer and confirmed by the SAAB.

Before 1 January 2004, 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                    |

Due to the overloaded operation of the fixed assets of the Company, in order to reflect the actual net book value of the fixed assets and for speeding up the replacement of fixed assets, the Fourth board of Directors thirteenth meeting resolved that with effective from 1 January 2004, the useful life of the fixed assets were changed. Besides, the method of depreciation for the three categories of plant and machinery, equipment and computers changed from straight line method to double declining balance method. After such change, the Company and its subsidiaries determined the depreciation rate by the classes of the original cost of fixed assets, the estimated useful lives and estimated residual values as follows:

| Classification                          | Year | Residual Value Rate        | Annual depreciation rate |
|---|------|----------------------------|--------------------------|
| Productive buildings and structures     | 20   | 5                          | 4.75                     |
| Non-productive buildings and structures | 25   | 5                          | 3.80                     |
| Plant and machinery                     | 10   | 5 Double declining balance |                          |
| Equipment                               | 6    | 5 Double declining balance |                          |
| Computer                                | 5    | 5 Double declining balance |                          |
| Motor vehicle                           | 6    | 5                          | 15.83                    |

At the balance sheet date, indication of impairment of fixed assets is incurred due to the reasons of the outdate technology, broken and not in used, the Company and its subsidiaries therefore reviewed when the recoverable amount of an item of fixed asset is estimated to be less than its carrying amount, an impairment loss is recognized as an expense and recorded in the profit and loss account for the period.

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.

At the balance sheet date, indication of impairment of construction-in-progress is incurred due to the reasons of the three years' continuous adjourn, outdate capability and technology, the Company and its subsidiaries therefore reviewed when the recoverable amount of an item of construction in progress is estimated to be less than its carrying amount, an impairment loss is recognized as an expenses and recorded in the profit and loss account for the period.

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

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

Other auxiliary expenses incurred due to specific loan agreement, will be capitalized into acquired fixed assets, if it was incurred before the 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.

Capitalized interest should be calculated as follows:

|  |   |  |   |                      |
|--|---|--|---|----------------------|
| Capitalized interest<br>for the<br>accounting period | = | Weighted average of the<br>accumulated fixed assets<br>acquisition amount for the period | x | Capitalization ratio |
|--|---|--|---|----------------------|

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



(14) Intangible asset and their amortization

Intangible assets of the Company and its subsidiaries include land use right, patent, goodwill and purchased computer software, etc. Intangible asset which is acquired or approved through legal procedures, is based on actual payment. The intangible asset arising from capital injection is based on the invested fund mutually agreed by investors concerned. Intangible assets are amortized under straight line method according to their expected useful life.

At balance sheet date, impairment of intangible assets occurs due to the reasons including decline in market value, replacement by new technology or expiry of period of protection of law, the Company and its subsidiaries received the intangible assets when the difference between the estimated recoverable amount of an item of intangible assets is estimated to be less than its carrying amount. The impairment loss is recognised as an expense in the profit and loss accounts for 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 carrying amount.

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

(15) Amortization of long-term deferred expenses

Long-term deferred expense to 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 closely related and therefore 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 of contract in proportion to the actual cost incurred 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 reliably measured; if the contract result could not be reliably 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.

The amount of accumulated costs and accumulated profit (loss) that has been recognised in excess of the settled amounts of individual construction contract is presented as due from customers on contract works and included as current assets. The amount of settled amounts in excess of the accumulated costs of Individual construction contract and accumulated profit (loss) that has been recognised is presented as due to customers on contract works and Included as current liabilities.

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 cannot be reliably estimated, yet the amount of cost on construction project can be reasonably expected to be recovered, the Company recognizes contract revenue according to the amount of cost incurred and recognizes contract expense in the corresponding accounting period; for contact 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).

(19) Effect of changes in accounting policy and accounting estimate

As stated in Note 2(8), the Company and its subsidiaries have adjusted the provision rate for bad debts. In accordance with the resolution of the board meeting and the rules governing under the “Accounting Standard-Changes of accounting policy, estimate and correction of accounting errors”, using the prospective application method which decrease the profit for the period amounting to RMB136,988,758.61.

As stated in Note2(11), the Company and its subsidiaries have adjusted the useful life of the fixed assets and the depreciation method. In accordance with the resolution of the board meeting and the rules governing under the “Accounting Standard-Changes of accounting policy, estimate and correction of accounting errors”, using the prospective application method which decrease the net profit for the period amounting to RMB30,894,783.21.

(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 AND OTHERS

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.

## (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%.

\*\* 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. The rate from 1 September 2000 to 30 June 2003 was RMB 1 per square meter, and from 1 July 2003 RMB 1.5 per square meter.

## (5) Personal income tax

Personal income tax is withheld and paid directly by the Company on behalf of the employees.

#### 4. SUBSIDIARIES AND ASSOCIATES

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

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

\* *DFEM Control Equipment Co. Ltd. is a joint venture with limited liability established by the Company and Deyang Changsheng Supply and Marketing Company. Its actual capital was 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 Changshen Supply and Marketing Company transferred its 0.68% interests in the total issued shares of DFEM Tooling and Moulding (totaling 100,000 shares) to Deyang Development Zone Co.

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

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

| Company Name                                    | Nature of Business | Registered Capital | Actual Investment | Interest Held | Principal Operations                       | Corporate Classification  |
|---|--------------------|--------------------|-------------------|---------------|--|---------------------------|
| 1. Leshan City Dongle Company *                 | Manufactory        | 1,000,000.00       | 490,000.00        | 49%           | Handling transportation and warehousing    | Limited Liability Company |
| 2. Oriental Kinshun Engineering Co. Ltd**       | Construction       | 500,000.00         | 200,000.00        | 40%           | Consultancy and management of construction | Limited Liability Company |
| 3. Daiyuang Real Estate Real Estate Co. Ltd.*** | Real Estate        | 8,000,000.00       | 1,000,000.00      | 12.5%         | Real Estate Development Company            | Limited Liability Company |

\* Leshan City Dongle Heavy Piece Handling Company is a joint venture company with limited liability established by the Company and Leshan City Chuanjiang Harbor Shipping Development Company. Its actual capital was verified by Leshan Accounting Firm and recorded in Capital Verification Report of Le Kuai Shi (2001) No.005.

\*\* Oriental Kinshan Engineering Co. Ltd. is a joint venture company 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 accounted for the financial statements of Oriental Kin Shan Engeneering Co. Ltd. as of 30 June 2004 using the equity accounting method as prepared by the Capital Verification Report of Mantong Accounting Firm.

\*\*\* Sichuan Deyang Jinshi Real Estate Development Co. Ltd. is joint venture company with limited liabilities 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.

## 5. CASH AND AT BANK BALANCES

(1) Details of cash and bank balances are as follows:

| Item         | 2004.6.30            |          |                         | 2003.12.31           |          |                         |
|--------------|----------------------|----------|-------------------------|----------------------|----------|-------------------------|
|              | Original Currency    | Ex. Rate | Amount in RMB           | Original Currency    | Ex. Rate | Amount in RMB           |
| Cash on Hand | RMB 54,016.83        | —        | RMB 54,016.83           | RMB 27,588.44        | —        | RMB 27,588.44           |
| Cash in Bank | USD 2,726,774.23     | 8.2766   | 22,567,601.57           | USD 17,795,588.35    | 8.2767   | 147,284,357.29          |
|              | HKD 6,586.34         | 1.0612   | 6,994.55                | HKD 2,823.54         | 1.0660   | 3,009.78                |
|              | RMB 1,809,229,023.62 | —        | 1,809,229,023.62*       | RMB 1,026,788,771.72 | —        | 1,026,788,771.72        |
|              |                      |          | <u>1,831,803,619.74</u> |                      |          | <u>1,174,076,138.79</u> |
| Other Cash   |                      |          |                         |                      |          |                         |
| Equivalents  | USD —                | —        | —                       | USD 738,524.18       | 8.2767   | 6,112,805.87            |
|              | RMB 125,373,908.20   | —        | <u>125,373,908.20</u>   | RMB 117,460,670.21   | —        | <u>117,460,670.21</u>   |
|              |                      |          | <u>125,373,908.20</u>   |                      |          | <u>123,573,476.08</u>   |
|              |                      |          | <u>1,957,231,544.77</u> |                      |          | <u>1,297,677,203.31</u> |

\* Including amount RMB 24,931,281.89 saving deposit in Group Finance Department.

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

|  | 2004.6.30<br>RMB        | 2003.12.31<br>RMB     |
|--|-------------------------|-----------------------|
| Cash and Bank Deposit                                      | 1,957,231,544.77        | 1,297,677,203.31      |
| Less: Term deposits with a fixed term longer than 3 months | (410,472,500.00)*       | (215,553,399.97)      |
| Other restricted amount                                    | (125,373,908.20)**      | (123,573,476.08)      |
|  | <u>1,421,385,136.57</u> | <u>958,550,327.26</u> |



\* *The Company has signed a bond agent contract with the Bank of China in the amount of RMB 150,000,000.00 at 25 May 2004. During the period from 26 May 2004 to 26 May 2005, it entrusted the Bank of China to invest in the inter-bank bond market, agreed that the contract shall not be terminated before the end of its terms unless provided otherwise according to the terms of the contract.*

*The Company have signed a bond agent contract with the Bank of China in the amount of RMB 50,000,000.00 at May 25th 2004. During the period from 26 May 2004 to 26 May 2005, it entrusted the Bank of China to invest in the inter-bank bond market and agreed that the contract shall not be terminated before the end of its terms unless provided otherwise according to the terms of the contract.*

*However, by the end of June 2004, the company has not opened the bond investment account, the above amount has been deposited in the saving account in the Deyang Branch of the Bank of China. The deposit period is the same as the period of the contract.*

\*\* *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 receivable are as follows:

|                             | 2004.6.30<br>RMB     | 2003.12.31<br>RMB    |
|-----------------------------|----------------------|----------------------|
| Commercial Acceptance Notes | 2,100,480.00         | —                    |
| Bank Acceptance Notes       | 20,671,528.00        | 46,961,000.00        |
|                             | <u>22,772,008.00</u> | <u>46,961,000.00</u> |

As at 30 June 2004, the Company and its subsidiaries do not have receivables, which were cashed at discount prior to the cashable date of the acceptance drafts.

## 7. ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

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

|                           | 2004.6.30             |               |                                   | 2003.12.31            |               |                                   |
|---------------------------|-----------------------|---------------|-----------------------------------|-----------------------|---------------|-----------------------------------|
|                           | Balance<br>RMB        | Percentage    | Provision for<br>Bad Debts<br>RMB | Balance<br>RMB        | Percentage    | Provision for<br>Bad Debts<br>RMB |
| Within 1 year             | 515,336,973.56        | 61.86         | 27,159,152.14                     | 571,971,599.53        | 68.33         | 21,658,134.86                     |
| 1-2 years                 | 120,642,560.48        | 14.48         | 12,767,841.68                     | 90,032,156.75         | 10.76         | 5,815,080.57                      |
| 2-3 years                 | 44,547,397.52         | 5.35          | 9,080,964.66                      | 21,776,754.62         | 2.60          | 1,745,338.63                      |
| 3-4 years                 | 19,464,579.14         | 2.34          | 7,574,681.12                      | 24,582,036.64         | 2.94          | 1,966,562.94                      |
| 4-5 years                 | 16,197,586.02         | 1.94          | 8,417,381.19                      | 65,821,443.89         | 7.86          | 8,990,603.20                      |
| Over 5 years              | 116,877,236.15*       | 14.03         | 96,087,530.90                     | 62,901,747.09         | 7.51          | 21,670,524.13                     |
| Including related parties | 7,897,052.50          | 0.95          | 7,107,347.25                      | 2,551,280.00          | 0.30          | 765,384.00                        |
|                           | <b>833,066,332.87</b> | <b>100.00</b> | <b>161,087,551.69</b>             | <b>837,085,738.52</b> | <b>100.00</b> | <b>61,846,244.33</b>              |

\* At 5 July 2004, the Company received RMB 20,000,000.00 from Huanghe River upward Water-power Ltd. Co, which is at the age of over 5 years. As at 30 June 2004, there is no provision for bad debts fro the above amount.

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

|                                       | 2004.6.30<br>RMB      | 2003.12.31<br>RMB |
|---------------------------------------|-----------------------|-------------------|
| Top Five Largest Accounts Receivables | <b>287,871,679.43</b> | 278,389,060.69    |
| Total of Accounts Receivables         | <b>833,066,332.87</b> | 837,085,738.52    |
| Ratio                                 | <b>34.56%</b>         | 33.26%            |

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

|   | 2004.06.30<br>RMB |
|---|-------------------|
| Amount due from related parties   | 45,608,215.34     |
| Fuet-GECanada- Siemens Three Gorges Mechanical Equipment Import and Export Company of Sichuan | 144,447,464.53    |
| Sichun Jialinjiang Tongzhihao Electric Development Co.  | 43,361,714.90     |
| Yunnan Dachaoashan Water-Electric Co Ltd.   | 38,104,400.00     |
| Huarun(Changshu) Electric Co Ltd.   | 35,571,500.00     |
|   | 26,386,600.00     |

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

|                              | 2004.6.30            |               |                                   | 2003.12.31           |               |                                   |
|------------------------------|----------------------|---------------|-----------------------------------|----------------------|---------------|-----------------------------------|
|                              | Balance<br>RMB       | Percentage    | Provision for<br>Bad Debts<br>RMB | Balance<br>RMB       | Percentage    | Provision for<br>Bad Debts<br>RMB |
| Within 1 year                | 11,332,412.10        | 12.78         | 522,557.81*                       | 11,274,705.54        | 12.70         | 4,152,937.38                      |
| 1-2 years                    | 1,178,583.55         | 1.33          | 117,838.36                        | 2,462,443.36         | 2.77          | 945,124.58                        |
| 2-3 years                    | 4,853,881.45         | 5.47          | 970,376.29                        | 654,995.00           | 0.74          | 205,758.00                        |
| 3-4 years                    | 10,600.00            | 0.01          | 4,240.00                          | 88,568.70            | 0.10          | 35,427.48                         |
| 4-5 years                    | 494,394.00           | 0.56          | 247,197.00                        | 587,627.63           | 0.66          | 235,051.05                        |
| Over 5 years                 | 70,808,214.95        | 79.85         | 62,125,469.71                     | 73,690,586.24        | 83.03         | 29,475,047.11                     |
| Including<br>related parties | 10,827,452.40        | 12.21         | 9,744,707.16                      | 11,607,300.40        | 13.08         | 4,642,920.16                      |
|                              | <b>88,678,086.05</b> | <b>100.00</b> | <b>63,987,679.17</b>              | <b>88,758,926.47</b> | <b>100.00</b> | <b>35,049,345.60</b>              |

\* Fixed deposit interest receivable for this accounting period is RMB 881,255.24 has not made any provision for bad debt.

- (5) The top five largest balances of other receivables of the Company and its subsidiaries were amounted to RMB 67,856,699.07, which constituted 76.52% of the total other accounts receivables.
- (6) The details other receivables of the Company and its subsidiaries are as follows:

|   | 2004.6.30<br>RMB | Year of<br>Receivable Inception |
|---|------------------|---------------------------------|
| Chongqing Youji (Group) Co. Ltd.,<br>& Peiling Zhongshan Co. Ltd. | 8,471,630.00*    | 1998                            |
| Chongqing Xinglongda Real Estate<br>Development Co. Ltd.          | 38,000,000.00**  | 1999                            |
| Dongle Heavy Piece Handling Company                               | 10,827,452.40*** | 1999                            |
| Chengdu Dayang Property Company                                   | 7,030,000.00**** | 1996                            |
| Sichuan Mianzhu Tiankang<br>Medical Equipment Co. Ltd.            | 3,527,616.67     | 1995                            |
| Reserves  | 10,743,019.57    | —                               |

\* The Company originally owns accounts receivables from Chongqing Youji in the amount of RMB 2,471,630, Chongqi Tengyi Automobile Co. Ltd. in the amount of RMB 6,000,000.

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 RMB 6,000,000.00 on behalf of Tengyi Co. Therefore, the Company owns account receivable from Chongqi Youji Co. and Peiling Co. in the amount of RMB 8,471,630.00 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 24th 1999 with their unquestionable equity investment.

Pursuant to the arbitration results of 30th 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 RMB 8,471,163.00, 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 June 30th 2004 yet, RMB8,471,630.00 have been made provision for bad debt .

\*\* Chongqing Yangguang Real Estate Development Co. Ltd. ("Yangguang Co.") originally owes the Company in the amount of RMB 40,000,000.00. According to the "Agreement" signed on 22nd 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 RMB 30,000,000.00) 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 on 20 March 2002, 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 RMB 10,000,000.00 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 on 11 December 2003, 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 RMB 30,000,000.00 shall be made by Xinlongda Co.

- (3) *Xinlongda Do confirmed that it owes the Company in the amount of RMB 40,000,000.00, 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.*

*Therefore, Chongqi Xinlongda owes the Company debt in the amount of RMB 40,000,000.00. 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 RMB 10,000,000.00 debt as mentioned in (1) before 31 December 2004 and RMB 2,000,000.00 repayment in this accounting period. In accordance to the board meeting, the above account receivable has to be made provision for bad debt individually. RMB 30,400,000.00 has been made provision for bad debt by the end of the June 30 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 RMB 12,000,000.00 for the purchase of Leshan Heavy Piece Terminal 550/50/10T Crane by an associate of the Company, Leshan Dongle Heavy Piece Handling Company and the accrued interest at the prevailing rate of banks.*

*On 9 April 1999, Leshan City Chuanjiang Harbor Shipping Development Company, Leshan Dongle Heavy Piece Handling Company and the Company entered into an "Agreement on the One-time Transfer of All the Loan Agreements in Respect of Leshan Heavy Piece Terminal Crane Project" where all of the above loan of RMB 12,000,000.00 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 30th June 2004, Leshan Heavy Piece Handling Company used its billings repaid RMB1,090,008.80 and cash repayment of RMB 82,538.80, together the Company received RMB 1,172,547.60 from Leshan Dongle Heavy Piece Handling Company. In accordance to the board meeting, the above account receivable has to be made provision for bad debt individually. RMB 9,744,707.16 has been made provision for bad debt by the end of the June 30 2004.*

\*\*\*\* Originally Sichuan Ruixin Co., owed RMB 8,030,000.00 to the Company.

The Company and Chengdu Dayang Co. signed the "Guarantee Contract" on 24 July 2001, 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 RMB 7,030,000.00 should be as the repayment to the Company. Transfer of title deed of above mentioned property has not completed as at 30th June 2004.

(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 45(3)

## 8. PREPAYMENTS

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

|               | 2004.6.30             |               | 2003.12.31            |               |
|---------------|-----------------------|---------------|-----------------------|---------------|
|               | Balance<br>RMB        | Percentage    | Balance<br>RMB        | Percentage    |
| Within 1 year | 395,433,081.58        | 95.52         | 168,253,528.67        | 92.54         |
| 1-2 years     | 18,399,660.50         | 4.44          | 12,966,980.69         | 7.13          |
| 2-3 years     | 111,493.00            | 0.03          | 608,850.06            | 0.33          |
| Over 3 years  | 14,952.46             | 0.01          | —                     | —             |
|               | <b>413,959,187.54</b> | <b>100.00</b> | <b>181,829,359.42</b> | <b>100.00</b> |

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:

|  | 2004.6.30<br>RMB | Payment<br>Inception | Purpose              |
|--|------------------|----------------------|----------------------|
| Related Parties                              | 5,155,056.12     | 2004                 | Material Procurement |
| Wuyang Southwest Steelworks Company          | 77,367,300.00    | 2004                 | Material Procurement |
| The ANDRITZ Company of Austria               | 32,651,382.00    | 2004                 | Material Procurement |
| Chengdu Tianrong Commercial Trade Co. Ltd.   | 29,276,371.00    | 2004                 | Material Procurement |
| Erzhong Jitian Heavy Machinery Equipment Co. | 16,976,264.00    | 2004                 | Material Procurement |
| Chongqing Steelworks Company Ltd             | 12,806,536.00    | 2004                 | Material Procurement |

(3) Prepayments made to parties with 5% or above shareholdings in the Company are shown in Note 45(3).

## 9. INVENTORIES AND PROVISION FOR IMPAIRMENT OF INVENTORIES

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

|                                | 2004.6.30              |                                    |                       | 2003.12.31             |                                    |                       |
|--------------------------------|------------------------|------------------------------------|-----------------------|------------------------|------------------------------------|-----------------------|
|                                | Gross<br>Amount<br>RMB | Provision for<br>Diminution<br>RMB | Net Amount<br>RMB     | Gross<br>Amount<br>RMB | Provision for<br>Diminution<br>RMB | Net Amount<br>RMB     |
| Raw materials                  | 292,895,307.52         | —                                  | 292,895,307.52        | 224,455,814.25         | —                                  | 224,455,814.25        |
| Low-value consumables          | 2,754,455.98           | —                                  | 2,754,455.98          | 3,028,919.69           | —                                  | 3,028,919.69          |
| Subcontracted for reprocessing | 1,237,915.11           | —                                  | 1,237,915.11          | 1,413,492.66           | —                                  | 1,413,492.66          |
| Work-in-process                | 359,248,374.38         | 1,559,301.74                       | 357,689,072.64        | 277,048,264.22         | 1,572,673.01                       | 275,475,591.21        |
| Finished goods                 | 79,837,707.79          | 1,661,152.65                       | 78,176,555.14         | 78,100,549.37          | 1,661,152.65                       | 76,439,396.72         |
| Goods in transit               | 232,102.47             | —                                  | 232,102.47            | 524,204.95             | —                                  | 524,204.95            |
|                                | <b>736,205,863.25</b>  | <b>3,220,454.39</b>                | <b>732,985,408.86</b> | <b>584,571,245.14</b>  | <b>3,233,825.66</b>                | <b>581,337,419.48</b> |

# 10. CONSTRUCTION CONTRACT 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:

|   | 2004.6.30<br>RMB       | 2003.12.31<br>RMB    |
|---|------------------------|----------------------|
| Cost incurred today                       | 421,370,103.81         | 287,530,175.01       |
| Confirmed gross profit                    | 74,223,351.13          | 59,397,000.02        |
| Less: Payment received                    | 507,462,185.42         | 276,151,865.60       |
| Confirmed estimated loss                  | 17,698,118.46          | 19,684,346.69        |
|   | <u>(29,566,848.94)</u> | <u>51,090,962.74</u> |
|   | 2004.6.30<br>RMB       | 2003.12.31<br>RMB    |
| Items on Consolidated Balance sheet       |                        |                      |
| Amount due from customers                 |                        |                      |
| on contract works                         | 255,653,897.46         | 160,719,286.12       |
| Amount due to customers on contract works | 267,522,627.94         | 89,943,976.69        |
| Provision for estimated contract loss     | <u>17,698,118.46</u>   | <u>19,684,346.69</u> |

Total amount of the construction contracts in progress was RMB 1,727,084,822.49 (without VAT) as at 30th June 2004.



**11. LONG-TERM EQUITY INVESTMENT**

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

|                              | 2004.1.1              |                   | Increase | Decrease            | 2004.6.30             |                   |
|------------------------------|-----------------------|-------------------|----------|---------------------|-----------------------|-------------------|
|                              | Amount                | Provision for     |          |                     | Amount                | Provision for     |
|                              | RMB                   | Impairment        | RMB      | RMB                 | RMB                   | Impairment        |
| Equity investment            | 44,263.24             | —                 | —        | —                   | 44,263.24             | —                 |
| Other equity investment      | (3,325,417.28)        | 310,941.25        | —        | (287,214.32)        | (3,038,202.96)        | 310,941.25        |
| Included:                    |                       |                   |          |                     |                       |                   |
| Associate companies          | 1,937,733.02          | 310,941.25        | —        | 23,710.72           | 1,914,022.30          | 310,941.25        |
| Equity Investment Difference | (5,263,150.30)        | —                 | —        | (310,925.04)        | (4,952,225.26)        | —                 |
|                              | <u>(3,281,154.04)</u> | <u>310,941.25</u> | <u>—</u> | <u>(287,214.32)</u> | <u>(2,993,939.72)</u> | <u>310,941.25</u> |

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

| Invested Company               | Category | 2004.6.30          |                                |                   |                          |
|--------------------------------|----------|--------------------|--------------------------------|-------------------|--------------------------|
|                                |          | Quantity of shares | Ratio against invested company | Investment amount | Provision for Impairment |
|                                |          |                    |                                | RMB               | RMB                      |
| Chengdu Shudu Mension Co., Ltd | A shares | 38,044             | 0.02%                          | 44,263.24         | —                        |

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

| Invested Company   | Ratio against<br>Investment<br>term | Invested<br>company   | Initial<br>investment | 2004.1.1       |                                |                        |                        | 2004.6.30                    |                       |                |                                |
|--|-------------------------------------|-----------------------|-----------------------|----------------|--------------------------------|------------------------|------------------------|------------------------------|-----------------------|----------------|--------------------------------|
|  |                                     |                       |                       | Balance        | Provision<br>for<br>Impairment | Increase<br>(Decrease) | Increase<br>(Decrease) | Cash<br>Dividend<br>Received | Accumulated<br>equity | 2003.12.31     | Provision<br>for<br>Impairment |
|  |                                     |                       |                       |                |                                |                        |                        |                              |                       |                |                                |
| Dongle Heavy Piece<br>Handling Company<br>Southwest Production<br>Materials Trade Center | 1997.7                              | 49.00%                | 490,000.00            | —              | —                              | —                      | —                      | —                            | (490,000.00)          | —              | —                              |
| Deyang Import and<br>Export Company<br>of Mechanical and<br>Electrical Equipment         | 1984.12                             | Data not<br>available | 60,000.00             | 60,000.00      | 60,000.00                      | —                      | —                      | —                            | —                     | 60,000.00      | 60,000.00                      |
| Wuxi Electrical<br>Power Hotel   | 1988.6                              | Data not<br>available | 100,941.25            | 100,941.25     | 100,941.25                     | —                      | —                      | —                            | —                     | 100,941.25     | 100,941.25                     |
| Chengdu Sandian<br>Co., Ltd.   | 1988.7                              | 2.30%                 | 150,000.00            | 150,000.00     | 150,000.00                     | —                      | —                      | —                            | —                     | 150,000.00     | 150,000.00                     |
| Sichuan Deyang<br>Jinshi Real Estate<br>Company Limited                                  | 1992.9                              | 0.62%                 | 455,373.41            | 455,373.41     | —                              | —                      | —                      | —                            | —                     | 455,373.41     | —                              |
| Sichuan Dongfang Jiazin<br>Construction<br>Supervisory<br>Company Limited                | 2001.4                              | 12.50%                | 1,000,000.00          | 1,000,000.00   | —                              | —                      | —                      | —                            | —                     | 1,000,000.00   | —                              |
| Equity Investment<br>Difference  | 2001.5                              | 40.00%                | 200,000.00            | 171,418.36     | —                              | —                      | (23,710.72)            | —                            | (52,292.36)           | 147,707.64     | —                              |
|  |                                     |                       | (6,218,500.25)        | (5,263,150.30) | —                              | —                      | 310,925.04             | —                            | 1,266,274.99          | (4,952,225.26) | —                              |
|  |                                     |                       | (3,762,185.59)        | (3,325,417.28) | 310,941.25                     | —                      | 287,214.32             | —                            | 723,982.63            | (3,038,202.96) | 310,941.25                     |

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

| Invested Company              | Initial<br>investment | Amortization<br>term | 2004.1.1       |              |              | 2004.6.30      | Remaining<br>term of<br>amortization |
|-------------------------------|-----------------------|----------------------|----------------|--------------|--------------|----------------|--------------------------------------|
|                               |                       |                      | Increase       | Amortization |              |                |                                      |
| DFEM Power System             | (4,511,741.38)*       | 120 Months           | (4,022,969.46) | —            | (225,587.04) | (3,797,382.42) | 101 Months                           |
| DFEM Tooling<br>and Molding   | (1,082,220.62)**      | 120 Months           | (766,572.77)   | —            | (54,111.06)  | (712,461.71)   | 79 Months                            |
| DFEM Equipment<br>Engineering | (624,538.25)***       | 120 Months           | (473,608.07)   | —            | (31,226.94)  | (442,381.13)   | 85 Months                            |
|                               | (6,218,500.25)        |                      | (5,263,150.30) | —            | (310,925.04) | (4,952,225.26) |                                      |

\* In 2002, the Company had used assets with revaluated amount of RMB8,355,694.78 as consideration for solely investment in DFEM Power System. Net book value of those transferred assets were amounted to RMB3,843,953.40. Differences between the net book value of those transferred assets and the Company's share of net assets in DFEM Power System amounted to RMB4,511,741.38 was recorded in the credit side of the equity investment. Credit balance was evenly amortized over ten years since December 2002.

**\*\*** The net book value of the investment in DFEM Tooling and Molding of the Company was amounted to RMB13,417,779.38. The Company's share of net assets in DFEM Tooling and Molding was amounted to RMB14,500,000.00. Difference aroused amounted to RMB1,082,220.62 was recorded in the credit side of the equity investment, which was evenly amortized over ten years since February 2001.

**\*\*\*** The net book value of the investment in DFEM Equipment Engineering of the Company was amounted to RMB12,475,461.75. The Company's share of net assets in DFEM Tooling and Molding was amounted to RMB13,100,000.00. Difference aroused amounted to RMB624,538.25 was recorded in the credit side of the equity investment, which was evenly amortized over ten years since August 2001.

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

## 12. DETAILS OF FIXED ASSETS AND ACCUMULATED DEPRECIATION ARE LISTED AS FOLLOWS:

|                                    | 2004.1.1<br>RMB       | Increase<br>RMB        | Decrease<br>RMB     | 2004.6.30<br>RMB      | Provision for<br>Impairment<br>RMB |
|------------------------------------|-----------------------|------------------------|---------------------|-----------------------|------------------------------------|
| Original cost of the fixed assets: |                       |                        |                     |                       |                                    |
| Building                           | 304,764,253.65        | 1,773,396.77           | 210,034.14          | 306,327,616.28*       | —                                  |
| Plant and machinery                | 561,827,253.36        | 30,788,529.89          | 3,641,530.80        | 588,974,252.45        | 1,211,724.50                       |
| Equipment                          | 78,248,912.32         | 1,319,277.78           | 1,949,023.19        | 77,619,166.91         | —                                  |
| Motor vehicles                     | 9,116,327.21          | 1,125,219.00           | 4,848.78            | 10,236,697.43         | —                                  |
|                                    | <u>953,956,746.54</u> | <u>35,006,423.44**</u> | <u>5,805,436.91</u> | <u>983,157,733.07</u> | <u>1,211,724.50</u>                |
| Accumulated depreciation           |                       |                        |                     |                       |                                    |
| Building                           | 101,907,642.22        | 15,438,170.97          | 149,820.39          | 117,195,992.80        |                                    |
| Plant and machinery                | 292,450,506.84        | 44,210,660.41          | 2,396,800.95        | 334,264,366.20        |                                    |
| Equipment                          | 56,519,373.54         | 4,416,915.33           | 1,871,841.31        | 59,064,447.56         |                                    |
| Motor vehicles                     | 6,538,119.76          | 442,936.09             | 67.34               | 6,980,988.51          |                                    |
|                                    | <u>457,415,642.36</u> | <u>64,508,682.80</u>   | <u>4,418,529.99</u> | <u>517,505,795.17</u> |                                    |
| Net book value                     | <u>496,541,104.18</u> |                        |                     | <u>465,651,937.90</u> |                                    |

**\*** Buildings without license amount to RMB 134,231,245.12 at the end of 30 June 2004, and buildings have not transferred the title deed from DFEW amount to RMB 8,100,614.02.

**\*\*** An increase of RMB 34,134,472.57 in the fixed assets of this period is transferred from construction-in-progress upon completion.

### 13. CONSTRUCTION-IN-PROGRESS

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

| Project Name                               | 2004.1.1<br>RMB      | Current<br>period<br>Increase<br>RMB | Transfer to<br>fixed asset<br>this period<br>RMB | Other<br>Decrease<br>RMB | 2004.6.30<br>RMB      | Source of<br>funding       | Progress |
|--|----------------------|--------------------------------------|--|--------------------------|-----------------------|----------------------------|----------|
| 1. 260 boring machine                      | 27,016,926.88        | 1,130,134.94                         | —  | —                        | 28,147,061.82         | Loans and listing proceeds | 60-65    |
| 2. Heavy span molding machine              | 27,557,189.60        | 919,371.85                           | 577,500.00                                       | —                        | 27,899,061.45         | SanXian<br>Taxation Relief | 95       |
| 3. 400T Cutting and Forming Tools          | 1,385.76             | 13,891,433.73                        | —  | —                        | 13,892,819.49         | SanXian<br>Taxation Relief | 70       |
| 4. Research Center                         | 3,771,923.20         | 5,626,776.12                         | —  | —                        | 9,398,699.32          | SanXian<br>Taxation Relief | 30-40    |
| 5. The ninth term of power machine factory | 2,939,236.85         | 3,150,016.04                         | —  | —                        | 6,089,252.89          | Loans and listing proceeds | 95       |
| 6. V.P.I System                            | 4,897,596.98         | 662,642.29                           | —  | —                        | 5,560,239.27          | Loans and listing proceeds | 90       |
| 7. floor boring machine 8-12 meters        | —                    | 4,333,302.25                         | —  | —                        | 4,333,302.25          | SanXian<br>Taxation Relief | 50       |
| 8. Welding Factory                         | 1,184,466.06         | 2,169,984.85                         | 12,000.00  | —                        | 3,342,450.91          | Loans and listing proceeds | 85       |
| 9. Digital Control Plano-Miller            | 323,387.40           | 2,331,232.60                         | —  | —                        | 2,654,620.00          | Loans and listing proceeds | 93       |
| 10. Material Input Center Factory          | 11,961.22            | 2,623,495.01                         | —  | —                        | 2,635,456.23          | Loans and listing proceeds | 50       |
| 11. Heavy Loaded centre lathe              | 61,438.81            | 2,396,546.43                         | —  | —                        | 2,457,985.24          | Loans and listing proceeds | 90       |
| 12. Back Expansion                         | —                    | 2,419,000.00                         | —  | —                        | 2,419,000.00          | SanXian<br>Taxation Relief | 25       |
| 13. Others                                 | 6,908,455.75         | 42,460,781.34                        | 33,544,972.57                                    | 793,592.75               | 15,030,671.77         | Loans and listing proceeds |          |
|  | <u>74,673,968.51</u> | <u>84,114,717.45</u>                 | <u>34,134,472.57</u>                             | <u>793,592.75</u>        | <u>123,860,620.64</u> |                            |          |
| Interest capitalized                       | 2,049,514.57         | 1,028,800.00                         | 237,231.66                                       | —                        | 2,841,082.91          |                            |          |

(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 |
|---------------------|---------------|----------------|
| Capitalization rate | 1.48%         | 1.48%          |

#### 14. INTANGIBLE ASSETS

Details of intangible assets are listed as follows:

| Type                | Original<br>Amount<br>RMB | 2004.1.1<br>RMB      | Increase<br>this period<br>RMB | Decrease<br>this period<br>RMB | Amortization<br>this period<br>RMB | Accumulated<br>Amortization<br>RMB | 2004.6.30<br>RMB       | Remaining<br>months of<br>amortization |
|---------------------|---------------------------|----------------------|--------------------------------|--------------------------------|------------------------------------|------------------------------------|------------------------|--|
| Land use right      | 35,626,000.00             | <b>28,500,799.64</b> | —                              | —                              | 356,260.02                         | 7,481,460.38                       | <b>28,144,539.62*</b>  | 474                                    |
| Technology Know-how | 2,556,000.00              | <b>1,150,200.00</b>  | —                              | —                              | 255,600.00                         | 1,661,400.00                       | <b>894,600.00**</b>    | 21                                     |
| Goodwill            | 1,227,887.68              | —                    | —                              | —                              | —                                  | 1,227,887.68                       | —                      | —                                      |
| ERP Software        | 1,849,881.15              | —                    | 1,849,881.15                   | —                              | 123,325.40                         | 123,325.40                         | <b>1,726,555.75***</b> | 56                                     |
| Software            | 185,520.90                | <b>72,257.01</b>     | 40,000.00                      | —                              | 24,521.79                          | 97,785.68                          | <b>87,735.22</b>       | 32                                     |
|                     | <b>41,445,289.73</b>      | <b>29,723,256.65</b> | <b>1,889,881.15</b>            | <b>—</b>                       | <b>759,707.21</b>                  | <b>10,591,859.14</b>               | <b>30,853,430.59</b>   |  |

\* 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 RMB 108,319,712. By the approval documents Guo Tu Pi (1994) No. 31 of the State Land Administration and Guo Zi Qi Han Fa (1994) No.43 of SAAB, the land use right was injected into the Company at a consideration of RMB 35,626,000 on 28 January 1994 and was amortized for 50 years since then under straight-line method.

\*\* The Company acquired the technical know-how of 600MW steam power generator from Japan HTC Company. The amount was evenly amortized over five years since 20 April 2001.

\*\*\* The Company purchased the use right of the S/R Software (ERP Software) from SAP(Beijing) Software Ltd Co., and it would be amortized for 5 years in the beginning of March 2004.

#### 15. LONG TERM DEFERRED EXPENSES

| Type             | Original<br>amount  | 2004.1.1            | Increase<br>this period | Amortized<br>this period | 2004.6.30         | Remaining<br>months of<br>amortization) |
|------------------|---------------------|---------------------|-------------------------|--------------------------|-------------------|---|
| Rental           | 1,969,031.11        | <b>1,331,557.09</b> | —                       | 1,331,557.09             | —                 | —                                       |
| Software charge  | 725,135.28          | <b>132,941.37</b>   | —                       | 72,513.54                | <b>60,427.83</b>  | 6                                       |
| VPI Special glue | 883,458.12          | <b>281,909.86</b>   | 231,756.88              | 290,038.00               | <b>223,628.74</b> | 9                                       |
|                  | <b>3,577,624.51</b> | <b>1,746,408.32</b> | <b>231,756.88</b>       | <b>1,694,108.63</b>      | <b>284,056.57</b> |   |

\* The use right of house in Shanghai Branch has been transferred in this accounting period.

## 16. SHORT-TERM LOANS

Short term loans are listed as follows:

| Loan type         | 2004.6.30<br>RMB     | 2003.12.31<br>RMB     |
|-------------------|----------------------|-----------------------|
| Loan by credit    | 30,000,000.00*       | 60,000,000.00         |
| Loan by guarantee | 20,000,000.00**      | 65,600,000.00         |
|                   | <u>50,000,000.00</u> | <u>125,600,000.00</u> |

\* The balance of the loan made by the Company from China Construction Bank Deyang Branch is RMB 20,000,000 as at 30th June 2004.

The Company and the Finance Department of Dongfang Group signed the "Loan Agreement" on 14th 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 RMB 10,000,000.00 as at 30th June 2004.

\*\* The holding company-DFEW of the Company signed the Maximum Guarantee Contract with China Industrial and Commercial Bank Deyang City Qiyang Branch on 25th March 2002, under the contract DFEW would provide guarantee 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 25th March 2002 to 24th March 2004. The balance of the loan made by the Company from China Industrial and Commercial Bank Deyang City Qiyang Branch was RMB 20,000,000 on 30th June 2004.

## 17. NOTES PAYABLE

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

|                            | 2004.6.30<br>RMB      | 2003.12.31<br>RMB     |
|----------------------------|-----------------------|-----------------------|
| Commercial acceptable bill | 49,733,265.94         | 72,132,816.27         |
| Bank acceptable bill       | 90,392,926.51         | 99,873,000.97         |
|                            | <u>140,126,192.45</u> | <u>172,005,817.24</u> |

(2) The amounts due to related parties which are holding no less than 5% of the Company's shares are shown in notes 45(3).

**18. ACCOUNTS PAYABLE**

- (1) Details of accounts payable are listed as follows:

|   | 2004.6.30<br>RMB      | 2003.12.31<br>RMB    |
|---|-----------------------|----------------------|
| Amount due to related party               | 12,256,371.16*        | 16,849,050.60        |
| Shanghai Fuyite Ltd co.                   | 1,618,100.00          | —                    |
| Jiangyi Electrician metal alloy Ltd Co.   | 1,304,682.00          | —                    |
| Taichang Huanlong Magnet Wire Factory     | 1,293,048.00          | 803,524.00           |
| Shanghai Shenmao Copper Products Ltd. Co. | 1,212,300.00          | 1,786,815.00         |
| Estimated material received               | 61,694,391.10         | 28,232,660.09        |
| Others                                    | 43,013,313.99         | 39,290,303.45        |
|   | <u>122,392,206.25</u> | <u>86,962,353.14</u> |

- (2) Trade creditors over three years amount to RMB 650,868.99, 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 45(3).

**19. RECEIPT IN ADVANCE**

- (1) Details of receipts in advance are listed as follows:

|  | 2004.6.30<br>RMB        | 2003.12.31<br>RMB       |
|--|-------------------------|-------------------------|
| Amount due to related parties  | 83,538,090.78           | 31,497,680.25           |
| Longtan Water-power Ltd. Co.   | 109,425,208.00          | —                       |
| Inner Mongolia Datangtuoque Power Supply Co., Ltd                    | 97,960,000.00           | 97,791,500.00           |
| Sichuan Jianlin River Jinxi Electronic Measuring instrument Ltd. Co. | 89,955,000.00           | —                       |
| Guizhou Power Co. Panna Branch                                       | 86,260,000.00           | —                       |
| Henan Construction Investment Co.                                    | 61,425,000.00           | —                       |
| Shanxi Lunenghe Power Generation Co., Ltd.                           | —                       | 96,390,000.00           |
| Changshu Second Power Supply Constructing Department                 | —                       | 81,803,800.00           |
| 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           |
| Others   | 2,153,580,814.95        | 1,085,107,398.96        |
|  | <u>2,682,144,113.73</u> | <u>1,556,590,902.21</u> |

- (2) Details of the amounts due to related parties which are holding no less than 5% of the Company's shares are listed in Note 45(3).

## 20. TAXES PAYABLE

Details of tax payable are listed as follows:

|                       | 2004.6.30<br>RMB      | 2003.12.31<br>RMB     |
|-----------------------|-----------------------|-----------------------|
| Product VAT           | 88,761,497.85         | 123,632,732.87        |
| Sales tax             | 151,607.87            | 1,767,051.94          |
| Urban development tax | 10,749,245.11         | 15,739,754.90         |
| Corporate tax         | 17,524,474.08         | 1,864,326.16          |
| Real estate tax       | 1,190,313.21          | 2,207,140.47          |
| Land use tax          | (569,539.05)          | —                     |
| Personal income tax   | 118,210.72            | 118,768.16            |
|                       | <u>117,925,809.79</u> | <u>145,329,774.50</u> |

## 21. OTHER UNPAID AMOUNT

Details of other unpaid amounts are listed as follows:

|                     | 2004.6.30<br>RMB    | 2003.12.31<br>RMB   |
|---------------------|---------------------|---------------------|
| Education surcharge | 4,471,449.30        | 6,212,254.02        |
| Housing Fund        | 5,506,976.00        | —                   |
|                     | <u>9,978,425.30</u> | <u>6,212,254.02</u> |

## 22. OTHER PAYABLE

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

|                                | 2004.6.30<br>RMB     | 2003.12.31<br>RMB    | Contents  |
|--------------------------------|----------------------|----------------------|---|
| Amounts due to related parties | 835,024.98           | 2,331,224.62         | Service charge payable to DFEW                                |
| Pension Contributions          | 10,573,463.39        | 7,021,093.58         | Individual contribution payable to the Social Security Bureau |
| Union Expenses                 | 5,643,078.90         | 4,718,277.06         | Union Expenses  |
| Education Expenses             | 6,233,197.73         | 5,924,057.57         | Education Expenses  |
| Others                         | 35,807,320.27        | 23,517,035.86        | Construction cost payables                                    |
|                                | <u>59,092,085.27</u> | <u>43,511,688.69</u> |   |

(2) Details of the amounts due to related parties and parties that holding no less than 5% of the Company's shares are listed in Note 45(3).



### 23. ACCRUALS

Details of accruals are listed as follows:

|                                   | 2004.6.30<br>RMB      | 2003.12.31<br>RMB    | Reason                |
|-----------------------------------|-----------------------|----------------------|-----------------------|
| Fixed cost of hydro power product | 95,363,195.98*        | 61,188,578.52        | Pay upon installation |
| Packing cost                      | 7,415,901.96**        | 2,667,559.46         | Pay upon due date     |
| Loan interest                     | 113,091.67            | 573,170.03           | Pay upon due date     |
| Others                            | 8,607,282.51          | 10,218,036.35        | Pay upon due date     |
|                                   | <u>111,499,472.12</u> | <u>74,647,344.36</u> |                       |

\* Represent the installation and processing cost of hydropower°Bthermal power and technological renovation products.

\*\* As states in Note 45(2) A, according to the service agreement signed between DEFW and the Company, the Company accrues 2.2% of turnover as packaging costs.

### 24. CURRENT PORTION OF LONG-TERM LIABILITIES

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

| Bankers                       | 2004.6.30<br>RMB | Loan term      | Annual rate<br>(%) | Conditions |
|-------------------------------|------------------|----------------|--------------------|------------|
| Import & Export Bank of China | 30,000,000.00*   | 1998.10-2004.7 | 3.51               | Guarantee  |

\* 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:

| Bankers                | 2004.6.30<br>RMB | Loan term       | Annual rate<br>(%) | Loan term      |
|------------------------|------------------|-----------------|--------------------|----------------|
| State Development Bank | 10,000,000.00*   | 1997.12-2005.11 | 5.76               | Loan on behalf |

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

26. LONG-TERM PAYABLES

Details of long-term payables are listed as follows:

|                         | 2004.6.30<br>RMB  | 2003.12.31<br>RMB |
|-------------------------|-------------------|-------------------|
| Authorized reserve fund | <u>685,252.84</u> | <u>685,252.84</u> |

27. SPECIFIC LOANS

Details of specific loans are listed as follows:

|  | 2004.6.30<br>RMB     | 2003.12.31<br>RMB    |
|--|----------------------|----------------------|
| Research and development fund                        | 27,477,305.86        | 28,210,634.66        |
| Demolish& renovation fund<br>for San-xian enterprise | 60,711,931.86        | 60,711,931.86        |
| Other provisions                                     | <u>904,330.00</u>    | <u>905,330.00</u>    |
|  | <u>89,093,567.72</u> | <u>89,827,896.52</u> |

**28. SHARE CAPITAL**

Details of share capital are listed as follows:

|   | <b>2004.1.1</b><br><b>RMB</b> | <b>Increase</b><br><b>this period</b><br><b>RMB</b> | <b>Decrease</b><br><b>this period</b><br><b>RMB</b> | <b>2004.6.30</b><br><b>RMB</b> |
|---|-------------------------------|---|---|--------------------------------|
| Non-circulating shares:                               |                               |   |   |                                |
| Promoters Shares:                                     |                               |   |   |                                |
| Domestic legal person shares:                         | <b>220,000,000.00</b>         | —   | —   | 220,000,000.00                 |
| Circulating shares:                                   |                               |   |   |                                |
| Overseas listing foreign investment shares (H Shares) | <b>170,000,000.00</b>         | —   | —   | 170,000,000.00                 |
| Domestic listing ordinary shares (A Shares)           | <b>60,000,000.00</b>          | —   | —   | 60,000,000.00                  |
| Total number of circulating shares                    | <b>230,000,000.00</b>         | —   | —   | 230,000,000.00                 |
| Total number of shares issued                         | <b>450,000,000.00</b>         | —   | —   | 450,000,000.00                 |

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

**29. CAPITAL RESERVE**

Details of capital reserve changes are listed as follows:

|                                    | <b>2004.1.1</b>       | <b>Increase</b><br><b>this period</b> | <b>Decrease</b><br><b>this period</b> | <b>2004.6.30</b>      |
|------------------------------------|-----------------------|---------------------------------------|---------------------------------------|-----------------------|
| 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 | 79,943,543.24         | 114,421.16*                           | —                                     | 80,057,964.40         |
|                                    | <b>607,787,161.81</b> | <b>114,421.16</b>                     | <b>—</b>                              | <b>607,901,582.97</b> |

\* The other Payable, which do not need to repay have been transferred to Capital Reserve.

### 30. SURPLUS RESERVE

Details of surplus reserve are listed as follows:

|                                  | 2004.1.1             | Increase<br>this period | Decrease<br>this period | 2004.6.30            |
|----------------------------------|----------------------|-------------------------|-------------------------|----------------------|
| Statutory surplus reserve        | 27,854,742.52        | —                       | —                       | 27,854,742.52        |
| Statutory public<br>welfare fund | 26,128,160.86        | —                       | —                       | 26,128,160.86        |
|                                  | <u>53,982,903.38</u> | <u>—</u>                | <u>—</u>                | <u>53,982,903.38</u> |

### 31. UNDISTRIBUTED PROFITS (Accumulated losses)

Details of undistributed profit are listed as follows:

|  | 2004.6.30<br>RMB        | 2003.12.31<br>RMB       |
|--|-------------------------|-------------------------|
| Undistributed profit at beginning of the year                            | (162,632,995.71)        | (204,000,380.54)        |
| Plus: Net profit of the year   | 36,879,747.80           | 33,126,351.52           |
| Increase of decrease of undistributed profit<br>at beginning of the year | —                       | 8,560,852.02            |
| Less: Transfer to statutory surplus reserve                              | —                       | 213,212.47              |
| Transfer to statutory welfare fund                                       | —                       | 106,606.24              |
| Undistributed profit at the end of the year<br>(Accumulated loss)        | <u>(125,753,247.91)</u> | <u>(162,632,995.71)</u> |

### 32. SEGMENTAL INFORMATION

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

|  | Income From<br>principal operation |                       | Cost of<br>principal operation |                       | Gross profit<br>of principal operation |                       |
|--|------------------------------------|-----------------------|--------------------------------|-----------------------|--|-----------------------|
|  | 2004.1.1-6.30                      | 2003.1.1-6.30         | 2004.1.1-6.30                  | 2003.1.1-6.30         | 2004.1.1-6.30                          | 2003.1.1-6.30         |
|  | RMB                                | RMB                   | RMB                            | RMB                   | RMB                                    | RMB                   |
| Machinery Manufacturing:                           |                                    |                       |                                |                       |  |                       |
| Sales from power<br>generators                     | 835,246,778.31                     | 471,644,704.44        | 547,249,828.25                 | 338,993,772.57        | 287,996,950.06                         | 132,650,931.87        |
| Income from labor<br>and technology<br>improvement | 56,137,023.68                      | 54,813,819.00         | 35,683,679.59                  | 35,975,705.00         | 20,453,344.09                          | 18,838,114.00         |
|  | <u>891,383,801.99</u>              | <u>526,458,523.44</u> | <u>582,933,507.84</u>          | <u>374,969,477.57</u> | <u>308,450,294.15</u>                  | <u>151,489,045.87</u> |

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

|               | Amount<br>RMB  | Percentage |
|---------------|----------------|------------|
| 2004.1.1-6.30 | 322,727,840.12 | 36.21%     |

### 33. SALES TAXES AND SURCHARGES

Details of sales taxes and surcharges are listed as follows:

|                       | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|-----------------------|----------------------|----------------------|
| Urban development tax | 2,813,654.96         | 661,783.32           |
| Education surcharge   | 1,209,977.76         | 285,028.12           |
| Sales tax             | 90,965.58            | 44,911.53            |
|                       | <b>4,114,598.30</b>  | <b>991,722.97</b>    |

### 34. OTHER OPERATING PROFIT

Details of other operating profit are listed as follows:

|                               | 2004.1.1-6.30                       |                                   |                                     | 2003.1.1-6.30                       |                                   |                                     |
|-------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
|                               | Other<br>operating<br>income<br>RMB | Other<br>operating<br>cost<br>RMB | Other<br>operating<br>profit<br>RMB | Other<br>operating<br>income<br>RMB | Other<br>operating<br>cost<br>RMB | Other<br>operating<br>profit<br>RMB |
| Material and semimanufactures | 26,787,822.70                       | 23,926,079.50                     | 2,861,743.20                        | 26,647,974.55                       | 24,009,959.17                     | 2,638,015.38                        |
| Energy                        | 7,041,368.96                        | 7,695,616.15                      | (654,247.19)                        | 4,384,704.11                        | 5,049,263.06                      | (664,558.95)                        |
| Other                         | 9,426,017.22                        | 3,060,467.80                      | 6,365,549.42                        | 7,943,064.34                        | 6,209,298.29                      | 1,733,766.05                        |
|                               | <b>43,255,208.88</b>                | <b>34,682,163.45</b>              | <b>8,573,045.43</b>                 | <b>38,975,743.00</b>                | <b>35,268,520.52</b>              | <b>3,707,222.48</b>                 |

### 35. FINANCE EXPENSES

Details of financial expenses are listed as follows:

|                          | 2004.1.1-6.30<br>RMB  | 2003.1.1-6.30<br>RMB |
|--------------------------|-----------------------|----------------------|
| Interest expense         | 4,317,977.83          | 18,713,486.63        |
| Less: Interest income    | 8,385,556.07          | 8,905,461.00         |
| Loss on foreign exchange | 188,995.41            | 627,305.00           |
| Less: exchange gain      | 23,188.19             | 379,328.00           |
| Others                   | 1,957,944.77          | 604,574.00           |
|                          | <u>(1,943,826.25)</u> | <u>10,660,576.63</u> |

### 36. INVESTMENT INCOME

Details of Investment income are listed as follows:

|   | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|---|----------------------|----------------------|
| Equity investment difference                                      | 310,925.04           | 310,925.04           |
| Equity method adjustment for associate companies                  | (23,710.72)          | (51,629.79)          |
| Reverse back of provision for impairment of short term investment | —                    | —                    |
| Other investment gain   | 1,105.58             | —                    |
|   | <u>288,319.90</u>    | <u>259,295.25</u>    |

There is no major restriction on remittance of investment income.

### 37. NON-OPERATING INCOME

Details of non-operating income are listed as follows:

|                                      | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|--------------------------------------|----------------------|----------------------|
| Income from disposal of fixed assets | 230,128.74           | 10,859.13            |
| Stock take gain of fixed assets      | —                    | 286,904.46           |
| Income from penalty breach of faith  | 3,534,533.42         | 164,629.38           |
| Others                               | 1,936,609.20         | 134,792.76           |
|                                      | <u>5,701,271.36</u>  | <u>597,185.73</u>    |

**38. NON-OPERATING EXPENSES**

Details of non-operating expenses are listed as follows:

|   | <b>2004.1.1-6.30</b>       | 2003.1.1-6.30              |
|---|----------------------------|----------------------------|
|   | <b>RMB</b>                 | <b>RMB</b>                 |
| Loss from disposal of fixed assets              | <b>2,013,787.86</b>        | 324,632.21                 |
| Education fund for primary and secondary school | <b>528,083.90</b>          | 2,458,991.51               |
| Others  | <b>1,239,555.60</b>        | —                          |
|   | <b><u>3,781,427.36</u></b> | <b><u>2,783,623.72</u></b> |

**39. CASH RECEIVED FROM OTHER ACTIVITIES RELATED TO OPERATING.**

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

| <b>Items</b>                            | <b>2004.1.1-6.30</b>        |
|---|-----------------------------|
|   | <b>RMB</b>                  |
| Sales fund returned                     | 7,543,806.42                |
| Interested income                       | 6,500,549.39                |
| Housing Tax Refund                      | 2,198,805.29                |
| Income from selling of waste            | 1,992,530.80                |
| The balance of employee's returned fund | 1,886,130.59                |
| Received deposit                        | 1,560,000.00                |
| Received warranty                       | 816,659.35                  |
| Received fine                           | 320,000.00                  |
| other                                   | 2,239,493.32                |
|   | <b><u>25,057,975.16</u></b> |

40. CASH PAID FOR OTHER ACTIVITIES RELATED TO OPERATING.

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

| Items                                 | 2004.1.1-6.30<br>RMB |
|---------------------------------------|----------------------|
| Warranty                              | 10,881,016.11        |
| Traveling expenses                    | 9,454,345.24         |
| Financial insurance expenses          | 4,469,305.03         |
| Entertainment expenses                | 3,056,202.10         |
| Company balances                      | 2,382,115.82         |
| Directorate expenses                  | 1,236,638.00         |
| Property Assurance expense            | 991,170.55           |
| Transfer to reserve fund              | 989,199.90           |
| Union expenses and education expenses | 970,898.98           |
| Technology development expense        | 691,717.24           |
| Administrative expenses               | 627,762.47           |
| Advertisement expenses                | 557,298.26           |
| Housing Funds                         | 511,625.00           |
| Repairing expense                     | 493,349.23           |
| Labor expenses                        | 419,638.05           |
| Labor protection expenses             | 163,353.04           |
| Material wasted expense               | 150,438.55           |
| Drainage expenses                     | 105,000.00           |
| Other                                 | 3,346,992.19         |
|                                       | <u>41,498,065.76</u> |

41. CASH RECEIVED FROM OTHER INVESTMENT ACTIVITIES

Details of the cash received from other investment activities are listed as follows:

| Items   | 2004.1.1-6.30<br>RMB |
|---|----------------------|
| Reverse back of Current position of Fixed deposit | 304,860,415.57       |

42. CASH PAID FOR OTHER INVESTMENT ACTIVITIES

Details of the cash paid for other investment activities are listed as follows:

| Items                    | 2004.1.1-6.30<br>RMB |
|--------------------------|----------------------|
| Payment of fixed deposit | 480,518,075.76       |



**43. RELATED NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY.**
**(1) Accounts receivable and other receivable**
**A. Details of debtors' aging are listed as follows:**

|                              | 2004.6.30             |               |                                  | 2003.12.31            |               |                                  |
|------------------------------|-----------------------|---------------|----------------------------------|-----------------------|---------------|----------------------------------|
|                              | Amount<br>RMB         | Percentage    | Provision for<br>bad debt<br>RMB | Amount<br>RMB         | Percentage    | Provision for<br>bad debt<br>RMB |
| Within one year              | 526,341,875.92        | 63.96         | 25,898,771.77                    | 540,558,152.67*       | 68.09         | 19,802,303.94                    |
| 1 to 2 years                 | 103,347,673.88        | 12.56         | 10,334,767.39                    | 81,407,361.48         | 10.25         | 4,884,441.69                     |
| 2 to 3 years                 | 40,837,388.25         | 4.96          | 8,167,477.65                     | 18,935,600.47         | 2.39          | 1,325,492.03                     |
| 3 to 4 years                 | 18,724,442.14         | 2.28          | 7,489,776.86                     | 24,255,605.19         | 3.06          | 1,940,448.42                     |
| 4 to 5 years                 | 16,773,250.17         | 2.04          | 8,386,625.09                     | 65,821,443.89         | 8.29          | 8,990,603.20                     |
| Over 5 years                 | 116,877,236.15        | 14.20         | 96,087,530.90                    | 62,901,747.09         | 7.92          | 21,670,524.13                    |
| Including<br>related parties | 7,897,052.50          | 0.96          | 7,107,347.25                     | 2,551,280.00          | 0.32          | 765,384.00                       |
|                              | <b>822,901,866.51</b> | <b>100.00</b> | <b>156,364,949.66</b>            | <b>793,879,910.79</b> | <b>100.00</b> | <b>58,613,813.51</b>             |

**B. As at 30th June 2004, top five account receivables are as follows:**

|                                  | 2004.1.1-6.30<br>RMB  | 2003.1.1-6.30<br>RMB |
|----------------------------------|-----------------------|----------------------|
| Total amount of top five debtors | <b>287,871,679.43</b> | 278,389,060.69       |
| Total debtors                    | <b>822,901,866.51</b> | 793,879,910.79       |
| Percentage                       | <b>34.98%</b>         | 35.07%               |

**C. Details of other debtors' aging are listed as follows:**

|                              | 2004.6.30            |               |                                  | 2003.12.31           |               |                                  |
|------------------------------|----------------------|---------------|----------------------------------|----------------------|---------------|----------------------------------|
|                              | Amount<br>RMB        | Percentage    | Provision for<br>bad debt<br>RMB | Amount<br>RMB        | Percentage    | Provision for<br>bad debt<br>RMB |
| With in one year             | 10,328,033.94        | 11.81         | 472,338.90                       | 10,509,343.87        | 11.99         | 3,971,864.22                     |
| 1 to 2 year                  | 1,122,383.55         | 1.28          | 112,238.36                       | 2,280,228.00         | 2.60          | 912,091.20                       |
| 2 to 3 years                 | 4,837,833.00         | 5.53          | 976,566.60                       | 494,395.00           | 0.56          | 197,758.00                       |
| 3 to 4 years                 | —                    | —             | —                                | 88,568.70            | 0.10          | 35,427.48                        |
| 4 to 5 years                 | 494,394.00           | 0.57          | 247,197.00                       | 587,627.63           | 0.67          | 235,051.05                       |
| Over 5 years                 | 70,695,246.48        | 80.81         | 62,012,501.24                    | 73,687,617.77        | 84.08         | 29,475,047.54                    |
| Including<br>related parties | 10,827,452.40        | 12.38         | 9,744,707.16                     | 11,607,300.40        | 13.24         | 4,642,920.16                     |
|                              | <b>87,477,890.97</b> | <b>100.00</b> | <b>63,811,842.10</b>             | <b>87,647,780.97</b> | <b>100.00</b> | <b>34,827,239.06</b>             |

D. As of 30th June 2004, the total top five other receivables are RMB 67,856,699.07, account for 77.57% of the total other debtors.

E. Details of other debtors are listed as follows:

|  | 2004.6.30<br>RMB | Date of<br>inception | Content   |
|--|------------------|----------------------|---|
| Chongqing Youji Corporate company &<br>Peilin industry company | 8,471,630.00*    | 1998                 | Borrowing                                       |
| Chongqing Xinlongda Real Estate Develop Co., Ltd               | 38,000,000.00*   | 1999                 | Borrowing                                       |
| Dongle Heavy Piece Handling Company                            | 10,827,452.40*   | 1999                 | Borrowing                                       |
| Chengdu Dayang Corporate Company                               | 7,030,000.00*    | 1996                 | Borrowing                                       |
| Sichuan Mianzhutiankang Medical<br>Equipment Company           | 3,527,617.67     | 1995                 | Borrowing                                       |
| Reserve  | 10,743,019.57    | —                    | Reserve borrowing<br>by sub-plant<br>and office |

\* See details in Note 7(6).

## (2) Long term investment

A. Long term investment are listed are follows:

|                                 | 2004.1.1<br>Amount<br>RMB | 2004.1.1<br>Provision for<br>impairment<br>RMB | Increase<br>this period<br>RMB | Decrease<br>this period<br>RMB | 2004.6.30<br>Amount<br>RMB | Provision for<br>impairment<br>RMB |
|---------------------------------|---------------------------|--|--------------------------------|--------------------------------|----------------------------|------------------------------------|
| Equity investment               | 44,263.24                 | —  | —                              | —                              | 44,263.24                  | —                                  |
| Other equity<br>investment      | 49,966,079.19             | 310,941.25                                     | 4,811,288.69                   | (25,214.32)                    | 54,802,582.20              | 310,941.25                         |
| Including:                      |                           |  |                                |                                |                            |                                    |
| Subsidiaries                    | 53,291,496.47             | —  | 4,811,288.69                   | 262,000.00                     | 57,840,785.16              | —                                  |
| Associates                      | 1,937,733.02              | 310,941.25                                     | —                              | 23,710.72                      | 1,914,022.30               | 310,941.25                         |
| Equity investment<br>difference | (5,263,150.30)            | —  | —                              | (310,925.04)                   | (4,952,225.26)             | —                                  |
|                                 | <u>50,010,342.43</u>      | <u>310,941.25</u>                              | <u>4,811,288.69</u>            | <u>(25,214.32)</u>             | <u>54,846,845.44</u>       | <u>310,941.25</u>                  |

**B. Details of securities investments are listed as follows:**

| Invested Company               | Category                     | Quantity of shares | 2004.6.30<br>Percentage to invested company | Investment amount<br>RMB | Provision for devaluation<br>RMB |
|--------------------------------|------------------------------|--------------------|---|--------------------------|----------------------------------|
|                                |                              |                    |   |                          |                                  |
| Chengdu Shudu Mansion Co., Ltd | Legal person share (A share) | 38,044             | 0.02%                                       | 44,263.24                | —                                |

**C. Detail of other equities investments are listed as follows:**

| Invested Company                                    | Investment term     | Percentage to invested company's share capital | 2004.1.1                  |                |                                 |                               |                                   | 2004.6.30                     |   |                |                           |
|---|---------------------|--|---------------------------|----------------|---------------------------------|-------------------------------|-----------------------------------|-------------------------------|---|----------------|---------------------------|
|   |                     |  | Initial investment<br>RMB | Amount<br>RMB  | Provision for impairment<br>RMB | Increase in investment<br>RMB | Equity increase (decrease)<br>RMB | Cash dividend received<br>RMB | Accumulated equity increase (decrease)<br>RMB | Amount<br>RMB  | Provision for drop<br>RMB |
|   |                     |  |                           |                |                                 |                               |                                   |                               |   |                |                           |
| Leshan City Dongle Heavy Piece Handling Co.         | 1997.7              | 49.00%   | 490,000.00                | —              | —                               | —                             | —                                 | —                             | (490,000.00)                                  | —              | —                         |
| Southwest Production Information Trading Center     | 1984.12             | —  | 60,000.00                 | 60,000.00      | 60,000.00                       | —                             | —                                 | —                             | —   | 60,000.00      | 60,000.00                 |
| Deyang Electric Equipment Import and Export Company | 1988.6              | —  | 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 Development Co., Ltd             | 2001.4              | 12.50%   | 1,000,000.00              | 1,000,000.00   | —                               | —                             | —                                 | —                             | —   | 1,000,000.00   | —                         |
| Sichuan Jiayimin Quantity Surveyor Company          | 2001.5              | 40.00%   | 200,000.00                | 171,418.36     | —                               | —                             | (23,710.72)                       | —                             | (52,292.36)                                   | 147,707.64     | —                         |
| DFEM Control Equipment Co., Ltd                     | 2000.5.19-2010.5.17 | 96.15%   | 12,500,000.00             | 13,649,154.62  | —                               | —                             | 2,243,161.91                      | —                             | 3,392,316.53                                  | 15,892,316.53  | —                         |
| DFEM Power Equipment Co., Ltd                       | 2000.7.10-2010.7.9  | 98.83%   | 42,254,340.02             | 10,572,439.00  | —                               | —                             | 1,061,867.21                      | —                             | (30,620,033.79)                               | 11,634,306.21  | —                         |
| DEEM Tooling and Muddling Co., Ltd                  | 2001.3.13-2021.3.12 | 99.32%   | 14,500,000.00             | 15,627,763.69  | —                               | —                             | 892,694.97                        | —                             | 2,020,458.66                                  | 16,520,458.66  | —                         |
| DFEM Equipment Engineering Co., Ltd                 | 2001.8.16-2021.8.15 | 97.04%   | 13,100,000.00             | 13,442,139.16  | —                               | —                             | 613,564.60                        | 262,000.00                    | 955,703.76                                    | 13,793,703.76  | —                         |
| Equity investment difference                        |                     |  | (6,218,500.25)            | (5,263,150.30) | —                               | —                             | 310,925.04                        | —                             | 1,266,274.99                                  | (4,952,225.26) | —                         |
|   |                     |  | 76,592,154.43             | 49,966,079.19  | 310,941.25                      | —                             | 5,098,503.01                      | 262,000.00                    | (23,527,572.21)                               | 54,802,582.20  | 310,941.25                |

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

| Invested Company                              | Initial Investment    | Amortisation<br>term | 2004.1.1<br>RMB       | Increase<br>this period<br>RMB | Amortization<br>this period<br>RMB | 2004.6.30<br>RMB      | Remaining term<br>of amortization |
|---|-----------------------|----------------------|-----------------------|--------------------------------|------------------------------------|-----------------------|-----------------------------------|
|   |                       |                      |                       |                                |                                    |                       |                                   |
| DFEM Power System Co., Ltd                    | (4,511,741.38)*       | 120 months           | (4,022,969.46)        | —                              | (225,587.04)                       | (3,797,382.42)        | 101month                          |
| DFEM Tooling and Moulding<br>Company Limited  | (1,082,220.62)*       | 120 months           | (766,572.77)          | —                              | (54,111.06)                        | (712,461.71)          | 79month                           |
| DFEM Equipment Engineering<br>Company Limited | (624,538.25)*         | 120 months           | (473,608.07)          | —                              | (31,226.94)                        | (442,381.13)          | 85month                           |
|   | <u>(6,218,500.25)</u> |                      | <u>(5,263,150.30)</u> | <u>—</u>                       | <u>(310,925.04)</u>                | <u>(4,952,225.26)</u> |                                   |

\* See details in Note 11(4).

### (3) Principal operations

A. Details of principal operations are listed as follows:

|  | Income from<br>principal operation |                       | Cost of<br>principal operation |                       | Gross profit of<br>principal operation |                       |
|--|------------------------------------|-----------------------|--------------------------------|-----------------------|--|-----------------------|
|  | 2004.1.1-6.30<br>RMB               | 2003.1.1-6.30<br>RMB  | 2004.1.1-6.30<br>RMB           | 2003.1.1-6.30<br>RMB  | 2004.1.1-6.30<br>RMB                   | 2003.1.1-6.30<br>RMB  |
| Machinery  |                                    |                       |                                |                       |  |                       |
| Manufacturing:                                     |                                    |                       |                                |                       |  |                       |
| Sales of power<br>generators                       | 786,292,215.53                     | 469,223,691.29        | 530,033,475.01                 | 344,487,438.27        | 256,258,740.52                         | 124,736,253.02        |
| Income from labor<br>and technology<br>Improvement | 58,573,032.13                      | 30,283,860.00         | 48,230,742.78                  | 22,380,864.00         | 10,342,289.35                          | 7,902,996.00          |
|  | <u>844,865,247.66</u>              | <u>499,507,551.29</u> | <u>578,264,217.79</u>          | <u>366,868,302.27</u> | <u>266,601,029.87</u>                  | <u>132,639,249.02</u> |

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

|               | Amount<br>RMB  | Percentage<br>% |
|---------------|----------------|-----------------|
| 2004.1.1-6.30 | 322,727,840.12 | 38.20           |

## (4) Investment income

Details of investment income are listed as follows:

|   | 2004.1.1-6.30<br><i>RMB</i> | 2003.1.1-6.30<br><i>RMB</i> |
|---|-----------------------------|-----------------------------|
| Amortization of Equity Investment Differences       | 310,925.04                  | 310,925.04                  |
| Equity Method Adjustment for Subsidiaries Companies | 4,811,288.69                | 5,934,240.40                |
| Equity Method Adjustment for Associate Companies    | (23,710.72)                 | (51,629.79)                 |
|   | <u>5,098,503.01</u>         | <u>6,193,535.65</u>         |

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:

|  | 2004.6.30<br><i>RMB</i> | 2003.12.31<br><i>RMB</i> |
|--|-------------------------|--------------------------|
| Cash at banks and cash in hand         | 1,858,669,649.62        | 1,249,177,330.91         |
| Less: Bank fixed deposit over 3 months | (410,472,500.00)        | (211,553,399.97)         |
| Other restricted cash*                 | (104,377,745.15)        | (111,460,279.22)         |
|  | <u>1,343,819,404.47</u> | <u>926,163,651.72</u>    |

#### 44. EXCEPTIONAL ITEMS

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

|  | 2004.1.1-6.30<br>RMB    | 2003.1.1-6.30<br>RMB |
|--|-------------------------|----------------------|
| 1. Gains on Sale or Disposal of<br>Departments or Invested Companies   | —                       | —                    |
| 2. Loss on Natural Disasters   | —                       | —                    |
| 3. Gain or loss Caused by Changes<br>of Accounting Policy and Estimate | (167,883,541.82)        | 10,840,172.21        |
| 4. Gain or Loss from Debt Restructuring                                | —                       | —                    |
| 5. Other non Operating Gain or Loss                                    | 7,349,392.73            | 10,545,904.50        |
| Including: Non Operating Income  | 5,701,271.36            | 597,186.00           |
| Non Operating expense  | (3,781,427.36)          | (2,783,623.00)       |
| Subsidy Income   | —                       | 2,504,088.00         |
| Interests Received from Non Financial Institutions                     | —                       | —                    |
| Gain or Loss from Entrusted Equity Investment                          | —                       | —                    |
| Reverse back of estimated contract loss                                | 1,986,228.23            | —                    |
| Reverse back of Previously Recognized<br>Provision for Impairment      | 8,809,117.68            | 10,227,146.55        |
| Minority interest  | (69,962.60)             | 1,106.95             |
| Effects of Corporate Income Taxes                                      | (5,295,834.58)          | —                    |
|  | <u>(160,534,149.09)</u> | <u>21,386,076.71</u> |

*Note 45.Relationships and transactions with related parties.*

(1) Details of relationships and transactions with related parties are showed below:

A. Related parties with controlling relationships:

| Company<br>Name | Registered<br>Place                              | Principal<br>operations   | Relationship with<br>the Company | Corporate<br>nature | Legal<br>representative |
|-----------------|--|---|----------------------------------|---------------------|-------------------------|
| DFEW            | 188 Huanghe West<br>Road Deyang,<br>Sichuan, PRC | Manufacturing<br>and Selling of<br>Power Generating<br>Equipment,<br>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                       | 2004.1.1<br>RMB | Increase<br>this period<br>RMB | Decrease<br>this period<br>RMB | 2004.6.30<br>RMB |
|------------------------------------|-----------------|--------------------------------|--------------------------------|------------------|
| DFEW                               | 128,420,000.00  | —                              | —                              | 128,420,000.00   |
| DFEM Control<br>Equipment Co., Ltd | 13,000,000.00   | —                              | —                              | 13,000,000.00    |
| DFEM Power<br>System Co., Ltd      | 42,754,340.00   | —                              | —                              | 42,754,340.00    |
| DFEM Tooling<br>& Moulding Co.,Ltd | 14,600,000.00   | —                              | —                              | 14,600,000.00    |
| DFEM Equipment<br>Engineering Co   | 13,500,000.00   | —                              | —                              | 13,500,000.00    |

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

| Company Name                          | 2004.1.1      |       | Increase this period |   | Decrease this period |   | 2004.6.30     |       |
|---------------------------------------|---------------|-------|----------------------|---|----------------------|---|---------------|-------|
|                                       | Amount<br>RMB | %     | Amount<br>RMB        | % | Amount<br>RMB        | % | Amount<br>RMB | %     |
| DFEW                                  | 220,000,000   | 48.89 | —                    | — | —                    | — | 220,000,000   | 48.89 |
| DFEM Control<br>Equipment<br>Co., Ltd | 12,499,500    | 96.15 | —                    | — | —                    | — | 12,499,500    | 96.15 |
| DFEM Power<br>System<br>Co., Ltd      | 42,254,114    | 98.83 | —                    | — | —                    | — | 42,254,114    | 98.83 |
| DFEM Tooling<br>& Moulding<br>Co.,Ltd | 14,500,720    | 99.32 | —                    | — | —                    | — | 14,500,720    | 99.32 |
| DFEM Equipment<br>Engineering Co      | 13,100,400    | 97.04 | —                    | — | —                    | — | 13,100,400    | 97.04 |

D. Related parties without controlling relationship.

| Company name   | Relationship with the company                                     |
|--|---|
| Dongle Heavy Piece Handling Co                                     | Associate company   |
| Sichan Jiayin Quantity Surveyor Company                            | Associate company   |
| China Dongfang Electric Corporation (DFEC)                         | Superior administrative organization of DFEW                      |
| Finance Department of Oriental Group                               | Subsidiary company of DFEW's superior administrative organization |
| Deyang Dongfang Electric Machinery Supplementary Equipment Company | Subsidiary company of DFEW  |
| Deyang Dongfang Electric Machinery General Equipment Company       | Subsidiary company of DFEW  |
| Deyang Dongfang Electric Machinery Metal & Machinery Company       | Subsidiary company of DFEW  |
| Deyang Dongfang Electric Machinery Insulation Material Company     | 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:

|  | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|--|----------------------|----------------------|
| Staff accommodation management fees          | 1,216,693.50         | 1,064,728.00         |
| Product packing fees                         | 13,182,940.16*       | 8,996,900.00         |
| Environmental, hygiene and greenery expenses | 1,215,646.00         | 1,093,582.00         |
| Refreshment                                  | 1,453,772.25         | 701,520.00           |
| Nursery service for children of employees    | 787,871.50           | 2,741,125.00         |
| Staff retirement plan                        | 1,121,203.50         | 643,404.00           |
| Transportation and repair                    | 27,060,533.21        | 16,118,015.00        |
| Medicare for staff and family members        | 505,413.00           | 795,333.00           |
| Rental and land use fees                     | 1,531,548.10         | —                    |
| Others                                       | 1,406,680.16         | 1,268,704.00         |
|  | <b>49,482,301.38</b> | <b>33,423,311.00</b> |

Above expenses are incurred according to the "Service Agreement" with DFEW.

\* 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.



- B. The details of raw material purchase and labour charges from DFEW by the Company and its subsidiaries are listed as follows:

|                                   |               | 2004.1.1-6.30<br>RMB        | 2003.1.1-6.30<br>RMB        |
|-----------------------------------|---------------|-----------------------------|-----------------------------|
| DFEW                              | Raw materials | —                           | 18,539,596.00               |
| DFEW                              | Labour        | <u>2,473,828.19</u>         | <u>2,391,685.00</u>         |
|                                   |               | <b>2,473,828.19</b>         | 20,931,281.00               |
| Supplementary<br>Equipment Co.Ltd | Raw materials | <b>22,365,921.57</b>        | —                           |
| General Equipment Co.Ltd          | Raw materials | <b>12,317,534.86</b>        | —                           |
| Metal&Machinery Co.Ltd            | Raw materials | <b>12,416,579.00</b>        | —                           |
| Insulation Material Co.Ltd        | Raw materials | <u>12,476,465.82</u>        | <u>—</u>                    |
|                                   |               | <b><u>62,050,329.44</u></b> | <b><u>20,931,281.00</u></b> |

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

|                                   |  | 2004.1.1-6.30<br>RMB        | 2003.1.1-6.30<br>RMB       |
|-----------------------------------|--|-----------------------------|----------------------------|
| Raw material and finished product |  | <b>16,817,521.12</b>        | 451,359.00                 |
| Energy cost                       |  | <b>3,267,702.59</b>         | 2,021,979.00               |
| Labour cost                       |  | <u>3,224,829.92</u>         | <u>851,449.00</u>          |
|                                   |  | <b><u>23,310,053.63</u></b> | <b><u>3,324,787.00</u></b> |

- D. As mentioned in Notes 16, 24, DFEW has provided guarantees on loans for the Company amount to RMB 50,000,000.00 as at 30 June 2004.
- E. As mentioned in Notes 25 China Dongfang Electric Corporation (DFEC) has made loans on behalf of the Company from State Development Bank amount to RMB 10,000,000.00 as at 30 June 2004, and the Company has paid RMB 1,028,800.00 for the interests.
- F. As mentioned in Note 16 the Company has borrowed RMB 10,000,000.00 from the Finance Company of Dongfang Group as at 30 June 2004, and the Company has paid RMB 242,780.00 interest to the Finance Company of Dongfang Group.

- G. As mentioned in Note 5 the Company saved RMB 24,931,281.89 in the Finance Company of Dongfang Group as at 30 June 2004.
- H. The details of sales on behalf of the Company and its subsidiaries by China Dongfang Electric Corporation (DFEC) is showed as follows:

|                              | 2004.1.1-6.30<br>RMB | 2003.1.1-6.30<br>RMB |
|------------------------------|----------------------|----------------------|
| Revenue from sales on behalf | 772,430.77           | 28,716,665.00        |

- I. The remuneration paid to the key management of the Company amount to RMB 468,279.16.

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

| Item                | Related company name              | 2004.6.30     |   | 2003.12.31    |   |
|---------------------|-----------------------------------|---------------|---|---------------|---|
|                     |                                   | Amount<br>RMB | Percentage to<br>the account<br>balance | Amount<br>RMB | Percentage to<br>the account<br>balance |
| Accounts receivable | DFEC                              | 29,038,401.77 | 3.49                                    | 29,068,394.57 | 3.47                                    |
|                     | DFEW                              | 16,569,813.57 | 1.99                                    | 8,807,700.47  | 1.05                                    |
|                     |                                   | 45,608,215.34 | 5.48                                    | 37,876,095.04 | 4.52                                    |
| Prepayment          | DFEW                              | 5,155,056.12  | 1.25                                    | 650,916.79    | 0.36                                    |
| Other Receivable    | DFEW                              | 2,052,290.59  | 2.31                                    | —             | —                                       |
|                     | Dongle Heavy<br>Piece Handling Co | 10,827,452.40 | 12.21                                   | 11,607,300.40 | 13.08                                   |
|                     |                                   | 12,879,742.99 | 14.52                                   | 11,607,300.40 | 13.08                                   |
| Receipt in advance  | DFEC                              | 83,146,479.30 | 3.10                                    | 30,689,680.25 | 1.97                                    |
|                     | DFEW                              | 391,611.48    | 0.01                                    | 808,000.00    | 0.05                                    |
|                     |                                   | 83,538,090.78 | 3.11                                    | 31,497,680.25 | 2.02                                    |
| Other Payable       | DFEC                              | 300,437.83    | 0.51                                    | —             | —                                       |
|                     | DFEW                              | 534,587.15    | 0.90                                    | 2,331,224.62  | 7.30                                    |
|                     |                                   | 835,024.98    | 1.41                                    | 2,331,224.62  | 7.30                                    |
| Accounts payable    | DFEW                              | 12,020,541.16 | 9.82                                    | 16,849,050.60 | 19.38                                   |
|                     | DFEC                              | 235,830.00    | 0.19                                    | —             | —                                       |
|                     |                                   | 12,256,371.16 | 10.01                                   | 16,849,050.60 | 19.38                                   |
| Notes payable       | DFEW                              | 11,465,891.83 | 8.18                                    | 7,868,715.23  | 4.57                                    |

**46. CONTINGENT ITEM**

There exists no material contingency item necessary for disclosure.

**47. FINANCIAL COMMITMENTS**

Details of the approved capital expenditures within the year as at 30 June 2004 are listed as follows:

|                         | <b>2004.6.30</b><br><i>RMB</i> |
|-------------------------|--------------------------------|
| Approved and signed     | 112,197,765.17                 |
| Approved but not signed | 29,495,000.00                  |

**48. SUBSEQUENT EVENTS AFTER THE DATE OF BALANCE SHEET**

As stated in Note 7(1), the Company has received RMB 20,000,000.00 from the Huanghe River Upward Water-power Ltd. Co., which is at the age of over 5 years, at 5 July 2004.

**49. OTHER MAJOR EVENTS**

As stated in Note 12 there are still RMB 134,231,245.12 worth of buildings and plants have not applied for license, account for 70.97% of the consolidated buildings and plants, and account for 28.83% of the consolidated fixed assets as at 30 June 2004.

**50. COMPARATIVE FIGURES**

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

**51. APPROVEAL FOR CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements have been approved by the Board of Directors at 25 August 2004.

## Other financial information (1)

### Supplement information on DFEM's consolidated profit and loss statement

From 1 Jan. 2004 to 30 Jun. 2004

RMB

Details of exceptional items in profit and loss statement:

| Items   | Consolidated            |                      |
|---|-------------------------|----------------------|
|   | 2004.6.30<br>RMB        | 2003.6.30<br>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 | (167,883,541.82)        | 10,840,172.21        |
| 4. Gains or losses from debt restructuring  | —                       | —                    |
| 5. Other exceptional items  | 7,349,392.73            | 10,545,904.50        |
|   | <u>(160,534,149.09)</u> | <u>21,386,076.71</u> |
| Percentage to consolidated net profit   | (435.29%)               | 112.75%              |

## Other financial information (2)

**Reconciliation for financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and PRC Accounting Standards from 1 Jan. 2004 to 30 Jun. 2004.**

|   |      | Net assets<br>2004.6.30<br>RMB | RMB<br>Net profit<br>2004.1.1-6.30<br>RMB |
|---|------|--------------------------------|---|
|   | Note |                                |   |
| Net assets/net profit as reported in accordance with accounting principles generally accepted in Hong Kong        |      | 1,001,499,315.44               | 36,327,995.76                             |
| Adjustments   |      |                                |   |
| Fixed assets  | 1    | (18,697,261.00)                | —   |
| Investment gains  | 2    | 2,976,433.00                   | 310,925.04                                |
| Capital Reserve   |      | —                              | (114,421.00)                              |
| Others  |      | 352,751.00                     | 355,248.00                                |
| Net amount of increase/(decrease)   |      | (15,368,077.00)                | 551,752.04                                |
| According "Accounting Standards for Net assets/net profit as reported in accordance with PRC Accounting Standards |      | <u>986,131,238.44</u>          | <u>36,879,747.80</u>                      |

### 1. Fixed assets

Chongqing Heima Estate Co. Ltd. repaid certain properties as compensation for the debts owing to the Company in 2002. In accordance to the rules governing under the "Accounting Standards for Enterprises – Debt restructuring" in the PRC, the properties were accepted to use the book value of the Debt restructuring as the value of the non-cash transferred assets. In accordance with accounting principles generally accepted in Hong Kong, the properties obtained from debt restructuring were stated at their market value.

### 2. 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.

### Other financial information (3)

Details of return on net assets and return per share are listed as follows for the period from 1 Jan. 2004 to 30 Jun. 2004.

Unit: RMB

|   | Return on net asset (%) |           |                  |           | Return on per share (RMB/share) |           |                  |           |
|---|-------------------------|-----------|------------------|-----------|---------------------------------|-----------|------------------|-----------|
|   | Ending value            |           | Weighted average |           | Ending value                    |           | Weighted average |           |
|   | 2004.6.30               | 2003.6.30 | 2004.6.30        | 2003.6.30 | 2004.6.30                       | 2003.6.30 | 2004.6.30        | 2003.6.30 |
| Profit from principal Operations          | 30.86%                  | 16.10%    | 31.45%           | 16.27%    | 0.676                           | 0.334     | 0.676            | 0.334     |
| Operating profit                          | 5.14%                   | 1.96%     | 5.24%            | 1.98%     | 0.113                           | 0.041     | 0.113            | 0.041     |
| Net profit                                | 3.74%                   | 2.03%     | 3.81%            | 2.05%     | 0.082                           | 0.042     | 0.082            | 0.042     |
| Profit exclude extraordinary gain or loss | 20.02%                  | (0.26%)   | 20.40%           | (0.26%)   | 0.439                           | (0.005)   | 0.439            | (0.005)   |

### Other financial information (4)

Details of provision for impairments of assets of the Company for the period from 1 Jan. 2004 to 30 Jun. 2004.

Unit: RMB

|  | 2004.1.1      | Increase this period | fixed assets value this period | reverse this period |      | sum        | 2004.6.30      |
|--|---------------|----------------------|--------------------------------|---------------------|------|------------|----------------|
|  |               |                      |                                | other reverse       | back |            |                |
| 1. Provision for bad debt                            | 96,895,589.93 | 129,087,745.78       | 908,104.85                     | —                   | —    | 908,104.85 | 225,075,230.86 |
| Trade creditors                                      | 61,846,244.33 | 99,331,307.36        | 90,000.00                      | —                   | —    | 90,000.00  | 161,087,551.69 |
| Other creditors                                      | 35,049,345.60 | 29,756,438.42        | 818,104.85                     | —                   | —    | 818,104.85 | 63,987,679.17  |
| 2. Provision for devaluation of Inventory            | 3,233,825.66  | —                    | —                              | 13,371.27           | —    | 13,371.27  | 3,220,454.39   |
| Manufacturing in process                             | 1,572,673.01  | —                    | —                              | 13,371.27           | —    | 13,371.27  | 1,559,301.74   |
| Finished product                                     | 1,661,152.65  | —                    | —                              | —                   | —    | —          | 1,661,152.65   |
| 3. Provision for devaluation of long term investment | 310,941.25    | —                    | —                              | —                   | —    | —          | 310,941.25     |
| Long term equity investment                          | 310,941.25    | —                    | —                              | —                   | —    | —          | 310,941.25     |
| 4. Provision for drop of construction in process     | 1,211,724.50  | —                    | —                              | —                   | —    | —          | 1,211,724.50   |
| Machinery and equipment                              | 1,211,724.50  | —                    | —                              | —                   | —    | —          | 1,211,724.50   |

## Other financial information (5)

### Details of unusual changes of the Company for the period from 1st Jan. 2004 to 30th Jun. 2004.

Unit: RMB

| Item                      | 2004.6.30<br>RMB | 2003.12.31<br>/2003.1.1-6.30<br>RMB | Percentage of<br>changes<br>RMB |
|---------------------------|------------------|-------------------------------------|---------------------------------|
| Cash and cash equivalents | 1,957,231,544.77 | 1,297,677,203.31                    | 50.83%                          |
| Other Receivable          | 24,690,406.88    | 53,709,580.87                       | (54.03%)                        |
| Prepayment                | 413,959,187.54   | 181,829,359.42                      | 127.66%                         |
| Construction in progress  | 123,860,620.64   | 74,673,968.51                       | 65.87%                          |
| Receive in advance        | 2,682,144,113.73 | 1,556,590,902.21                    | 72.31%                          |
| Long-term Loan            | 10,000,000.00    | 65,000,000.00                       | (84.62%)                        |
| Other operating profit    | 8,573,045.43     | 3,707,222.48                        | 131.25%                         |
| Operating expense         | 6,610,402.93     | 16,500,652.67                       | (59.94%)                        |
| Management expense        | 259,524,937.74   | 106,581,385.22                      | 143.50%                         |
| Finance expense           | (1,943,826.25)   | 10,660,576.63                       | (118.23%)                       |

- A. There was an increase of cash and cash equivalent over the period last year mainly because during the Company signed more sales contracts and received more deposit;
- B. There was a decrease of Other Receivable mainly because this Period the Company Change the policy of the Provision for bad Debt;
- C. There was an increase of prepayment mainly because this year the Company signed more sales contracts, so increased its raw material purchase;
- D. There was an increase of construction in progress mainly because the Company need to purchase more manufacturing equipment in order to expanded production capacity
- E. There was an increase of receive in advance mainly because this year the Company signed more sales contracts and received more deposit;
- F. There was a decrease of Long-term Loan mainly because the Company had sufficient cash on hand and repaid the Loan during this period ;
- G. There was an increase of other operating profit mainly because this year the Company expanded production and increase the income from the sales of raw material and the waste material;

- H. There was a decrease of the operating expense mainly because the packing expense have been included in the cost of the products;
- I. There was a increase of management expense mainly because in the period, the change of the Depreciation Method and Provision for bad debt resulted in the increase of related expenses;
- J. There was a decrease of finance expense mainly because this year repaid more loans from banks.



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

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

|  | <i>Notes</i> | <b>Six months ended 30th June</b>                   |   |
|--|--------------|---|---|
|  |              | <b>2004</b><br><b>RMB'000</b><br><b>(Unaudited)</b> | <b>2003</b><br><b>RMB'000</b><br><b>(Unaudited)</b><br><b>(As restated)</b> |
| Turnover   | 4            | <b>891,384</b>                                      | 526,459   |
| Cost of sales  |              | <b>(585,062)</b>                                    | (378,091)   |
| Gross profit   |              | <b>306,322</b>                                      | 148,368   |
| Other operating income                                   |              | <b>22,430</b>                                       | 13,643  |
| Distribution costs, administrative<br>and other expenses |              | <b>(271,077)</b>                                    | (126,718)   |
| Profit from operations                                   | 5            | <b>57,675</b>                                       | 35,293  |
| Finance costs  |              | <b>(5,292)</b>                                      | (18,713)  |
| Share of results of associates                           |              | <b>(24)</b>   | (52)  |
| Profit before tax  |              | <b>52,359</b>                                       | 16,528  |
| Income tax   | 6            | <b>(15,921)</b>                                     | 385   |
| Profit before minority interests                         |              | <b>36,438</b>                                       | 16,913  |
| Minority interests                                       |              | <b>(111)</b>  | (326)   |
| Net profit for the period                                |              | <b><u>36,327</u></b>                                | <u>16,587</u>   |
| Dividend   | 7            | <b><u>—</u></b>                                     | <u>—</u>  |
| Basic earnings per share                                 | 8            | <b><u>RMB0.081</u></b>                              | <u>RMB0.037</u>   |

# CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004

|  | NOTES | 30/6/2004<br>RMB'000<br>(Unaudited) | 31/12/2003<br>RMB'000<br>(Audited) |
|--|-------|-------------------------------------|------------------------------------|
| Non- current assets                          |       |                                     |                                    |
| Intangible assets                            |       | 948                                 | 1,222                              |
| Property, plant and equipment                | 9     | 504,820                             | 536,063                            |
| Construction in progress                     | 9     | 152,876                             | 94,002                             |
| Interests in associates                      |       | 148                                 | 172                                |
| Investment securities                        |       | 1,499                               | 1,499                              |
|  |       | <b>660,291</b>                      | <b>632,958</b>                     |
| Current assets                               |       |                                     |                                    |
| Inventories                                  |       | 732,985                             | 581,338                            |
| Amount due from customers for contract works |       | 255,654                             | 160,719                            |
| Trade receivables                            | 10    | 671,979                             | 775,240                            |
| Bills receivables                            |       | 22,772                              | 46,961                             |
| Other receivables and prepayment             |       | 437,851                             | 228,895                            |
| Amount due from an associate                 | 17    | 1,083                               | 6,964                              |
| Pledged bank deposits                        |       | 125,426                             | 123,574                            |
| Bank deposit with maturity over three months | 11    | 410,472                             | 215,553                            |
| Bank balances and cash                       | 12    | 1,421,333                           | 958,550                            |
|  |       | <b>4,079,555</b>                    | <b>3,097,794</b>                   |
| Current liabilities                          |       |                                     |                                    |
| Trade payables                               | 13    | 122,392                             | 86,962                             |
| Bills payables                               |       | 140,126                             | 172,006                            |
| Other payables and receipts in advance       |       | 2,981,692                           | 1,805,173                          |
| Amount due to customers for contract works   |       | 285,221                             | 109,628                            |
| Tax liabilities                              |       | 117,926                             | 145,330                            |
| Unsecured long- term loans                   |       |                                     |                                    |
| - amount due within one year                 |       | 30,000                              | 255,000                            |
| Unsecured short- term bank loans             |       | 50,000                              | 125,600                            |
|  |       | <b>3,727,357</b>                    | <b>2,699,699</b>                   |
| Net current assets                           |       | <b>352,198</b>                      | <b>398,095</b>                     |
|  |       | <b>1,012,489</b>                    | <b>1,031,053</b>                   |

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

AS AT 30TH JUNE 2004

|                            |       | 30/6/2004<br>RMB'000<br>(Unaudited) | 31/12/2003<br>RMB'000<br>(Audited) |
|----------------------------|-------|-------------------------------------|------------------------------------|
|                            | NOTES |                                     |                                    |
| Capital and reserves       |       |                                     |                                    |
| Share capital              | 14    | 450,000                             | 450,000                            |
| Reserves                   | 15    | 551,498                             | 515,171                            |
|                            |       | <u>1,001,498</u>                    | <u>965,171</u>                     |
| Minority interests         |       | 991                                 | 882                                |
| Non- current liability     |       |                                     |                                    |
| Unsecured long- term loans |       | 10,000                              | 65,000                             |
|                            |       | <u>1,012,489</u>                    | <u>1,031,053</u>                   |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE SIX MONTHS ENDED 30TH JUNE 2004

|  | <b>Total equity</b><br><i>RMB'000</i> |
|--|---------------------------------------|
| At 1st January 2003                                    | 946,553                               |
| Net profit for the six months ended 30th June 2003     |                                       |
| — as previously reported                               | 5,747                                 |
| — prior year adjustment (Note 16)                      | 10,840                                |
| At 30th June 2003 (as restated)                        | 963,140                               |
| Net profit for the six months ended 31st December 2003 | 2,031                                 |
| At 31st December 2003                                  | 965,171                               |
| Net profit for the six months ended 30th June 2004     | 36,327                                |
| At 30th June 2004                                      | <u>1,001,498</u>                      |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

|   | <b>Six months ended 30th June</b> |                       |
|---|-----------------------------------|-----------------------|
|   | <b>2004</b>                       | <b>2003</b>           |
|   | <b>RMB'000</b>                    | <b>RMB'000</b>        |
|   | <b>(Unaudited)</b>                | <b>(Unaudited)</b>    |
| NET CASH GENERATED FROM<br>OPERATING ACTIVITIES         | <b>1,105,952</b>                  | 148,665               |
| NET CASH (USED IN)/FROM<br>INVESTING ACTIVITIES         | <b>(282,275)</b>                  | 108,584               |
| NET CASH USED IN FINANCING ACTIVITIES                   | <b>(360,894)</b>                  | (111,213)             |
| NET INCREASE IN CASH AND<br>CASH EQUIVALENTS            | <b>462,783</b>                    | 146,036               |
| CASH AND CASH EQUIVALENTS<br>AT BEGINNING OF THE PERIOD | <b>958,550</b>                    | 354,827               |
| CASH AND CASH EQUIVALENTS<br>AT END OF THE PERIOD       | <b><u>1,421,333</u></b>           | <b><u>500,863</u></b> |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE 2004

### 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 (“HKSE”) since 6th June 1994. On 4th July 1995, with the approval of the relevant authorities including the Securities Regulatory Commission of the PRC, the Company issued 60,000,000 domestic listed RMB ordinary shares (the “A shares”) in the PRC. The A shares have been listed on the Stock Exchange of Shanghai since 10th October 1995.

### 2. BASIS OF PREPARATION

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

### 3. ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2003, except as described below.

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.

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.

With effective from 1st January 2004, the depreciation method for the plant and machinery and furniture, fixtures and equipment of the Group was changed from the straight- line method to the double reducing- balance method, others are still using the straight- line method. Depreciation rates are determined by the classes of property, plant and equipment of the Group, the estimated useful lives and estimated residual values as follows :

|                                   | Useful<br>lives | Estimated<br>residual<br>value ratio | Depreciation<br>rate per<br>annum      |
|-----------------------------------|-----------------|--------------------------------------|--|
| Land use rights                   | 50              | —                                    | 2%                                     |
| Buildings for production          | 20              | 5%                                   | 4.75%                                  |
| Buildings for non- production     | 25              | 5%                                   | 3.80%                                  |
| Plant and machinery               | 10              | 5%                                   | Double<br>reducing -<br>balance method |
| Furniture, fixtures and equipment | 5- 6            | 5%                                   | Double<br>reducing-<br>balance method  |
| Motor vehicles                    | 6               | 5%                                   | 15.83%                                 |

The change in estimation of depreciation period and method of property, plant and equipment as mentioned above has decreased the net profit for the period by approximately RMB30,895,000.

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of hydro and steam power generators, AC/DC electrical motors and the provision of repair, upgrade, maintenance and other services.

An analysis of the Group's revenue for the six months ended 30th June 2004 and 2003 is as follows :

|   | <b>Six months ended 30th June</b> |                       |
|---|-----------------------------------|-----------------------|
|   | <b>2004</b>                       | <b>2003</b>           |
|   | <b>RMB'000</b>                    | <b>RMB'000</b>        |
|   | <b>(Unaudited)</b>                | <b>(Unaudited)</b>    |
|   |                                   | <b>(As restated)</b>  |
| Sales revenue from Hydro power generators, steam power generators and AC/DC electrical motors | <b>835,247</b>                    | 471,645               |
| Rendering of repair, upgrade, maintenance and other services                                  | <b>56,137</b>                     | 54,814                |
|   | <b><u>891,384</u></b>             | <b><u>526,459</u></b> |

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

#### 5. PROFIT FROM OPERATIONS

|   | <b>Six months ended 30th June</b> |                    |
|---|-----------------------------------|--------------------|
|   | <b>2004</b>                       | <b>2003</b>        |
|   | <b>RMB'000</b>                    | <b>RMB'000</b>     |
|   | <b>(Unaudited)</b>                | <b>(Unaudited)</b> |
| Profit from operations has been arrived at after charging:—       |                                   |                    |
| Depreciation and amortisation of property, plant and equipment    | <b>65,421</b>                     | 24,214             |
| Amortisation of intangible assets                                 | <b>274</b>                        | 398                |
| Loss on disposal and written off of property, plant and equipment | <b>745</b>                        | 323                |



## 6. INCOME TAX

|  | Six months ended 30th June |              |
|--|----------------------------|--------------|
|  | 2004                       | 2003         |
|  | RMB'000                    | RMB'000      |
|  | (Unaudited)                | (Unaudited)  |
| The income tax comprises :                 |                            |              |
| Taxation attributable to the               |                            |              |
| Company and its subsidiaries               |                            |              |
| PRC income tax                             |                            |              |
| — Provided for the period                  | 10,157                     | —            |
| — Under/(over)- provision in prior periods | 5,764                      | (385)        |
|  | <u>15,921</u>              | <u>(385)</u> |

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

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

## 7. DIVIDEND

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

## 8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share was based on the net profit for the period of RMB36,327,000 (six months ended 30th June 2003 (as restated) : RMB16,587,000) and on 450,000,000 (30th June 2003 : 450,000,000) shares in issue during the period.

## 9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the period, the Group spent approximately RMB2,762,000 and RMB93,803,000 (six months ended 30th June 2003 : RMB573,000 and RMB81,945,000) on additions to property, plant and equipment and construction in progress respectively.

## 10. TRADE RECEIVABLES

|   | 30/6/2004<br>RMB'000<br>(Unaudited) | 31/12/2003<br>RMB'000<br>(Audited) |
|---|-------------------------------------|------------------------------------|
| An aged analysis of trade receivables is as follows : |                                     |                                    |
| Within one year                                       | 488,178                             | 550,314                            |
| 1 - 2 years   | 107,875                             | 84,217                             |
| 2 - 3 years   | 35,466                              | 20,031                             |
| Over 3 years  | 40,460                              | 120,678                            |
|   | <u>671,979</u>                      | <u>775,240</u>                     |

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

## 11. BANK DEPOSITS WITH MATURITY OVER THREE MONTHS

During the period, the Group signed under the "Debenture Agency Agreement" amounted to RMB150,000,000 with the Bank of China for the period from 26th May 2004 to 26th May 2005 ("the Investment Period") which authorised the Bank of China to invest in the listed debenture trade amongst the market between the banks. Except for the execution of the terms and conditions stated in the agreement, the Group are committed not to withdraw the agreement within the Investment Period for any other reasons.

As at 30th June 2004, since the Group has not opened the account for the debenture investment, the abovesaid amount was temporary placed as time deposits with the Bank of China, the deposit period is the same as the Investment Period.

## 12. BANK BALANCES AND CASH

During the period, the Group signed under the "Debenture Agency Agreement" amounted to RMB50,000,000 with the Bank of China for the period from 26th May 2004 to 26th August 2004 ("the Investment Period") which authorised the Bank of China to invest in the listed debenture trade amongst the market between the banks. Except for the execution of the terms and conditions stated in the agreement, the Group are committed not to withdraw the agreement within the Investment Period for any other reasons.

As at 30th June 2004, since the Group has not opened the account for the debenture investment, the abovesaid amount was temporary placed as time deposits with the Bank of China, the deposit period is the same as the Investment Period.

### 13. TRADE PAYABLES

|  | 30/6/2004<br>RMB'000<br>(Unaudited) | 31/12/2003<br>RMB'000<br>(Audited) |
|--|-------------------------------------|------------------------------------|
| An aged analysis of trade payables is as follows:— |                                     |                                    |
| Within one year                                    | 119,243                             | 80,633                             |
| 1 - 2 years  | 768                                 | 4,397                              |
| 2 - 3 years  | 1,730                               | 1,368                              |
| Over 3 years                                       | 651                                 | 564                                |
|  | <u>122,392</u>                      | <u>86,962</u>                      |

### 14. SHARE CAPITAL

There were no movements in share capital of the Company during the period from 1st January 2003 to 30th June 2004.

### 15. RESERVES

|   | Capital<br>surplus<br>RMB'000 | Statutory<br>surplus<br>reserve<br>RMB'000 | Statutory<br>welfare<br>reserve<br>RMB'000 | Accumulated<br>losses<br>RMB'000 | Total<br>RMB'000 |
|---|-------------------------------|--|--|----------------------------------|------------------|
| At 1st January 2003                                       | 636,061                       | 27,641                                     | 26,022                                     | (193,171)                        | 496,553          |
| Net profit for the six months<br>ended 30th June 2003     |                               |  |  |                                  |                  |
| — as previously reported                                  | —                             | —  | —  | 5,747                            | 5,747            |
| — prior year adjustment<br>(Note 16)                      | —                             | —  | —  | 10,840                           | 10,840           |
| At 30th June 2003<br>(as restated)                        | 636,061                       | 27,641                                     | 26,022                                     | (176,584)                        | 513,140          |
| Net profit for the six months<br>ended 31st December 2003 | —                             | —  | —  | 2,031                            | 2,031            |
| Transfer  | —                             | 213  | 107  | (320)                            | —                |
| At 31st December 2003                                     | 636,061                       | 27,854                                     | 26,129                                     | (174,873)                        | 515,171          |
| Net profit for the six months<br>ended 30th June 2004     | —                             | —  | —  | 36,327                           | 36,327           |
| At 30th June 2004   | <u>636,061</u>                | <u>27,854</u>                              | <u>26,129</u>                              | <u>(138,546)</u>                 | <u>551,498</u>   |

## 16. CHANGE IN ACCOUNTING POLICY

For the year ended 31st December 2003, the Group had changed the accounting policy for the recognition of construction contract revenue for hydro power generators, 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 the contract activity at the balance sheet date. Prior year adjustment was made for the year ended 31st December 2003, the comparative figures for the period ended 30th June 2003 have been restated accordingly. The change in accounting policy resulted in an increase in the Group's profit for the period ended 30th June 2003 by RMB10,840,000.

## 17. 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:—

|   | <b>Six months ended 30th June</b> |                    |
|---|-----------------------------------|--------------------|
|   | <b>2004</b>                       | <b>2003</b>        |
|   | <b>RMB'000</b>                    | <b>RMB'000</b>     |
|   | <b>(Unaudited)</b>                | <b>(Unaudited)</b> |
| <hr/>   |                                   |                    |
| (a) Transactions with DFEC and its subsidiaries:—       |                                   |                    |
| Expenditure   |                                   |                    |
| — Interest paid and payable                             | <u>1,272</u>                      | <u>—</u>           |
| Revenue   |                                   |                    |
| — Sales on behalf                                       | <u>772</u>                        | <u>28,717</u>      |
| <hr/>   |                                   |                    |
| (b) Transactions with DFEW and its subsidiaries:—       |                                   |                    |
| Expenditure   |                                   |                    |
| — Purchase of materials costs                           | 59,577                            | 18,540             |
| — Packaging costs                                       | 13,183                            | 8,997              |
| — Freight and maintenance expenses                      | 27,061                            | 16,118             |
| — Others  | 11,712                            | 10,701             |
|   | <u>111,533</u>                    | <u>54,356</u>      |
| Revenue   |                                   |                    |
| — Provision of power supply                             | 3,268                             | 2,022              |
| — Proceeds on sales of raw materials and finished goods | 16,817                            | 451                |
| — Others  | 3,225                             | 851                |
|   | <u>23,310</u>                     | <u>3,324</u>       |
| <hr/>   |                                   |                    |

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.

**17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

(c) Current accounts with related parties are as follows:—

| Name of related company                      | Related balances                    | 30/6/2004<br>RMB'000<br>(Unaudited) | 31/12/2003<br>RMB'000<br>(Audited) |
|--|-------------------------------------|-------------------------------------|------------------------------------|
| DFEC   | Trade receivables                   | <u>29,038</u>                       | <u>29,068</u>                      |
|  | Receipts in advance                 | <u>83,146</u>                       | <u>30,690</u>                      |
|  | Trade payables                      | <u>236</u>                          | <u>—</u>                           |
|  | Other payables                      | <u>301</u>                          | <u>—</u>                           |
| DFEC Finance Company<br>(subsidiary of DFEC) | Bank balances                       | <u>24,931</u>                       | <u>13,891</u>                      |
|  | Unsecured short- term<br>bank loans | <u>10,000</u>                       | <u>10,000</u>                      |
| DFEW and its<br>subsidiaries                 | Trade receivables                   | <u>16,570</u>                       | <u>8,808</u>                       |
|  | Prepayment                          | <u>5,155</u>                        | <u>651</u>                         |
|  | Other receivables                   | <u>2,052</u>                        | <u>—</u>                           |
|  | Trade payables                      | <u>12,021</u>                       | <u>16,849</u>                      |
|  | Bills payable                       | <u>11,466</u>                       | <u>7,869</u>                       |
|  | Other payables                      | <u>535</u>                          | <u>2,331</u>                       |
|  | Receipts in advance                 | <u>392</u>                          | <u>808</u>                         |

## 17. RELATED PARTY TRANSACTIONS AND BALANCES (*Continued*)

At the balance sheet date, DFEW provide guarantees for the banking facilities amounting to RMB50,000,000 (31st December 2003 : RMB325,600,000) granted to the Group at no charge.

Except as disclosed above, other loans advanced from DFEC amounting to RMB10,000,000 (31st December 2003 : RMB60,000,000), interest is charged at 5.76% per annum.

Balances with associate is unsecured, interest free and has no fixed terms of repayment.

## 18. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments in respect of acquisition of machinery and equipment for production purposes, so far as not provided for in the financial statements:

|                                   | 30/6/2004<br>RMB'000<br>(Unaudited) | 31/12/2003<br>RMB'000<br>(Audited) |
|-----------------------------------|-------------------------------------|------------------------------------|
| Contracted but not provided for   | 112,198                             | 61,637                             |
| Authorised but not contracted for | 29,495                              | 53,275                             |
|                                   | <u>141,693</u>                      | <u>114,912</u>                     |

## 19. COMPARATIVE FIGURES

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