

Report of the Auditors

Ho and Ho & Company

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

To the shareholders of

Dongfang Electrical Machinery Company Limited

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

We have audited the financial statements on pages 42 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



Ho and Ho & Company

Certified Public Accountants

Hong Kong, 21 March 2005

Consolidated Income Statement

For the Year ended 31 December 2004

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

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	4	2,051,360	1,199,622
Cost of sales		(1,307,886)	(894,105)
Gross profit		743,474	305,517
Other revenue	5	54,639	27,781
Distribution costs		(15,512)	(15,035)
Administrative expenses		(446,763)	(268,478)
Impairment losses on property, plant and equipment		(18,697)	(1,211)
Profit from operations	6	317,141	48,574
Finance costs	7	(5,323)	(28,453)
Share of results of associates		(59)	5
Profit before taxation		311,759	20,126
Income tax charge	10	(59,004)	(1,510)
Profit before minority interests		252,755	18,616
Minority interests		(167)	2
Net profit for the year		252,588	18,618
Dividends	11	54,000	—
Basic earnings per share	12	RMB0.561	RMB0.041
Diluted earnings per share		Not applicable	Not applicable

Balance Sheets

As at 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

		THE GROUP		THE COMPANY	
		2004	2003	2004	2003
	NOTES	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Intangible assets	13	2,306	1,222	2,270	1,158
Property, plant and equipment	14	544,340	536,063	522,196	515,909
Construction in progress	15	124,310	94,002	124,173	92,207
Investments in subsidiaries	16	—	—	60,512	50,672
Interests in associates	17	113	172	113	172
Investment securities	18	1,499	1,499	1,499	1,499
		672,568	632,958	710,763	661,617
Current assets					
Inventories	19	924,441	581,338	826,131	530,491
Amounts due from customers for contract works	20	226,721	160,719	215,475	160,443
Trade receivables	21	718,272	775,240	654,736	718,950
Bills receivables		9,083	46,961	9,033	15,871
Prepayment		479,280	181,829	454,500	172,518
Other receivables		18,923	47,066	18,146	45,895
Amounts due from subsidiaries	28	—	—	—	3,122
Amount due from an associate	28	1,050	6,964	1,050	6,964
Pledged bank deposits		139,083	123,574	116,506	111,460
Bank deposits with maturity over three months		491,435	215,553	491,435	211,553
Bank balances and cash		2,667,328	958,550	2,595,443	926,164
		5,675,616	3,097,794	5,382,455	2,903,431
Current liabilities					
Trade payables	22	173,453	86,962	123,483	52,974
Bills payables		78,879	172,006	78,879	172,006
Other payables		247,422	173,935	231,991	162,360
Amounts due to subsidiaries	28	—	—	36,251	—
Accrued expenses		39,974	74,647	31,755	60,189
Receipts in advance		3,722,709	1,556,591	3,580,949	1,464,973
Amounts due to customers for contract works	20	588,787	109,628	508,493	94,705
Tax liabilities	23	185,032	145,330	185,893	135,287
Unsecured long-term loans					
- amount due within one year	24	10,000	255,000	10,000	255,000
Unsecured short-term loans		30,000	125,600	30,000	125,600
		5,076,256	2,699,699	4,817,694	2,523,094
Net current assets					
		599,360	398,095	564,761	380,337
		1,271,928	1,031,053	1,275,524	1,041,954

Balance Sheets *(continued)*

As at 31 December 2004

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

	NOTES	THE GROUP		THE COMPANY	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Capital and reserves					
Share capital	26	450,000	450,000	450,000	450,000
Reserves	27	767,759	515,171	772,383	526,954
		1,217,759	965,171	1,222,383	976,954
Minority interests		1,028	882	—	—
Non-current liability					
Deferred Income	25	53,141	—	53,141	—
Unsecured long-term loans	24	—	65,000	—	65,000
		1,271,928	1,031,053	1,275,524	1,041,954

The financial statements on pages 42 to 65 were approved and authorised for issue by the Board of Directors on 21 March 2005 and are signed on its behalf by :


ZHU YUANCHAO
 CHAIRMAN


GONG DAN
 DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	Total equity <i>RMB'000</i>
At 1 January 2003	946,553
Profit for the year	18,618
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At 31 December 2003 and 1 January 2004	965,171
Profit for the year	252,588
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At 31 December 2004	<u>1,217,759</u>

Consolidated Cash Flow Statement

For the Year ended 31 December 2004

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

	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	311,759	20,126
Adjustments for :		
Share of results of associates	59	(5)
Interest expense	5,323	28,453
Interest income	(22,146)	(14,768)
Amortisation of deferred income	(2,208)	—
Impairment losses on property, plant and equipment	18,697	1,211
Depreciation and amortisation	133,035	55,387
Written off of and provision for doubtful debt	133,228	31,553
Written off of inventories to net realisable value	1,567	10,904
(Gain) / loss on disposal of property, plant and equipment and construction in progress	(932)	2,602
Expenses of research and development cost in construction in progress	5,664	—
Gain on disposal of trading securities	—	(20)
Operating cash flows before movements in working capital	584,046	135,443
Decrease / (increase) in net amounts due from / to customers for contract works	413,157	(31,999)
Increase in inventories	(344,670)	(138,786)
Increase in trade receivables, other receivables, bills receivables and prepayment	(302,885)	(192,735)
Decrease / (increase) in amount due from an associate	1,109	(719)
Increase in trade payables, bills payable, other payables, accrued expenses, receipts in advance and deferred income	2,253,645	1,293,341
Decrease in tax liabilities	(19,042)	(17,456)
Cash generated from operations	2,585,360	1,047,089
PRC enterprise income tax paid	(260)	(699)
NET CASH FROM OPERATING ACTIVITIES	2,585,100	1,046,390
INVESTING ACTIVITIES		
(Increase) / decrease in bank deposits with maturity over three months and pledged bank deposits	(291,391)	73,985
Purchase of property, plant and equipment, construction in progress and intangible assets	(207,297)	(165,599)
Proceeds from disposal of trading securities	—	82
Interest received	22,146	14,768
Proceeds from disposal of property, plant and equipment	12,486	1,869
NET CASH USED IN INVESTING ACTIVITIES	(464,056)	(74,895)
FINANCING ACTIVITIES		
Repayment of borrowings	(435,600)	(471,100)
Interest paid	(6,645)	(31,270)
Dividends paid to minority shareholders	(21)	(2)
New bank borrowings raised	30,000	134,600
NET CASH USED IN FINANCING ACTIVITIES	(412,266)	(367,772)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,708,778	603,723
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	958,550	354,827
CASH AND CASH EQUIVALENTS AT END OF THE YEAR - Bank balances and cash	2,667,328	958,550

Notes to the Financial Statements

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

1. GENERAL

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Investments in subsidiaries

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Interests in associates

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

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

Intangible assets

(i) Goodwill

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

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

(ii) Technology know-how

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

(iii) Impairment of intangible assets

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

Property, plant and equipment

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

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

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

With effective from 1 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 lives	Estimated residual value ratio	Annual depreciation rate
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 reducing-balance method
Furniture, fixtures and equipment	5-6	5%	Double reducing-balance method
Motor vehicles	6	5%	15.83%

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

Investment securities

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

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

Inventories

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

Construction contracts

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

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

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

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

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment

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

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

Revenue recognition

(i) Sale of goods

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

(ii) Construction contracts

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

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

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

(iii) Repair, upgrade and maintenance service income

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

(iv) Interest income

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

Borrowing costs

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

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

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

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

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

Foreign currencies

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

Government grant

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

4. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2004 RMB'000	2003 RMB'000
Turnover		
Sales revenue from Hydro power generators, steam power generators and AC/DC electrical motors	1,925,095	1,085,191
Rendering of repair, upgrade, maintenance and other services	126,265	114,431
	2,051,360	1,199,622

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. OTHER REVENUE

	2004 RMB'000	2003 RMB'000
Interest income	22,146	14,768
Gain on disposal of trading securities	—	20
Amortisation of deferred income (Note 25)	2,208	—
Tax refund	—	34
Gain on disposal of raw materials and work in progress	29,302	7,667
Other income	983	5,292
	54,639	27,781

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations is stated after charging / (crediting):		
Depreciation on property, plant and equipment**	121,354	50,482
Written off of inventories to net realisable value	1,567	10,904
Staff costs ** (Note 7)	239,926	203,952
Auditors' remuneration	970	970
Research and development costs **	51,142	36,319
Amortisation of intangible assets	869	585
(Gain) / loss on disposals of property, plant and equipment and construction in progress	(932)	2,602
Written off of and provision for doubtful debts	133,228	31,553

** Included in the research and development costs are staff costs and depreciation on property, plant and equipment of RMB32,336,000 (2003 : RMB26,264,000) and RMB10,812,000 (2003 : RMB4,320,000) respectively, which have not been included in staff costs and depreciation of property, plant and equipment as disclosed above.

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

7. FINANCE COSTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Interest on bank loans, wholly repayable within 5 years	4,900	24,347
Interest on other loans, wholly repayable within 5 years	1,745	6,923
Total borrowing costs	6,645	31,270
Less : Amount capitalised in respect of construction in progress	(1,322)	(2,817)
	5,323	28,453

8. STAFF COSTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Salaries and wages	242,365	200,048
Staff welfare	29,897	30,168
	272,262	230,216

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

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and supervisors' emoluments

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Fees	—	—
Other emoluments :		
— basic salaries and allowances		
— Executive directors	444	444
— Independent non-executive directors	120	—
— Supervisors	88	86
	652	530
— bonuses		
— Supervisors	36	26
— contributions to pension schemes		
— Executive directors	87	94
— Supervisors	20	25
	107	119
	795	675

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

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

Except for the directors' and supervisors' emoluments disclosed above, certain directors and supervisors of the Group have received emoluments from the holding company, DFEW, which totalling RMB139,000, part of which is in respect of their services to the Group. No apportionment has been made as the directors and supervisors consider it is impractical to apportion this amount between their services to the Group and their services to the Company's holding company.

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

	Number of individuals	
	2004	2003
Emolument bands		
Nil - RMB1,000,000	15	15

No directors waived any emoluments for the years ended 31 December 2004 and 2003. In addition, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five highest paid individuals in the Group in 2004 and 2003 were all directors of the Company and the details of their emoluments are included in note 9a.

10. INCOME TAX CHARGE

	2004 RMB'000	2003 RMB'000
Income tax charge comprises :		
Taxation attributable to the Company and its subsidiaries		
PRC enterprise income tax		
— Provided for the year	53,241	1,009
— Under-provision in prior years	5,763	501
	59,004	1,510

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

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

10. INCOME TAX CHARGE *(continued)*

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

	2004 RMB'000	2003 RMB'000
Profit before tax	311,759	20,126
Tax charge at applicable tax rate of 15% (2003 : 15%)	46,764	3,019
Tax effect of income not taxable for tax purpose	(5,627)	(4,839)
Tax effect of expenses not deductible for tax purpose	29,654	7,575
Utilisation of tax losses previously not recognised	(19,020)	(5,997)
Tax effect of tax losses not recognised	—	701
Under-provision in prior years	5,763	501
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	1,470	550
Tax charge for the year	59,004	1,510

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

At the balance sheet date, the Group has deferred tax assets arising from temporary differences of RMB26,805,000 (2003: RMB18,895,000) which have not been recognised in the financial statements due to the unpredictability of future profit streams.

At the balance sheet date, the Group has no estimated unused tax losses (2003 : RMB126,799,000). No deferred tax assets arising from estimated unused tax losses (2003 : RMB19,020,000).

11. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Ordinary shares: Proposed final dividend - RMB0.12 (2003 : Nil) per share	54,000	—

At a meeting held on 21 March 2005. The Board of Directors proposed a final dividend of RMB0.12 per share for the year ended 31 December 2004. The proposed final dividend is not accounted for until it has been approved in the Annual General Meeting.

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB252,588,000 (2003 : RMB18,618,000) and the number of 450,000,000 ordinary shares (2003 : 450,000,000 shares) in issue during the year.

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

13. INTANGIBLE ASSETS

	Technology Know-how <i>RMB'000</i>	Computer softwares and Telecommuni— cation system <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP			
Cost			
At 1 January 2004	2,556	146	2,702
Addition	—	1,953	1,953
At 31 December 2004	2,556	2,099	4,655
Accumulated amortisation			
At 1 January 2004	1,406	74	1,480
Charge for the year	511	358	869
At 31 December 2004	1,917	432	2,349
Net book value			
At 31 December 2004	639	1,667	2,306
At 31 December 2003	1,150	72	1,222
	Technology Know-how <i>RMB'000</i>	Computer softwares and Telecommuni— cation system <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY			
Cost			
At 1 January 2004	2,556	30	2,586
Addition	—	1,953	1,953
At 31 December 2004	2,556	1,983	4,539
Accumulated amortisation			
At 1 January 2004	1,406	22	1,428
Charge for the year	511	330	841
At 31 December 2004	1,917	352	2,269
Net book value			
At 31 December 2004	639	1,631	2,270
At 31 December 2003	1,150	8	1,158

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

14. PROPERTY, PLANT AND EQUIPMENT

	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP						
Cost						
At 1 January 2004	35,626	321,824	576,790	75,660	9,266	1,019,166
Addition	—	30,449	127,398	10,359	1,126	169,332
Disposal	—	(12,928)	(19,918)	(3,044)	(1,156)	(37,046)
At 31 December 2004	35,626	339,345	684,270	82,975	9,236	1,151,452
Accumulated depreciation, amortisation and impairment						
At 1 January 2004	7,126	103,586	310,281	55,415	6,695	483,103
Charge for the year	712	27,850	89,919	12,859	826	132,166
Eliminated on disposals	—	(2,622)	(20,278)	(2,937)	(1,017)	(26,854)
Impairment losses	—	18,697	—	—	—	18,697
At 31 December 2004	7,838	147,511	379,922	65,337	6,504	607,112
Net book value						
At 31 December 2004	27,788	191,834	304,348	17,638	2,732	544,340
At 31 December 2003	28,500	218,238	266,509	20,245	2,571	536,063

	Land use rights <i>RMB'000</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY						
Cost						
At 1 January 2004	35,626	312,270	515,103	71,845	8,274	943,118
Additions	—	26,247	117,012	7,440	1,126	151,825
Disposals	—	(2,607)	(4,010)	(2,966)	(1,006)	(10,589)
At 31 December 2004	35,626	335,910	628,105	76,319	8,394	1,084,354
Accumulated depreciation, amortisation and impairment						
At 1 January 2004	7,126	102,143	259,308	52,438	6,194	427,209
Charge for the year	712	27,199	84,676	10,533	522	123,642
Eliminated on disposals	—	(957)	(2,712)	(2,861)	(860)	(7,390)
Impairment losses	—	18,697	—	—	—	18,697
At 31 December 2004	7,838	147,082	341,272	60,110	5,856	562,158
Net book value						
At 31 December 2004	27,788	188,828	286,833	16,209	2,538	522,196
At 31 December 2003	28,500	210,127	255,795	19,407	2,080	515,909

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

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

As at 31 December 2004, the Group and the Company have not obtained the building ownership certificates for certain buildings with net book value of RMB117,390,000 and RMB114,452,000 respectively.

The change in estimation of depreciation period and method of property, plant and equipment has decreased the net profit for the year of the Group and the Company by approximately RMB41,452,000 and RMB38,552,000 respectively.

15. CONSTRUCTION IN PROGRESS

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cost				
As at 1 January	94,002	88,648	92,207	88,517
Additions	184,907	161,374	177,637	132,260
Capitalisation of interest expenses	1,322	2,817	1,322	2,817
	280,231	252,839	271,166	223,594
Written off	(1,362)	—	(1,362)	—
Expenses of research and development				
cost to profit and loss for the year	(5,664)	—	(5,664)	—
Transfer to property, plant and equipment	(148,895)	(158,837)	(139,967)	(131,387)
	124,310	94,002	124,173	92,207

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Unlisted investments in the PRC, at cost less impairment losses recognised	60,512	50,672

Particulars of the subsidiaries as at 31 December 2004, all of which were limited companies established and operating in the PRC, are as follows :

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments in the PRC:—				
At cost less impairment losses recognised	—	—	113	172
Share of net assets	113	172	—	—
	113	172	113	172

Particulars of the associates as at 31 December 2004, all of which were limited liability companies established and operating in the PRC, are as follows :

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

18. INVESTMENT SECURITIES

	THE GROUP AND THE COMPANY	
	2004	2003
	RMB'000	RMB'000
Unlisted equity shares in the PRC, at cost less impairment losses recognised	1,499	1,499

19. INVENTORIES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Raw materials	392,009	225,869
Work in progress	385,552	275,476
Finished goods	143,427	76,964
Spare parts and consumables	3,453	3,029
	924,441	581,338

At 31 December 2004, the carrying amount of inventories of the Group that are carried at net realisable value amounted to RMB35,438,000. (2003 : RMB17,559,000).

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Construction contracts in progress at the balance sheet date :		
Contract cost incurred	493,226	287,530
Attributable profits less foreseeable losses	75,575	39,713
	568,801	327,243
Less : Progress billings received and receivable	(930,867)	(276,152)
	(362,066)	51,091
Represented by :		
Amounts due from customers for contract works	226,721	160,719
Amounts due to customers for contract works	(588,787)	(109,628)
	(362,066)	51,091

21. TRADE RECEIVABLES

The Group and the Company offer credit terms generally accepted in the generator manufacturing industry to its customers, which vary on the size of contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit of customers are evaluated periodically.

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Within 1 year	458,504	550,314
1 - 2 years	172,176	84,217
2 - 3 years	65,038	20,031
More than 3 years	22,554	120,678
	718,272	775,240

22. TRADE PAYABLES

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Within 1 year	168,893	80,633
1 - 2 years	3,182	4,397
2 - 3 years	1,105	1,368
More than 3 years	273	564
	173,453	86,962

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

23. TAX LIABILITIES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Value added tax	113,271	123,633
Business tax	875	1,767
Enterprise income tax	60,608	1,864
Urban development tax	9,824	15,740
Others	454	2,326
	185,032	145,330

24. LONG-TERM LOANS

	THE GROUP AND THE COMPANY	
	2004	2003
	RMB'000	RMB'000
Bank loans, unsecured	—	260,000
Other loans, unsecured	10,000	60,000
	10,000	320,000

The long-term loans are repayable as follows:—

	Bank loans		Other loans		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	225,000	10,000	30,000	10,000	255,000
More than one year but not exceeding two years	—	35,000	—	30,000	—	65,000
	—	260,000	10,000	60,000	10,000	320,000
Less : Amount due within one year shown under current liabilities	—	(225,000)	(10,000)	(30,000)	(10,000)	(255,000)
	—	35,000	—	30,000	—	65,000

Interest on other loans wholly repayable within five years was charged at 5.76% per annum.

25. DEFERRED INCOME

Deferred income represents government grants received during 2003 and 2004 by way of tax refund for the removal and renovation and purchase of environmental protection equipments amounting to RMB55,149,000 and RMB200,000 respectively.

Such property, plant and equipment was put into operation in 2004. The average useful life of buildings is 20 years while the average useful life of plant and equipment is 10 years. The deferred income is released to the income statement over the expected useful life of the relevant assets. Movements of deferred income during the year are as follow:

	2004
	RMB'000
Addition for the year	55,349
Transfer to income statement	(2,208)
At the end of the year	53,141

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

26. SHARE CAPITAL

	2004 and 2003	
	No. of shares '000	Amount RMB'000
Registered, issued and fully paid up capital of RMB1 each :		
Legal person shares	220,000	220,000
A shares	60,000	60,000
H shares	170,000	170,000
	<u>450,000</u>	<u>450,000</u>

27. RESERVES

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Dividend reserve RMB'000	Accumulated (losses)/profits RMB'000	Total RMB'000
THE GROUP						
At 1 January 2003	636,061	27,641	26,022	—	(193,171)	496,553
Profit for the year	—	—	—	—	18,618	18,618
Transfer	—	213	107	—	(320)	—
At 31 December 2003	636,061	27,854	26,129	—	(174,873)	515,171
Profit for the year	—	—	—	—	252,588	252,588
Transfer	—	11,328	5,664	—	(16,992)	—
Dividends set aside (note 11)	—	—	—	54,000	(54,000)	—
At 31 December 2004	<u>636,061</u>	<u>39,182</u>	<u>31,793</u>	<u>54,000</u>	<u>6,723</u>	<u>767,759</u>

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Dividend reserve RMB'000	Accumulated (losses)/profits RMB'000	Total RMB'000
THE COMPANY						
At 1 January 2001	636,061	27,592	25,998	—	(185,864)	503,787
Profit for the year	—	—	—	—	23,167	23,167
At 1 December 2003	636,061	27,592	25,998	—	(162,697)	526,954
Profit for the year	—	—	—	—	245,429	245,429
Transfer	—	11,113	5,556	—	(16,669)	—
Dividends set aside (Note 11)	—	—	—	54,000	(54,000)	—
At 31 December 2004	<u>636,061</u>	<u>38,705</u>	<u>31,554</u>	<u>54,000</u>	<u>12,063</u>	<u>772,383</u>

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

27. RESERVES *(Continued)*

(a) Statutory reserves

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

(b) Discretionary surplus reserve

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

28. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Transaction with DFEC and its subsidiaries :

	2004 RMB'000	2003 RMB'000
Expenditure		
— Interest paid and payable	1,745	7,135
Revenue		
— Sales on behalf	—	32,193
— Sales of finished goods	8,252	3,320

(b) Transactions with DFEW and its subsidiaries :

	2004 RMB'000	2003 RMB'000
Expenditure		
— Purchase of materials	89,516	46,901
— Packaging costs	16,499	21,327
— Freight and maintenance	55,913	39,952
— Others	24,292	22,733
	186,220	130,913
Revenue		
— Provision of power supply	7,221	4,624
— Proceeds on sales of raw materials and finished goods	28,606	11,085
— Others	4,233	3,416
	40,060	19,125

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

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004

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

28. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

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

Name of related company	Related balances	2004 RMB'000	2003 RMB'000
DFEC and its subsidiaries	Trade receivables	26,354	29,068
	Receipts in advance	191,413	30,690
DFEC Finance Company (subsidiary of DFEC)	Bank balances	40,015	13,891
DFEW and its subsidiaries	Trade receivables	16,631	8,808
	Prepayment	3,655	651
	Trade payables	25,737	16,849
	Bills payable	5,838	7,869
	Other payables	10,214	2,331
	Receipts in advance	—	808

At the balance sheet date, DFEW provide has not provided any guarantees for the banking facilities (2003 : RMB325,600,000) granted to the Group.

Except as disclosed above, other loans advanced from DFEC was amounted to RMB10,000,000 (2003 : RMB60,000,000) and the interest was charged at 5.76% per annum. Unsecured short-term loans advanced from DFEC Finance Company was amounted to RMB10,000,000 (2003 : RMB10,000,000) and the interest was charged at 4.779% per annum.

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

29. COMMITMENTS

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

	2004 RMB'000	2003 RMB'000
Contracted but not provided for	99,051	61,637
Authorised but not contracted for	25,917	53,275
	124,968	114,912

Notes to the Financial Statements *(continued)*

For the Year ended 31 December 2004
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

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

The Group's full-time employees are covered by a government sponsored defined contribution pension scheme, and are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the pension scheme on 20% of employees' salaries, which are charged as an expense when the contributions are due. In addition, the Group has offered an additional pension scheme to the key staffs and major technical staffs, as a medium to long-term encouragement. The additional pension scheme, which is an insurance scheme and operated by China Life Insurance Company Limited. Staffs under the scheme are entitled to a yearly pension at their retirement dates. The above pension schemes are wholly contributed by the Group. The amount of contribution depends on the result for the year. For the year ended 31 December 2004, the pension scheme contributions made by the Group amounted to RMB40,480,000 (2003 : RMB26,572,000).

On 26 June 2003, the Group has abolished the socialised health care scheme and carried out a defined contribution health care scheme. Under this scheme, the Group is required to make annual contributions to the health care scheme on 7% of employees' salaries. The maximum amount of reimbursed medical expenses for each staff is RMB34,000 per annum. In addition, the Group has offered additional health care scheme to the staffs, which is also an insurance scheme and operated by China Life Insurance Company Limited. This additional healthcare scheme covered the protection over the basis maximum amount of reimbursed medical expenses. For the year ended 31 December 2004, the health care scheme contributions made by the Group amounted to RMB9,404,000 (2003 : RMB6,213,000).

The Group's full-time employees are entitled to a housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund on 9% of employees' salaries. From 1 November 2004, the contribution rate was changed to 11%. For the year ended 31 December 2004, the housing fund contributions made by the Group amounted to RMB13,388,000 (2003 : RMB9,318,000).

31. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 21 March 2005.

Report of the Auditors

SPCSCPA (2005) No.16

To the shareholders of
Dongfang Electrical Machinery Company Limited

We have audited the Balance Sheet, Consolidated Balance Sheet of (hereinafter referred to as "DFEM") as at 31 December 2004, the related Statement of Income and Profit Appropriation, Consolidated Statement of Income and Profit Appropriation, and the Statement of Cash Flow, and Consolidated Cash Flow Statement for the year then ended. The Company's management is responsible for preparing these financial statements and our responsibility is to express an opinion on them based on our audit.

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

In our opinion, the audited financial statements are in conformity with "Accounting Standards for Enterprises" and "Accounting System for Business Enterprises" of the People's Republic of China, and present fairly, in all material aspects, the financial position of the Company as at 31 December 2004, the results of its operation and cash flow for the year then ended.

Shenzhen Pan-China (Schinda)



Chinese Certified Public Accountant
Cai Chunming



Chinese Certified Public Accountant
Liu Yun

Shenzhen
The People's Republic of China
21 March 2005

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

Balance Sheets

As at 31 December 2004
(prepared under PRC Accounting Standards)

Unit: RMB

Items	Consolidated		The Company	
	2003.12.31	2004.12.31	2003.12.31	2004.12.31
CURRENT ASSETS				
Cash and cash equivalents	1,297,677,203.31	3,297,846,004.30	1,249,177,330.91	3,203,384,745.39
Notes receivable	46,961,000.00	35,923,636.50	15,871,000.00	35,873,636.50
Accounts receivable	775,239,494.19	718,272,188.40	735,266,097.28	688,088,843.64
Other receivable	53,709,580.87	19,077,591.08	52,820,541.91	18,795,392.27
Prepayments	181,829,359.42	479,279,571.03	205,126,864.56	504,773,384.83
Inventory	581,337,419.48	924,440,842.08	530,490,819.04	826,130,948.46
Amounts due from customers for contract works	160,719,286.12	226,720,875.22	160,443,183.11	215,474,615.90
Deferred expenses	38,643.63	895,501.97	38,643.63	400,830.59
Total Current Assets	3,097,511,987.02	5,702,456,210.58	2,949,234,480.44	5,492,922,397.58
LONG TERM INVESTMENTS				
Long-term equity investment	(3,592,095.29)	654,044.04	49,699,401.18	65,191,275.16
Including: consolidated difference	(5,263,150.30)	(958,673.37)	—	—
Total long-term investments	(3,592,095.29)	654,044.04	49,699,401.18	65,191,275.16
Fixed Assets				
Fixed assets at cost	953,956,746.54	1,095,820,989.94	885,517,813.02	1,028,722,681.05
Less: Accumulated depreciation	457,415,642.36	578,108,506.75	417,110,255.41	533,154,628.55
Fixed assets, net	496,541,104.18	517,712,483.19	468,407,557.61	495,568,052.50
Less: Provision for impairment of fixed assets	1,211,724.50	1,160,754.10	1,160,754.10	1,160,754.10
Fixed assets, net	495,329,379.68	516,551,729.09	467,246,803.51	494,407,298.40
Construction materials	19,327,922.65	16,590,585.12	19,477,922.65	18,761,976.12
Construction-in-progress	74,673,968.51	107,719,740.79	75,085,658.06	107,582,165.59
Total fixed assets	589,331,270.84	640,862,055.00	561,810,384.22	620,751,440.11
INTANGIBLE ASSETS AND OTHER ASSETS				
Intangible assets	29,723,256.65	30,094,685.94	29,658,387.23	30,057,875.04
Long term deferred expenditure	1,746,408.32	—	1,464,498.46	—
Total intangible assets and other assets	31,469,664.97	30,094,685.94	31,122,885.69	30,057,875.04
TOTAL ASSETS	3,714,720,827.54	6,374,066,995.56	3,591,867,151.53	6,208,922,987.89

Balance Sheets (continued)

As at 31 December 2004
(prepared under PRC Accounting Standards)

Unit: RMB

Items	Consolidated		The Company	
	2003.12.31	2004.12.31	2003.12.31	2004.12.31
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	125,600,000.00	56,840,950.50	125,600,000.00	56,840,950.50
Notes payable	172,005,817.24	78,878,810.93	176,005,817.24	78,878,810.93
Accounts payable	86,962,353.14	173,453,299.52	79,222,406.27	170,935,328.41
Receipts in advance	1,556,590,902.21	3,722,708,650.40	1,479,248,926.36	3,655,543,329.24
Salaries payable	15,813,772.68	46,378,668.67	15,511,237.97	44,659,151.07
Staff welfare payable	17,883,887.50	12,576,457.30	12,516,796.37	7,622,590.88
Taxes payable	145,329,774.50	185,032,286.39	135,287,041.90	185,892,810.19
Other unpaid amounts	6,212,254.02	4,990,377.06	5,735,856.85	4,548,597.86
Other Payable	43,511,688.69	66,386,349.68	38,626,708.29	58,609,302.45
Accrued expenses	74,647,344.36	39,973,977.30	63,825,946.61	31,757,232.44
Provision for estimated losses	19,684,346.69	5,471,994.88	19,684,346.69	5,471,994.88
Current portion of Long-term liabilities	255,000,000.00	10,000,000.00	255,000,000.00	10,000,000.00
Amounts due to customers for contract works	89,943,976.69	583,315,130.95	75,020,810.40	503,020,743.46
Total current liabilities	2,609,186,117.72	4,986,006,953.58	2,481,285,894.95	4,813,780,842.31
LONG TERM LIABILITIES				
Long-term borrowings	65,000,000.00	—	65,000,000.00	—
Long-term payables	685,252.84	685,252.84	685,252.84	685,252.84
Specific loans	89,827,896.52	116,405,334.49	89,283,566.52	115,865,949.49
Total long-term liabilities	155,513,149.36	117,090,587.33	154,968,819.36	116,551,202.33
TOTAL LIABILITIES	2,764,699,267.08	5,103,097,540.91	2,636,254,714.31	4,930,332,044.64
Minority interests	884,490.98	1,030,477.94	—	—
Shareholders' equity:				
Share capital	450,000,000.00	450,000,000.00	450,000,000.00	450,000,000.00
Capital reserve	607,787,161.81	663,868,429.42	607,787,161.81	663,868,429.42
Surplus reserve	53,982,903.38	70,975,019.24	53,589,830.54	70,259,733.04
Including: Statutory public welfare fund	26,128,160.86	31,792,187.48	25,997,136.58	31,553,770.75
Undistributed profits (Accumulated Losses)	(162,632,995.71)	85,095,528.05	(155,764,555.13)	94,462,780.79
Total shareholders' equity	949,137,069.48	1,269,938,976.71	955,612,437.22	1,278,590,943.25
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,714,720,827.54	6,374,066,995.56	3,591,867,151.53	6,208,922,987.89

Legal Representative

General Accountant

Finance Manager

Statement of Profit and Profit Distribution

As at 31 December 2004
(prepared under PRC Accounting Standards)

Unit: RMB

Items	Consolidated 2004	2003	The Company 2004	2003
Revenue	2,051,360,454.99	1,199,621,959.95	1,939,342,900.92	1,122,291,642.11
Less: Cost of Sales	1,309,413,274.52	900,757,480.88	1,289,994,618.51	867,237,764.79
Sales tax and surcharge	12,685,578.68	6,282,709.70	11,906,365.41	4,857,032.18
Profit from principle operations	729,261,601.79	292,581,769.37	637,441,917.00	250,196,845.14
Add: Other operating profit	24,954,630.62	10,371,251.15	60,184,571.36	23,946,187.17
Less: Operating expenses	15,511,826.34	15,035,030.54	10,515,517.26	11,667,089.42
Management expenses	443,797,672.63	261,115,240.53	403,212,951.63	228,166,474.82
Provision for expected loss	(14,212,351.81)	(12,934,850.51)	(14,212,351.81)	(11,564,853.31)
Financial expenses	(13,161,122.11)	16,213,929.32	(12,337,715.49)	14,470,933.19
Operating profit (loss)	322,280,207.36	23,523,670.64	310,448,086.77	31,403,388.19
Add: Investment income	(372,503.65)	646,702.97	11,615,981.00	(1,843,092.16)
Subsidy income	14,000.00	13,629,149.95	—	13,595,149.95
Non-operating income	5,802,693.89	2,391,999.25	4,953,533.26	2,269,854.56
Less: Non-operating expenses	3,832,335.24	6,064,817.23	3,810,568.48	5,618,339.93
Total profit (loss)	323,892,062.36	34,126,705.58	323,207,032.55	39,806,960.61
Less: Income tax	59,004,185.85	1,008,907.36	56,309,794.13	—
Minority interest	167,236.89	(8,553.30)	—	—
Net profit (loss)	264,720,639.62	33,126,351.52	266,897,238.42	39,806,960.61
Add: Retained earnings, beginning of period	(162,632,995.71)	(195,439,528.52)	(155,764,555.13)	(195,571,515.74)
Distributable profits	102,087,643.91	(162,313,177.00)	111,132,683.29	(155,764,555.13)
Less: Statutory surplus reserve fund	11,328,089.24	213,212.47	11,113,268.33	—
Statutory public welfare fund	5,664,026.62	106,606.24	5,556,634.17	—
Profit available for distribution to shareholders	85,095,528.05	(162,632,995.71)	94,462,780.79	(155,764,555.13)
Less: Common stock dividend payable	—	—	—	—
Retained earnings, end of period	85,095,528.05	(162,632,995.71)	94,462,780.79	(155,764,555.13)

Supplementary information

1. Gain on disposal of business and investment	—	—	—	—
2. Loss on natural disaster	—	—	—	—
3. Increase/decrease of profit from change of accounting policy	—	—	—	—
4. Increase/decrease of profit from change of accounting estimates	—	—	—	—
5. Loss on debt restructuring	—	—	—	—
6. Others	16,365,205.63	3,082,994.78	—	—

Legal Representative

General Accountant

Finance Manager

Cash Flow Statement

As at 31 December 2004
(prepared under PRC Accounting Standards)

Unit:RMB

Items	Consolidated	The Company
1. Cash flow from operating activities		
Cash received from sales of goods or rendering of services	4,804,023,941.14	4,617,658,871.33
Refund of tax	91,761,772.53	91,747,772.53
Other cash received relate to operating activities	117,426,543.75	112,382,721.37
Sub-total of cash inflows	5,013,212,257.42	4,821,789,365.23
Cash paid for goods and services	1,890,972,366.31	1,829,405,968.87
Cash paid to and on behalf of employees	322,173,817.39	271,203,442.95
Payment of all types of taxes	137,721,002.24	122,680,075.02
Other cash paid relate to operating activities	147,207,586.06	116,299,700.86
Sub-total of cash outflows	2,498,074,772.00	2,339,589,187.70
Net cash flows from operating activities	2,515,137,485.42	2,482,200,177.53
2. Cash flows from investing activities		
Cash received from investment	48,788,700.00	48,788,700.00
Cash received from investment earnings	61,450.00	804,200.00
Cash received from disposal of fixed assets, intangible assets, and	2,043,608.00	1,957,208.00
Other cash received relate to investing activities	342,544,175.37	338,544,175.37
Sub-total of cash inflows	393,437,933.37	390,094,283.37
Cash paid to acquire of fixed assets, intangible assets and other long-term assets	165,919,884.52	158,836,361.87
Cash paid to acquire investments	48,788,700.00	59,110,066.87
Other cash paid relate to investing activities	599,907,110.69	599,907,110.69
Sub-total of cash outflows	814,615,695.21	817,853,539.43
Net cash flows from investing activities	(421,177,761.84)	(427,759,256.06)
3. Cash flows from financing activities		
Cash received from borrowing	56,840,950.50	56,840,950.50
Sub-total of cash inflows	56,840,950.50	56,840,950.50
Cash repayments of amounts borrowed	435,600,000.00	435,600,000.00
Cash payments of dividends, profit or interests	4,944,868.23	4,923,618.23
Other cash payments relate to financing activities	1,321,600.00	1,321,600.00
Sub-total of cash outflows	441,866,468.23	441,845,218.23
Net cash flows from financing activities	(385,025,517.73)	(385,004,267.73)
4. Effect of foreign exchange rate change on cash flow	(156,835.29)	(156,835.29)
5. Net increase (decrease) in cash and cash equivalents	1,708,777,370.56	1,669,279,818.45

Cash Flow Statement *(continued)*

As at 31 December 2004
(prepared under PRC Accounting Standards)

Unit: RMB

Supplementary information

Items	Consolidated	The Company
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	264,720,639.62	266,897,238.42
Add: Minority interests	167,236.89	—
Provision for impairment loss of assets	61,838,797.02	61,255,723.86
Provision for estimated loss of assets	(14,212,351.81)	(14,212,351.81)
Depreciation of fixed assets	120,692,864.39	118,041,244.16
Amortization for intangible assets	1,581,451.86	1,551,643.34
Amortization of long-term deferred expenditure	2,239,648.47	149,349.97
(Increase) Decrease in deferred expense	(856,858.34)	(362,186.96)
(Decrease) Increase in accrued expense	(34,673,367.06)	(32,068,714.17)
(Gain) Loss on disposal of fixed assets, intangible assets and other long-term assets	1,737,554.59	1,764,541.32
Financial expenses	496,917.22	1,246,015.04
(Gain) Loss on investment	372,503.65	(11,615,981.00)
(Increase) Decrease in inventories	(344,670,689.14)	(289,732,211.33)
(Increase) Decrease in operating receivables	(321,137,642.51)	(353,113,928.23)
(Decrease) Increase in operating payables	2,727,568,343.92	2,684,637,802.53
(Decrease) Increase in Special loan	26,582,382.97	26,582,382.97
(Decrease) Increase in Capital reserve	56,081,267.61	56,081,267.61
Others	(33,391,213.93)	(34,901,658.19)
Net cash flows from operating activities	2,515,137,485.42	2,482,200,177.53
2. Net Increase in cash and cash equivalents		
Cash and cash equivalents, end of the period	2,667,327,697.82	2,595,443,470.17
Less: cash and cash equivalents, beginning of the period	958,550,327.26	926,163,651.72
Net Increase (Decrease) in cash and cash equivalents	1,708,777,370.56	1,669,279,818.45

Legal Representative

General Accountant

Finance Manager

Notes to the Consolidated Financial Statements

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

1. INTRODUCTION

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

The Company was formally established as a wholly owned subsidiary of DFEW following the documentary approval Ti Gai Sheng (1993) No.214 of the State Commission for Restructuring dated 17 December 1993. The Company obtained its business license 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 selfproduced 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 AND BASIS OF PREPERATION OF CONSOLIDATED FINANCIAL STATEMENTS

(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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPERATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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(8) Computation for bad debts

Any accounts receivable 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. Before 1 January 2004, 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 account 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 account receivables of the related party over 5 years shall be made 90% at the balance receivables at the end of the period.*

Details of Influences of changes of accounting policy, estimated to the financial position of the company are set out in Note2(19)

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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(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 applies 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. According to the document of Cai Kuai(2003) No.10 "Answers (2) regarding carrying out the "Accounting System for Business Enterprises" and the related accounting standards" issued by the Finance Department, after date of issue of the document, the company transferred the difference on equity investment to the provision for impairment of equity investment of Capital Reserve, when initial investment cost is less than the Company's share of the invested company's owners' equity.

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 differences will be reflected in long-term investment.

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

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

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(11) Fixed assets and depreciation

Fixed assets referred to those tangible assets having a useful life over one year and a unit cost above RMB 2,000. Fixed assets are stated at cost. Fixed assets as at 1 April 1994 are stated at the higher of the carrying values or the valuations made by the asset valuer and confirmed by the SAAB.

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

Details of the impact of the above mentioned changes in accounting estimation on the financial conditions and operation results of the Company and its subsidiaries are set out in note 2(19).

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-inprogress 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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(13) Borrowing cost

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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 recognized 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:

$$\text{Capitalized interest for the accounting period} = \text{Weighted average of the accumulated fixed assets acquisition amount for the period} \times \text{Capitalization ratio}$$

Details of capitalization of finance costs are in Note 13.

(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 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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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(16) Accounting of Construction Contracts.

Accounting of construction contracts of the Company and its subsidiaries are as follows:

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

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

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

The Company and its subsidiaries record the result of the contract to current year's income statement when the contract cost and revenue could be 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 contract costs which deemed unrecoverable, such costs are expensed immediately with no revenue recognized.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

2. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(17) Principles for revenue recognition *(Continued)*

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 31.

(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) Influences of changes of accounting policy, estimated and correction of accounting errors

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 RMB83,393,980.41.

As stated in Note 2 (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 RMB41,452,287.21.

(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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

3. TAXATION

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

(1) Turnover tax

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

Local education surcharge is charged at 1% on the aggregate of VAT payable and sales tax payable.

According to the document of Chuan Fu(2004) No.67 "Notice Regarding the Distribution of 'the Management of collection and use method on the local education surcharge'" issued by the Sichuan Government, the document of Chuan Cai Zong(2004) No.24 "Notice Regarding the Carrying out the management of lollection and use method on local education surcharge" issued by the Sichuan Finance department and Local tax department, and the document of " publicizing syllabus regarding the Sichuan Local education surcharge" issued by the Sichuan Finance Department, local education surcharge is charged at 1% on the aggregate of VAT payable and sales tax payable since 1 May 2004.

(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,

In accordance with the document of Chuan Fu(2003) No.82 and De Fu(2003) No. 63, "Notice Regarding the adjustment of the standards of the local use tax" issued by the Sichuan Government, and Deyang government, from 1 September 2000 to 30 June 2003 RMB Land use tax is calculated on 1 per square meter, 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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

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	Business	Nature of Capital	Registered Investment RMB	Actual RMB	Interest Held	Principal Operations	Corporate Classification
1.	DFEM Control Equipment Manufactory Co. Ltd *	Manufactory	13,000,000.00	12,500,000.00	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 .00	42,254,340.00	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 .00	14,500,000.00	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 .00	13,100,000.00	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 Statement-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 RMB9,398,645.24 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 RMB8,355,694.78. 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.

In accordance with the resolution of the 13th board meeting at 25 August 2004, the company have injected cash of RMB 8,355,694.78 in the DFEM Power, instead of the previous assets in kind injection, because the changing of the property right of fixed assets has not been obtained. The change of the capital injection has been approved by the resolution of the 8th board meeting. The company signed an agreement of "change of the way of capital injection" with the Deyang Developing area Guozi Co., to agree with the above change. On 2 November 2004, the Company injected cash of RMB 8,355,694.78 to DFEM Power. The capital injection was verified by Sichuan Tianya Certified Public Accountants and confirmed by their capital verification report ChuanyaTian yan Zi (2004) No. 2-009.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

4. SUBSIDIARIES AND ASSOCIATES *(continued)*

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

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

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

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

In accordance with the resolution of the board meeting at 25 August 2004, the company have injected cash of RMB1,965,672.09 in the DFEM Equipment Engineering Co. Ltd., instead of the previous Fixed assets injection, because the changing the property right has not been obtained. The changes of the way of the capital injection have been approved by the 8th resolution of the board meet. The company signed an agreement of "change of the way of capital injection" with the Wuhan Huazhong Digital-control Holding Co., Ltd. to agree with the above change. On 2 November 2004, the Company injected cash of RMB 1,965,672.09 to DFEM Equipment Engineering Co. Ltd.. The capital injection was verified by Sichuan Tianya Certified Public Accountants and confirmed by their capital verification report ChuanyaTian yan Zi (2004) No. 2-010.

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

Company Name	Nature of Business	Registered Capital RMB	Actual Investment RMB	Interest Held	Principal Operations	Corporate Classification
1. Leshan City Dongle Heavy Piece Handling Company *	Manufactory	1,000,000.00	490,000.00	49.00%	Handling transportation and warehousing	Limited Liability Company
2. Sichuan Dongfang Jiaxin Construction Supervisory Co., Ltd.**	Construction	500,000.00	200,000.00	40.00%	Consultancy and management of construction	Limited Liability Company
3. Daiyuan Real Estate Real Estate Co. Ltd.***	Real Estate	8,000,000.00	1,000,000.00	12.50%	Real Estate Development	Limited Liability Company

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

** Sichuan Dongfang Jiaxin Construction Supervisory 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 Engineering Co. Ltd. as of 31 December 2004 using the equity accounting method as prepared by the Capital Verification Report of Mantong Accounting Firm.

The company used the equity method as prepared by the unaudit report of Oriental Kinshan Engineering Co. Ltd. for the year end of 2004. An investment loss of RMB 58,337.66 were confirmed, which is not material to the Company's annual report.

*** Sichuan Deyang Jinshi Real Estate Development Co. Ltd. is jointed fund by DFEM and the Company. Its investment capital is verified by Sichuan Wangtong Public Accountants and recorded in Capital Verification Report of Chuan Dong (2001) No. 65.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

5. CASH AND CASH EQUIVALENTS

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

Item	2004.12.31			2003.12.31		
	Original Currency	Ex. Rate	Amount in RMB	Original Currency	Ex. Rate	Amount in RMB
Cash on Hand	RMB	48,148.63	—	48,148.63	RMB	27,588.44
Cash in Bank	USD	3,906,756.97	8.2765	32,333,262.57	USD	17,795,588.35
	HKD	6,586.35	1.0637	7,011.03	HKD	2,823.54
	RMB	3,128,795,772.98	—	3,128,795,772.98	RMB	1,026,788,771.72
			3,161,136,046.58			1,174,076,138.79
Other Cash Equivalents	USD	—	—	—	USD	738,524.18
	RMB	136,661,809.09	—	136,661,809.09	RMB	117,460,670.21
			136,661,809.09			123,573,476.08
			3,297,846,004.30			1,297,677,203.31

* Including amount RMB 30,014,856.27 saving deposit in Group Finance Department.

** Including amount RMB 10,000,000.00 Fixed deposit in Group Finance Department.

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

	2004.12.31 RMB	2003.12.31 RMB
Cash and Bank Deposit	3,297,846,004.30	1,297,677,203.31
Less: Term deposits with a fixed term longer than 3 months	(491,434,965.13)*	(215,553,399.97)
Other restricted amount	(139,083,341.35)**	(123,573,476.08)
	2,667,327,697.82	958,550,327.26

* At 25 May 2004, the Company signed an agreement of "Bond agent contract" with the Bank of China, the trust money is RMB 150,000,000.00*. Bank of China will use the above trust money on behalf to invest in the bond market between the banks during the period from 25 May 2004 to 26 May 2005. Bank of China will act according to the contract and cannot terminate it in advance except terms are noticed in the contract.

As at 31 December 2004, the Company has not obtained the Bond investment Account, the above trust money will be saved as fixed deposit in the Deyang Branch, Bank of China. The term of the deposit is the same as Bond agent period.

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

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

6. NOTES RECEIVABLE

	2004.12.31 RMB	2003.12.31 RMB
Bank Acceptance Notes	35,923,636.50*	46,961,000.00

* As at 31 December 2004, the Company and its subsidiaries have Bank Acceptance Notes amount RMB26,840,950.50, which were cashed at discount prior to the cashable date of the acceptance drafts.

7. ACCOUNT RECEIVABLES AND OTHER RECEIVABLES

(1) Details of ageing of account receivable and other receivables of the Company and its subsidiaries are shown as follows:

	2004.12.31				2003.12.31			
	Balance RMB	Percentage %	Provision for Bad Debts RMB	Percentage %	Balance RMB	Percentage %	Provision for Bad Debts RMB	Percentage %
Within 1 year	481,919,013.90	59.14	23,415,488.52	24.23	571,971,599.53	68.33	21,658,134.76	35.02
1-2 years	191,306,364.82	23.48	19,130,636.48	19.80	90,032,156.75	10.76	5,815,080.57	9.40
2-3 years	81,297,199.66	9.98	16,259,439.93	16.83	21,776,754.62	2.60	1,745,338.63	2.82
3-4 years	31,386,811.74	3.85	12,554,724.70	12.99	24,582,036.64	2.94	1,966,562.94	3.18
4-5 years	4,646,160.80	0.57	2,323,080.40	2.40	65,821,443.89	7.86	8,990,603.20	14.54
Over 5 years	24,350,914.79	2.98	22,950,907.28	23.75	62,901,747.09	7.51	21,670,524.13	35.04
	814,906,465.71	100.00	96,634,277.31	100.00	837,085,738.52	100.00	61,846,244.33	100.00

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

	2004.12.31 RMB	2003.12.31 RMB
Top Five Largest Account Receivables	319,803,831.15	278,389,060.69
Total of Account Receivables	814,906,465.71	837,085,738.52
Ratio	39.24%	33.26%

(3) Details of the principal account receivables of the Company and its subsidiaries are as follows:

	2004.12.31 RMB
Amount due from related parties	42,984,353.33
Fuet-GECanada- Siemens Three Gorges	178,438,167.05
Inner Mongolia Tuoketuo Electric Co. Ltd.	43,706,500.00
Ningxia Shabotou irrigation works junction Co. Ltd.	36,455,781.00
Sichun Jialinjiang Tongzhihao Electric Development Co.	31,012,092.50
Huanghe River Water-Electric Development Co. Ltd	30,191,290.60

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

7. ACCOUNT RECEIVABLES AND OTHER RECEIVABLES *(continued)*

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

	2004.12.31				2003.12.31			
	Balance	Percentage	Provision for	Percentage	Balance	Percentage	Provision for	Percentage
	RMB	%	Bad Debts	%	RMB	%	Bad Debts	%
			RMB				RMB	
Within 1 year	12,851,299.04	16.13	429,087.94*	0.70	11,274,705.54	12.70	4,152,937.38	11.85
1-2 years	537,650.00	0.67	53,765.00	0.09	2,462,443.36	2.77	945,124.58	2.70
2-3 years	3,779,680.92	4.74	755,936.18	1.25	654,995.00	0.74	205,758.00	0.59
3-4 years	10,000.00	0.01	4,000.00	0.01	88,568.70	0.10	35,427.48	0.10
4-5 years	183,864.00	0.23	91,932.00	0.15	587,627.63	0.66	235,051.05	0.67
Over 5 years	62,298,910.62	78.22	59,249,092.38	97.80	73,690,586.24	83.03	29,475,047.11	84.09
	79,661,404.58	100.00	60,583,813.50	100.00	88,758,926.47	100.00	35,049,345.60	100.00

* Fixed deposit interest receivable for this accounting period is RMB 4,269,540.24 has not made any provision for bad debt.

- (5) The top five largest balances of other account receivables of the Company and its subsidiaries total RMB 60,303,299.07, which constituted 75.70% of the total other account receivables .
- (6) The details other account receivables of the Company and its subsidiaries are shown as follows:

	2004.12.31 RMB	Year of Receivable Inception
Chongqing Xinglongda Real Estate Development Co. Ltd.	38,000,000.00*	1999
Dongle Heavy Piece Handling Company	10,498,182.40**	1999
Chengdu Dayang Property Company	7,030,000.00***	1999
Sichuan Mianzhu Tiankang Medical Equipment Co. Ltd.	3,527,616.67	1995
Deyang Qicheng Industry CO.Ltd.	1,247,500.00	1997
Reserves	10,617,766.82	—

* 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 22 September 2002 between Yangguang Co., and Chongqi Heima Property Co. Ltd. ("Heima Property Co."), Yangguang Co should give up its property in Chongqing World Trade Center (era 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, the four parties agreed that Chongqing Xinlongda Co., responsible for the construction of "World Trade Center" and receives the property and land use right.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

7. ACCOUNT RECEIVABLES AND OTHER RECEIVABLES *(continued)*

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

Pursuant to the agreement:

- (1) The debt owed by Yangguang Co. to the Company in the amount of RMB 10,000,000 shall be repaid by Xinlongda Co. Chongqi World Trade Center remains to be the collateral of this loan (In addition the Company and Chongqing Xinlongda Co signed the Security Contract, secured period from September 2003 to December 2004, collateral remains unchanged.
- (2) The assets as a form of payment from Yangguang Co. to the Company in the amount of RMB 30,000,000 shall be made by Xinlongda Co.
- (3) Xinlongda Co confirmed that it owes the Company in the amount of RMB 40,000,000, and shall provide detailed payment schedule upon the signing of the "Agreement". Such debt bears no interest during the 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. 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, and another RMB2,000,000.00 repayment at 7 January 2005. In accordance to the board meeting, the above account receivable has to be made provision for bad debt individually. RMB 36,000,000.00 has been made provision for bad debt by the end of the December 31 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, Leshan Dongle Heavy Piece Handling Company and the Company entered into an "Agreement on the implementation of pricing differences in respect of Leshan Heavy Piece Handling Project" where all of the handling charge for heavy piece shall be billed by Leshan Dongle Heavy Piece Handling Company using 100% invoice, the Company will only pay 60% of the charges, and the remaining 40% will be net off with the above mentioned loan. As at 31 December 2004, Leshan Dongle Heavy Piece Handling Company used its billings repaid RMB1,090,008.80 and cash repayment of RMB 411,808.80, together the Company received RMB 1,501,817.60 from Leshan Dongle Heavy Piece Handling Company. As at 31 December 2004, amount due from the related party, Dongle Heavy Piece Handling Company, is RMB10,498,182.40, whose age is over five years. Therefore, 90% of it equaling to RMB 9,448,364.16 has been made provision for bad debt.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

7. ACCOUNT RECEIVABLES AND OTHER RECEIVABLES *(continued)*

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

*** 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 3 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 31 December 2004.

(4) The amount due from related party and that holding over 5% of shares (including 5%) of Company is shown in details in Note 45(3).

8. PREPAYMENTS

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

	2004.12.31		2003.12.31	
	Balance RMB	Percentage %	Balance RMB	Percentage %
Within 1 year	432,068,798.56	90.15	168,253,528.67	92.54
1-2 years	46,176,146.47	9.63	12,966,980.69	7.13
2-3 years	1,034,626.00	0.22	608,850.06	0.33
	479,279,571.03	100.00	181,829,359.42	100.00

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

(2) Details of prepayments are show as follows:

	2004.12.31 RMB	Payment Inception	Purpose
Related Parties	3,654,881.20	2004	Material Procurement
Chengdu Tianqi Engining Wukuang Import & Export Ltd., Co.	47,209,218.44	2004	Material Procurement
VA TECH HYDRO GMBH & Co.	45,824,487.27	2004	Material Procurement
Erzhong Jituan Deyang Heavy Machinery Equipment Co.	38,070,996.10	2004	Material Procurement
Chengdu Tianqi Engining Wukuang Import & Export Ltd., Co.	32,726,393.57	2004	Material Procurement
Toshiba (Japan) Coporation	15,708,797.00	2004	Material Procurement

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

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
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9. INVENTORIES AND PROVISION FOR DIMINUTION OF INVENTORIES

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

	Gross Amount RMB	2003.12.31 Provision for Diminution RMB	Net Amount RMB	Gross Amount RMB	2002.12.31 Provision for Diminution RMB	Net Amount RMB
Raw material	388,557,821.38	—	388,557,821.38	224,455,814.25	—	224,455,814.25
Low-value consumables	3,452,689.04	—	3,452,689.04	3,028,919.69	—	3,028,919.69
Subcontracted for reprocessing	2,703,533.31	—	2,703,533.31	1,413,492.66	—	1,413,492.66
Worked-in-Processing	387,079,274.86	1,527,392.10	385,551,882.76	277,048,264.22	1,572,673.01	275,475,591.21
Finished Goods	146,700,741.87	3,273,700.10	143,427,041.77	78,100,549.37	1,661,152.65	76,439,396.72
Goods in transit	—	—	—	524,204.95	—	524,204.95
Material in transit	747,873.82	—	747,873.82	—	—	—
	929,241,934.28	4,801,092.20	924,440,842.08	584,571,245.14	3,233,825.66	581,337,419.48

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:

	2004.12.31 RMB	2003.12.31 RMB
Cost incurred today	493,226,355.02	287,530,175.01
Confirmed gross profit	81,046,923.65	59,397,000.02
Less: Payment Received	930,867,534.40	276,151,865.60
Confirmed estimated Loss	5,471,994.88	19,684,346.69
	(362,066,250.61)	51,090,962.74
	2004.12.31 RMB	2003.12.31 RMB
Items on Consolidated Balance Sheet		
Amount due from customers on contract works	226,720,875.22	160,719,286.12
Amount due to customers on contract works	583,315,130.95	89,943,976.69
Provision for estimated contract loss	5,471,994.88	19,684,346.69

Total amount of the construction contracts in progress was RMB 2,796,859,691.73 (without VAT) as at 31 December 2004.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2004
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11. LONG-TERM INVESTMENT

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

	2004.1.1		Increase	Decrease	2004.12.31	
	Amount RMB	Provision for impairment RMB			Amount RMB	Provision for impairment RMB
Equity Investment	44,263.24	—	—	—	44,263.24	—
Other Equity Investment	(3,325,417.28)	310,941.25	—	(4,246,139.33)	920,722.05	310,941.25
Included :Associated Companies	1,937,733.02	310,941.25	—	58,337.60	1,879,395.42	310,941.25
Equity Investment Difference	(5,263,150.30)	—	—	(4,304,476.93)	(958,673.37)	—
	(3,281,154.04)	310,941.25	—	(4,246,139.33)	964,985.29	310,941.25

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

Invested Company	Category	Quantity of shares	2004.12.31 Ratio against invested company	Investment	Provision for
				amount RMB	Impairment RMB
Sichuan Sofcra Special Type Fiber Co., Ltd	A shares	62,773	0.02%	44,263.24	—

* In July 2004, the Chengdu Shudu Mension Co., Ltd . renamed as Sichuan Sofcra Special_Tyaped Fiber Co., Ltd. In September 2004, the resolution of director meeting of Sichuan Sofcra Special_Tyaped Fiber Co., Ltd, approved a share dividend of 10 for 5 shares. As at 31 Decembe 2004, the Company held 62,773 shares of Sichuan Sofcra Special_Tyaped Fiber Co., Ltd, which is 0.02% of the total shares.

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

Invested Company	Date of incorporation	Percentage of shareholding	Initial Investment RMB	2004.1.1		Increase in investment RMB	Increase (Decrease) in equity RMB	Cash Dividend Received RMB	Accumulated Equity RMB	2004.12.31	
				Balance RMB	Provision for Impairment RMB					Balance RMB	Provision for Impairment RMB
Dongle Heavy Piece Handling Company	1997.7	49.00%	490,000.00	—	—	—	—	—	(490,000.00)	—	—
Southwest Production Materials Trade Center	1984.12	No detail	60,000.00	60,000.00	60,000.00	—	—	—	—	60,000.00	60,000.00
Deyang Import and Export Company of Mechanical and Electrical Equipment	1988.6	No detail	100,941.25	100,941.25	100,941.25	—	—	—	—	100,941.25	100,941.25
Wuxi Electrical Power Hotel	1988.7	2.30%	150,000.00	150,000.00	150,000.00	—	—	—	—	150,000.00	150,000.00
Chengdu Sandian Co., Ltd.	1992.9	0.62%	455,373.41	455,373.41	—	—	—	—	—	455,373.41	—
Sichuan Dongfang Real Estate Co. Ltd.	2001.4	12.50%	1,000,000.00	1,000,000.00	—	—	—	—	—	1,000,000.00	—
Sichuan Dongfang Jiaxin Construction Supervisory Co. Ltd.	2001.5	40.00%	200,000.00	171,418.36	—	—	(58,337.60)	—	(86,919.24)	113,080.76	—
Equity investment difference			(6,218,500.25)	(5,263,150.30)	—	—	4,304,476.93	—	5,259,826.88	(958,673.37)	—
			(3,762,185.59)	(3,325,417.28)	310,941.25	—	4,246,139.33	—	4,682,907.64	920,722.05	310,941.25

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
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11. LONG-TERM INVESTMENT *(continued)*

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

Invested Company	Initial Investment	Amortization Term	2004.1.1	Increase	Amortization	Other Decrease	2004.12.31	Remaining term of Amortization
	RMB		RMB	RMB	RMB	RMB	RMB	
DFEM Power System	(4,511,741.38)*	120 Months	(4,022,969.46)	—	488,771.92	(4,511,741.38)	—	—
DFEM Tooling and Molding	(1,082,220.62)**	120 Months	(766,572.77)	—	(108,222.12)	—	(658,350.65)	73 Months
DFEM Equipment	(624,538.25)**	120 Months	(473,608.07)	—	(4,933.75)	(168,351.60)	(300,322.72)	79 Months
	(6,218,500.25)		(5,263,150.30)	—	375,616.05	(4,680,092.98)	(958,673.37)	

* 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.

At 25 August 2004, according to the resolution of the 13th Board Meeting^a the company injected Monetary fund of RMB 8,355,694.78 to replace the previous assets in kind investment to the DFEM Power System, thus decreasing the difference on Long-term equity investment amount to RMB 4,511,741.38.

** 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 Equipment Engineering was amounted to RMB 13,100,000.00. Difference aroused amounted to RMB 624,538.25 was recorded in the credit side of the equity investment, which was evenly amortized over ten years since August 2001. At 25 August 2004, according to the resolution of the 13th Board Meeting, the company injected Monetary fund of RMB 1,965,672.09 to replace the previous assets in kind investment to the DFEM Power System, thus decreasing the difference on Long-term equity investment amount to RMB 168,351.60.

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

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

12. FIXED ASSETS AND ACCUMULATED DEPRECIATION

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

	2004.1.1 RMB	Increase RMB	Decrease RMB	2004.12.31 RMB
Original cost of the fixed assets:				
Building	304,764,253.65	26,259,686.12	10,958,958.57	320,064,981.20*
Machinery	561,827,253.36	127,398,451.50	5,680,657.11	683,545,047.75
Equipment	78,248,912.32	7,770,284.11	3,043,826.42	82,975,370.01
Motor vehicles	9,116,327.21	1,125,219.00	1,005,955.23	9,235,590.98
	953,956,746.54	162,553,640.73**	20,689,397.33	1,095,820,989.94
Accumulated Depreciation:				
Building	101,907,642.22	27,849,333.16	1,526,380.41	128,230,594.97
Machinery	292,450,506.84	89,785,606.14	4,199,912.41	378,036,200.57
Equipment	56,519,373.54	11,755,248.76	2,937,269.54	65,337,352.76
Motor vehicles	6,538,119.76	826,696.30	860,457.61	6,504,358.45
	457,415,642.36	130,216,884.36	9,524,019.97	578,108,506.75
Net book value	496,541,104.18	—	—	517,712,483.19

* Buildings without license amount to RMB 113,087,764.20 at the end of 31 December 2004, and buildings have not transferred the title deed from DFEW amount to RMB 4,720,494.60.

** An increase of RMB 148,894,987.96 in the fixed assets of this period is transferred from construction-in-progress upon completion.

(2) Details of Provision for impairment loss of fixed assets are listed as follows:

	2004.1.1 RMB	Increase RMB	Decrease RMB	2004.12.31 RMB
Machinery	1,211,724.50	—	50,970.40	1,160,754.10

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

13. CONSTRUCTION-IN-PROGRESS

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

Project name	2004.1.1	Increase	Transfer to fixed asset this period	Other Decrease	2004.12.31	Source of Funding	Progress
	RMB	RMB	RMB	RMB	RMB		(%)
1 260 boring machine	27,016,926.88	3,210,239.73	—	—	30,227,166.61	Loans and listing proceeds	90%
2 Research Center	3,771,923.20	13,587,802.88	—	—	17,359,726.08	SanXian Taxation Relief	60-70%
3 Back Expansion	—	9,642,007.35	—	—	9,642,007.35	SanXian Taxation Relief	80%
4 12.5m Standing Machine	—	7,092,760.40	—	—	7,092,760.40	SanXian Taxation Relief	35%
5 Material Input Center Factory	11,961.22	6,756,762.24	—	—	6,768,723.46	Loans and listing proceeds	99%
6 8-12m Digital Control Standing machine	—	6,520,831.06	—	—	6,520,831.06	SanXian Taxation Relief	95%
7 250T handling equipment	559.85	4,672,819.72	—	—	4,673,379.57	Loans and listing proceeds	95%
8 3 Coordinate Digital Control Plano-Miller	—	4,047,538.34	—	—	4,047,538.34	SanXian Taxation Relief	85%
9 Power network reconstruction	—	2,815,241.64	—	—	2,815,241.64	SanXian Taxation Relief	99%
10 Water-Turbine Engine factory	—	—	—	—	—	—	—
Digital Control Plano-Miller	—	2,033,598.73	—	—	2,033,598.73	SanXian Taxation Relief	85%
11 Others	43,872,597.36	131,784,758.32	148,894,987.96	10,223,600.17	16,538,767.55	—	—
	74,673,968.51	192,164,360.41	148,894,987.96	10,223,600.17	107,719,740.79		
Interest capitalized	2,049,514.57	1,321,600.00	1,058,827.64		2,312,286.93		

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

	First quarter	Second quarter	Third quarter	Fourth quarter
Capitalization rate	1.59%	1.56%	1.47%	1.46%

14. INTANGIBLE ASSETS

Detail of intangible assets are listed as follows:

Type	Original amount	2004.1.1	Increase this period	Decrease this period	Amortization this period	Accumulated amortization	2004.12.31	Remaining months of amortization
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	Month
Land use right	35,626,000.00*	28,500,799.64	—	—	712,520.04	7,837,720.40	27,788,279.60	468
Technology know-how	2,556,000.00**	1,150,200.00	—	—	511,200.00	1,917,000.00	639,000.00	15
Software	2,067,254.15	72,257.01	1,952,881.15	—	357,731.82	399,847.81	1,667,406.34	25-50
	40,249,254.15	29,723,256.65	1,952,881.15	—	1,581,451.86	10,154,568.21	30,094,685.94	

* 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.

Notes to the Consolidated Financial Statements *(continued)*

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15. LONG-TERM DEFERRED EXPENSES

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

Type	Original amount RMB	2004.1.1 RMB	Increase this period RMB	Amortized this period RMB	2004.12.31 RMB	Remaining months of amortization RMB
Rental	1,969,031.11	1,331,557.09	—	1,331,557.09*	—	—
Software charge	725,135.28	132,941.37	—	132,941.37	—	—
VPI special glue	1,343,448.27	281,909.86	493,240.15	775,150.01	—	—
	4,037,614.66	1,746,408.32	493,240.15	2,239,648.47	—	—

* The use of 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	2004.12.31 RMB	2003.12.31 RMB
Loan by credit	30,000,000.00*	60,000,000.00
Loan by guarantee	—	65,600,000.00
Loan by security	26,840,950.50**	—
	56,840,950.50	125,600,000.00

* The balance of the loan made by the Company from China Industrial and Commercial Bank Deyang City Jingyang Branch is RMB 20,000,000 as at 31 December 2004.

The Company and the Finance Department of Dongfang Group signed the "Loan Agreement" on 30 August 2004, 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 31 December 2004.

** As stated in Note6, the company has Bank Acceptance Notes to China Industrial and Commercial Bank Deyang Branch amount RMB26,840,950.50, which were cashed at discount prior to the cashable date of the acceptance drafts, as at 31 December 2004

17. NOTES PAYABLE

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

	2004.12.31 RMB	2003.12.31 RMB
Commercial acceptable bill	37,795,335.64	72,132,816.27
Bank acceptable bill	41,083,475.29	99,873,000.97
	78,878,810.93	172,005,817.24

(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).

Notes to the Consolidated Financial Statements *(continued)*

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18. ACCOUNT PAYABLE

Details of accounts payable are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Amount due to related party	25,736,880.25*	16,849,050.60
GEC(Canada) Corporation	7,607,874.00	—
Mitsubishi(Japan) Electric Corporation	4,294,204.00	—
Shenyang Voltage Transformers Co. Ltd.	2,477,996.00	—
Deyang Shenfeng Kexin Electrical Equipment Co. Ltd.	1,927,600.65	—
Kunming Electrical Machinery Co. Ltd	1,762,984.00	—
Chengdu Tianrong commercial Trade Co. Ltd.	—	5,729,718.50
Chengdu Wuyang Southwest Stealwork commercial Co.	46,615.00	1,786,815.00
Shanghai sets of power generators design research center	—	2,029,100.00
Estimated material received	96,187,930.47	28,232,660.09
Others	33,411,215.15	32,335,008.95
	173,453,299.52	86,962,353.14

Trade creditors over three years amount to RMB137,100.00.

* 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

Details of receipts in advance are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Amount due to related party	191,413,381.77*	31,497,680.25
Sichuan Chuantou Tianwan Developing Co.	127,525,826.00	—
China Changjiang Riva Sanxia Project Developing Co.	105,370,290.00	—
Guodian Daduhe Drainage area Hydro Power Developing Co.	92,394,613.00	—
Yunnan Guodian Zhendong Diandong energy Co.	75,889,000.00	27,596,000.00
Inner Mongolia Zhenglan Power Supply Co., Ltd	74,076,000.00	25,004,000.00
Inner Mongolia Datangtuoke Power Supply Co., Ltd	40,440,000.00	97,791,500.00
Shanxi Lunenghe Power Generation Co., Ltd.	56,448,000.00	96,390,000.00
Changshu Second Power Supply Constructing Department	38,426,200.00	81,803,800.00
Longtan Hydro Power Co., Ltd	88,155,756.00	74,834,523.00
Sichuan Bashuijiang Oil &Coal Power Supply Company	30,936,000.00	46,404,000.00
Hengshui Hengbin Power Supply Co., Ltd	46,000.00	42,762,000.00
Others	2,801,587,583.63	1,032,507,398.96
	3,722,708,650.40	1,556,590,902.21

* 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).

Notes to the Consolidated Financial Statements *(continued)*

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(prepared under PRC Accounting Standards)

20. TAX PAYABLE

Details of tax payable are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Product VAT	113,271,208.74	123,632,732.87
Sales Tax	875,203.36	1,767,051.94
Urban development tax	9,824,156.60	15,739,754.90
Corporate income tax	60,608,069.91	1,864,326.16
Real estate tax	435,366.14	2,207,140.47
Land use tax	(216,322.57)	—
Personal income tax	234,604.21	118,768.16
	185,032,286.39	145,329,774.50

21. OTHER UNPAID AMOUNT

Details of other unpaid amounts are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Education surcharge	4,990,884.06	6,212,254.02
Housing Fund	(507.00)	—
	4,990,377.06	6,212,254.02

22. OTHER PAYABLES

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

	2004.12.31 RMB	2003.12.31 RMB	Content
Amounts due to related parties	10,214,085.92*	2,331,224.62	Service charges due to DFEW
HealthCare Insurance	14,336,430.38	7,021,093.58	HealthCare Insurance due to Social Insurance Office
Union expenses	—	4,718,277.06	Union expenses
Education expenses	6,289,347.02	5,924,057.57	Education expenses
Amount due to customers for contract works	13,017,363.42	5,803,890.72	Amount due for contract works
Others	22,529,122.94	17,713,145.14	
	66,386,349.68	43,511,688.69	

(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).

(3) Other payables over three years amount to RMB 352,570.56, mainly because of the unsettled oversea expenses.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
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23. ACCRUALS

Details of accruals are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB	Reason
Fixed cost of hydro power product	22,652,793.57*	44,155,026.68	Pay upon nstallation
Packing Cost	—	2,667,559.46	—
Loan interest	—	573,170.03	—
transport cost	9,824,800.00	14,151,553.00	Invoice nreceipted
Consulting expenes	1,455,000.00	2,625,400.00	Pay upon nstallation
Outsource processing expenditure	2,156,859.08	256,598.84	Invoice unreceipted
Others	3,884,524.65	10,218,036.35	—
	39,973,977.30	74,647,344.36	

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

24. CURRENT PORTION OF LONG-TERM LIABILITIES

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

Bankers	2004.12.31 RMB	Loan term	Annual rate %	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—Dongfang Electric Group made the loan on behalf of the Company from State Development Bank.

25. LONG-TERM PAYABLES

Details of long-term payables are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Authorized reserve fund	685,252.84	685,252.84

26. SPECIFIC PAYABLES

Details of specific payables are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Research and development fund	22,280,318.60*	28,210,634.66
Demolish and renovation fund for San-xian enterprise	93,244,630.89**	60,711,931.86
Other provisions	880,385.00	905,330.00
	116,405,334.49	89,827,896.52

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

26. SPECIFIC PAYABLES *(continued)*

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

** According to the notification of "Ministry of Finance and National Tax Bureau Approved tax policy on San-Xian enterprise in the period of tenth five years plan" (CAI SHUI [2001] NO.133) and "Ministry of Finance Approved DFEW enjoys tax policy of San-Xian enterprise" (CAI SHUI[2002]NO.145), on 28 September 2004 Sichuan provincial financial supervisor office which under Ministry of Finance qualified the tax rebate in an amount of RMB 89,548,967.23 for product VAT at 2003 according to CAI ZHU CHUAN JIAN TUI ZI (2004)NO.220, CAI ZHU CHUAN JIAN TUI ZI (2004)NO.330, CAI ZHU CHUAN JIAN TUI ZI (2004)NO.3521". And the rebate could only be used for demolish and renovation expenditure of Sanxian enterprises, but not for other purposes, the company received the rebate in an amount of RMB 89,548,967.23 in total at 24 August 29 September 25 October 2004 at 3 times and had been classified into "specific payables".

The company used the Demolish& renovation fund for San-xian enterprise amount RMB57,016,268.20 in this period, including capitalizing into Fixed assets amount to RMB55,148,530.42, which have been transferred from Specific Payables to Capital reserve.

27. SHARE CAPITAL

Details of share capital are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Non-circulating shares:		
Promoters Shares:		
Domestic legal person shares:	220,000,000.00	220,000,000.00
Circulating shares:		
Overseas listing foreign investment shares (H Shares)	170,000,000.00	170,000,000.00
Domestic listing ordinary shares (A Shares)	60,000,000.00	60,000,000.00
Total number of circulating shares	230,000,000.00	230,000,000.00
Total number of shares issued	450,000,000.00	450,000,000.00

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

28. CAPITAL RESERVE

Details of capital reserve changes are listed as follows:

	2004.1.1 RMB	Increase this period RMB	Decrease this period RMB	2004.12.31 RMB
Share capital premium	522,548,287.37	—	—	522,548,287.37
Provision for donation assets	323,000.00	—	—	323,000.00
Transfer from appropriation	3,262,172.83	—	—	3,262,172.83
Provision for equity investment	1,710,158.37	—	—	1,710,158.37
Other transfers to capital reserve	79,943,543.24	56,081,267.61*	—	136,024,810.85
	607,787,161.81	56,081,267.61	—	663,868,429.42

* The other Payable RMB732,737.19, which do not need to repay have been transferred to Capital Reserve.

As stated in Note 26, the company capitalized the Demolish& renovation fund for San-xian enterprise amount RMB55,148,530.42 into fixed assets, and transferred the Specific Payables to Capital Reserve.

The company capitalized the Environmental protection fund amount RMB200,000.00 into fixed assets, and transferred the Specific Payables to Capital Reserve.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

29. SURPLUS RESERVE

Details of surplus reserve are listed as follows:

	2004.1.1 RMB	Increase this period RMB	Decrease this period RMB	2004.12.31 RMB
Statutory surplus reserve	27,854,742.52	11,328,089.24	—	39,182,831.76
Statutory public welfare fund	26,128,160.86	5,664,026.62	—	31,792,187.48
	53,982,903.38	16,992,115.86	—	70,975,019.24

30. UNDISTRIBUTED PROFIT

Details of undistributed profit are listed as follows:

	2004.12.31 RMB	2003.12.31 RMB
Undistributed profit at beginning of the year	(162,632,995.71)	(204,000,380.54)
Plus: Net profit of the year	264,720,639.62	33,126,351.52
Increase or decrease of net profit this year	—	—
Increase or decrease of undistributed profit at beginning of the year	—	8,560,852.02
Less: Transfer to statutory surplus reserve	11,328,089.24	213,212.47
Transfer to statutory welfare fund	5,664,026.62	106,606.24
Undistributed profit at the end of the year (Accumulated loss)	85,095,528.05	(162,632,995.71)

31. REVENUE

(1) Details of principal operations of the Company and its subsidiaries are listed as follows:

	Income From principal operation		Cost of principal operation		Gross profit of principal operation	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Machinery Manufacturing:						
Sales from power generators	1,925,095,040.90	1,085,191,386.81	1,225,568,327.50	830,257,956.95	699,526,713.40	254,933,429.86
Income from labor and technology improvement	126,265,414.09	114,430,573.14	83,844,947.02	70,499,523.93	42,420,467.07	43,931,049.21
	2,051,360,454.99	1,199,621,959.95	1,309,413,274.52	900,757,480.88	741,947,180.47	298,864,479.07

(2) Top five customers of the Company and its subsidiaries are as follows:

	Amount RMB	Percentage %
2004	541,177,851.91	26.38

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

32. SALES TAXES AND SURCHARGES

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

	2004 RMB	2003 RMB
Urban development tax	7,991,819.68	4,305,792.03
Education surcharge	4,534,381.68	1,845,339.50
Sales tax	159,377.32	131,578.17
	12,685,578.68	6,282,709.70

33. OTHER OPERATING PROFIT

Details of other operating profit are listed as follows:

	2004			2003		
	Other operating income RMB	Other operating cost RMB	Other operating profit RMB	Other operating income RMB	Other operating cost RMB	Other operating profit RMB
Material and semimanufactures	48,491,495.24	19,189,222.07	29,302,273.17	39,805,615.63	32,139,079.62	7,666,536.01
Energy	8,644,603.52	14,911,220.93	(6,266,617.41)	7,162,225.13	8,291,389.25	(1,129,164.12)
Other	37,913,100.83	35,994,125.97	1,918,974.86	6,062,349.42	2,228,470.16	3,833,879.26
	95,049,199.59	70,094,568.97	24,954,630.62	53,030,190.18	42,658,939.03	10,371,251.15

34. FINANCIAL EXPENSES

Details of financial expenses are listed as follows:

	2004 RMB	2003 RMB
Interest expense	5,323,341.62	28,453,051.75
Less: Interest income	22,146,186.17	14,767,944.90
Loss on foreign exchange	229,848.42	834,114.94
Less: exchange gain	51,979.69	195,449.72
Others	3,483,853.71	1,890,157.25
	(13,161,122.11)	16,213,929.32

35. INVESTMENT INCOME

Details of Investment income are listed as follows:

	2004 RMB	2003 RMB
Equity investment difference	(375,616.05)	621,850.08
Equity method adjustment for associate companies	(58,337.60)	4,581.79
Other investment gain	61,450.00	20,271.10
	(372,503.65)	646,702.97

There is no major restriction on remittance of investment income.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

36. SUBSIDY INCOME

Details of Subsidy income are listed as follows:

	2004 RMB	2003 RMB
VAT rebate from International Bid-winning projects	—	13,595,149.95
Other fiscal subsidy	14,000.00	34,000.00
	14,000.00	13,629,149.95

37. NON-OPERATING INCOME

Details of non-operating income are listed as follows:

	2004 RMB	2003 RMB
Income from disposal of fixed assets	1,908,433.69	1,356,722.04
Stock take gain of fixed assets	4,200.00	326,988.85
Income from penalty, breach of faith	3,480,485.59	—
Others	409,574.61	708,288.36
	5,802,693.89	2,391,999.25

38. NON-OPERATING EXPENSES

Details of non-operating expenses are listed as follows:

	2004 RMB	2003 RMB
Loss from disposal of fixed assets	2,790,630.41	2,790,067.47
Provision for impairment of Fixed assets	—	1,211,724.50
Education fund for primary secondary school	953,004.22	—
Others	88,700.61	2,063,025.26
	3,832,335.24	6,064,817.23

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

39. CASH RECEIVED FROM OTHER ACTIVITIES RELATED TO OPERATING ACTIVITIES

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

Items	2004 RMB
Received Deposit	60,843,692.32
Interest income	16,104,306.31
Sales fund returned	11,537,699.69
Bid Warranty	10,883,187.15
Court execution fund	5,081,188.21
Reserve returned	4,882,096.59
Deposit	3,117,000.00
Others	4,977,373.48
	<u>117,426,543.75</u>

40. CASH PAID FOR OTHER ACTIVITIES RELATED TO OPERATING ACTIVITIES

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

Items	2004 RMB
Warranty	84,736,091.66
Traveling expenses	18,717,085.26
Bid warranty returned	10,077,266.95
Entertainment expenses	6,687,850.80
Financial insurance expenses	3,760,096.74
Administrative expenses	2,415,835.09
Housing funds	1,991,040.73
Meeting expenses	1,972,225.70
Repairing expenses	1,618,131.01
Communication expenses	1,563,715.55
Amount due to related parties	1,463,673.04
Interest expenses	1,014,505.00
Others	11,190,068.53
	<u>147,207,586.06</u>

41. CASH RECEIVED FROM OTHER INVESTMENT ACTIVITIES

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

Item	2004 RMB
Reverse back of Current position of Fixed deposit	<u>342,544,175.37</u>

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

42. CASH PAID FOR OTHER INVESTMENT ACTIVITIES

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

Item	2004 RMB
Payment of fixed deposit	599,907,110.69

43. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY

(1) Account receivables and other receivables

A. Details of debtors' ageing are listed as follows:

	2004.12.31				2003.12.31			
	Amount RMB	Percentage %	Provision for bad debt RMB	Percentage %	Amount RMB	Percentage %	Provision for bad debt RMB	Percentage %
Within one year	475,783,648.77	60.94	23,789,182.44	25.68	540,558,152.67	68.09	19,802,303.94	33.78
1 to 2 years	173,007,808.70	22.16	17,300,780.87	18.68	81,407,361.48	10.25	4,884,441.69	8.33
2 to 3 years	73,367,959.40	9.40	14,673,591.88	15.84	18,935,600.47	2.39	1,325,492.03	2.26
3 to 4 years	29,953,687.59	3.84	11,981,475.04	12.94	24,255,605.19	3.06	1,940,448.42	3.32
4 to 5 years	4,641,523.80	0.59	2,320,761.90	2.50	65,821,443.89	8.29	8,990,603.20	15.34
Over 5 years	23,960,314.79	3.07	22,560,307.28	24.36	62,901,747.09	7.92	21,670,524.23	36.97
	780,714,943.05	100.00	92,626,099.41	100.00	793,879,910.79	100.00	58,613,813.51	100.00

B. As at 31 December 2004, top five account receivables are as follows:

	2004.12.31 RMB	2003.12.31 RMB
Total amount of top five debtors	319,803,831.15	278,389,060.69
Total debtors	780,714,943.05	793,879,910.79
Percentage	40.96%	35.07%

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

43. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(continued)*

(1) Account receivables and other receivables *(Continued)*

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

	2004.12.31				2003.12.31			
	Amount	Percentage	Provision for bad debt	Percentage	Amount	Percentage	Provision for bad debt	Percentage
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	12,608,998.76	15.91	416,972.93 *	0.69	10,509,343.87	11.99	3,971,864.22	11.40
1 to 2 years	501,650.00	0.63	50,165.00	0.08	2,280,228.00	2.6	912,091.20	2.62
2 to 3 years	3,762,664.00	4.75	752,532.80	1.24	494,395.00	0.56	197,758.00	0.57
3 to 4 years	—	—	—	—	88,568.70	0.1	35,427.48	0.11
4 to 5 years	183,864.00	0.23	91,932.00	0.15	587,627.63	0.67	235,051.05	0.67
Over 5 years	62,188,910.62	78.48	59,139,092.38	97.84	73,687,617.77	84.08	29,475,047.11	84.63
	79,246,087.38	100	60,450,695.11 *	100	87,647,780.97	100	34,827,239.06	100

* The interest receivables of fixed deposit are RMB4,269,540.24 as at 31 December 2004 and no provision for bad debt is provided.

D. As of 31 December 2004, the total top five other receivables are RMB 60,303,299.07, account for 76.10% of the total other debtors.

E. Details of other debtors are listed as follows:

	2004.12.31 RMB	Date of inception	Content
Chongqing Xinlongda Real Estate Develop Co., Ltd	38,000,000.00 *	1999	Borrowing
Dongle Heavy Piece Handling Company	10,498,182.40 *	1999	Borrowing
Chengdu Dayang Corporate Company	7,030,000.00 *	1996	Borrowing
Sichuan Mianzhutiankang Medical Equipment Company	3,527,616.67	1995	Borrowing
Deyang Chicheng Industry Co. Ltd.	1,247,500.00	1997	Borrowing
Reserve	10,208,029.62	—	Reserve borrowing by sub-plant and office

* See details in Note 7(6).

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

43. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(continued)*

(2) Long-term investment

A. Long-term investment are listed are follows:

	2004.1.1				2004.12.31	
	Amount RMB	Provision for impairment RMB	Increase this period RMB	Decrease this period RMB	Amount RMB	Provision for impairment RMB
Equity investment	44,263.24	—	—	—	44,263.24	—
Other equity investment	49,966,079.19	310,941.25	16,234,623.98	742,750.00	65,457,953.17	310,941.25
Including: Subsidiaries	53,291,496.47	—	11,988,484.65	742,750.00	64,537,231.12	—
Associates	1,937,733.02	310,941.25	(58,337.60)	—	1,879,395.42	310,941.25
Equity investment difference	(5,263,150.30)	—	4,304,476.93	—	(958,673.37)	—
	50,010,342.43	310,941.25	16,234,623.98	742,750.00	65,502,216.41	310,941.25

B. Details of securities investments are listed as follows:

Invested Company	Category	Quantity of shares	2004.12.31 Ratio against of invested company	Investment amount	Provision for devaluation
Sichuan Sofcra Special Type Fiber Co., Ltd	A shares	62,773	0.02%	44,263.24	—

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

Invested Company	Date of incorporation	Percentage of shareholding	2004.1.1					2004.12.31			
			Initial investment RMB	Provision for Amount RMB	Impairment RMB	Increase in investment RMB	Equity increase (decrease) RMB	Cash dividend received RMB	Accumulated equity increase (decrease) RMB	Amount RMB	Provision for drop RMB
Dongle Heavy Piece Handling Co.	1997.7	49.00%	490,000.00	—	—	—	—	—	(490,000.00)	—	—
Southwest Production Information Trading Center	1984.12	No detail	60,000.00	60,000.00	60,000.00	—	—	—	—	60,000.00	60,000.00
Deyang Electric Equipment Import& Export Company	1988.6	No detail	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	—
Sichuan Dongdian Real Estate Development Co., Ltd	2001.4	12.50%	1,000,000.00	1,000,000.00	—	—	—	—	—	1,000,000.00	—
Sichuan Jixin Quantity Surveyor Company	2001.5	40.00%	200,000.00	171,418.36	—	—	(58,337.60)	—	(86,919.24)	113,080.76	—
DFEM Control Equipment Co., Ltd	2000.5.18- 2010.5.17	96.15%	12,500,000.00	13,649,154.62	—	—	1,092,446.76	480,750.00	1,760,851.38	14,260,851.38	—
DFEM Power Equipment Co., Ltd	2000.7.10- 2010.7.9	98.83%	42,254,340.02	10,572,439.00	—	—	9,839,738.02	—	(21,842,163.00)	20,412,177.02	—
DEEM Tooling and Mudding Co., Ltd	2001.3.13- 2021.3.12	99.32%	14,500,000.00	15,627,763.69	—	—	615,449.48	—	1,743,213.17	16,243,213.17	—
DFEM Equipment Engineering Co., Ltd	2001.8.16- 2021.8.15	97.04%	13,100,000.00	13,442,139.16	—	—	440,850.39	262,000.00	520,989.55	13,620,989.55	—
Equity investment difference			(6,218,500.25)	(5,263,150.30)	—	—	4,304,476.93	—	5,259,826.88	(958,673.37)	—
			78,592,154.43	49,966,079.19	310,941.25	—	16,234,623.98	742,750.00	(13,134,201.26)	65,457,953.17	310,941.25

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
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43. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(continued)*

(2) Long-term investment *(Continued)*

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

Invested Company	Initial Investment RMB	Amortisation term	2004.1.1 RMB	Increase this period RMB	Amortization this period RMB	Decrease this period RMB	2004.12.31 RMB	Remaining term of amortization
DFEM Power System Co., Ltd	(4,511,741.38)	120 Months	(4,022,969.46)	—	—	(4,022,969.46)	—	—
DFEM Tooling and Moulding Company Limited	(1,082,220.62)	120 Months	(766,572.77)	—	(108,222.12)	—	(658,350.65)	73 Months
DFEM Equipment Engineering Company Limited	(624,538.25)	120 Months	(473,608.07)	—	(4,933.75)	(168,351.60)	(300,322.72)	79 Months
	(6,218,500.25)*		(5,263,150.30)	—	(113,155.87)	(4,191,321.06)	(958,673.37)	

* See details in Note 11(4).

(3) Principal operations

A. Details of principal operations are listed as follows:

	Income from principal operation		Cost of principal operation		Gross profit of principal operation	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Machinery Manufacturing:						
Sales of power generators	1,820,455,539.64	1,014,516,007.94	1,196,622,540.50	788,814,029.91	623,832,999.14	225,701,978.03
Income from labor & technology Improvement	118,887,361.28	107,775,634.17	93,372,078.01	78,423,734.88	25,515,283.27	29,351,899.29
	1,939,342,900.92	1,122,291,642.11	1,289,994,618.51	867,237,764.79	649,348,282.41	255,053,877.32

B. Top five customers are as follows:

	Amount RMB	Percentage %
2004	541,177,851.91	27.91

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

43. NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY *(continued)*

(4) Investment gain (loss)

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

	2004 RMB	2003 RMB
Amortization of Equity Investment Differences	(375,616.05)	621,850.08
Equity Method Adjustment for Subsidiaries Companies	11,988,484.65	(2,489,795.13)
Equity Method Adjustment for Associate Companies	(58,337.60)	4,581.79
Other investment gain	61,450.00	20,271.10
	11,615,981.00	(1,843,092.16)

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:

	2004.12.31 RMB	2003.12.31 RMB
Cash at banks and cash in hand	3,203,384,745.39	1,249,177,330.91
Less: Bank fixed deposit over 3 months	(491,434,965.13)	(211,553,399.97)
Other restricted cash	(116,506,310.09)	(111,460,279.22)
	2,595,443,470.17	926,163,651.72

44. EXCEPTIONAL GAIN / LOSS

The details of exceptional gain / loss of the Company and its subsidiaries:

	2004 RMB	2003 RMB
1. Gains on Sale or Disposal of Departments or Invested Companies	—	—
2. Loss on Natural Disasters	—	—
3. Gain or loss Caused by Changes of Accounting Policy and Estimate	—	—
4. Gain or Loss from Debt Restructuring	—	—
5. Other Non Operating Gain or Loss	16,365,205.63	3,082,994.78
Including: Non Operating Income	5,802,693.89	2,391,999.25
Non Operating Cost	(3,781,364.84)	(4,853,092.73)
Interests Received from Non Financial Institutions	—	5,468,642.94
Subsidy Income	14,000.00	—
Gain or Loss from Entrusted Equity Investment	—	—
Reverse back of Previously Recognized Provision for Impairment	14,555,966.08	—
Effects of Corporate Income Taxes	(226,089.50)	75,445.32
	16,365,205.63	3,082,994.78

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
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45. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

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

A. Related parties with controlling relationships:

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

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

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

Company Name	2004.1.1 RMB	Increase this year RMB	Decrease this year RMB	2004.12.31 RMB
DFEW	128,420,000.00	—	—	128,420,000.00
DFEM Control Equipment Co., Ltd	13,000,000.00	—	—	13,000,000.00
DFEM Power System Co., Ltd	42,754,340.00	—	—	42,754,340.00
DFEM Tooling & Moulding Co., Ltd	14,600,000.00	—	—	14,600,000.00
DFEM Equipment 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		2004.12.31	
	Amount RMB	percentage %	Amount RMB	percentage %	Amount RMB	Percentage %	Amount RMB	percentage %
DFEW	—	—	—	—	—	—	—	—
DFEM Control Equipment Co., Ltd	—	—	—	—	—	—	—	—
DFEM Power System Co., Ltd	220,000,000.00	48.89	—	—	—	—	220,000,000.00	48.89
DFEM Tooling & Moulding Co., Ltd	12,499,500.00	96.15	—	—	—	—	12,499,500.00	96.15
DFEM Equipment Engineering Co	42,254,114.00	98.83	—	—	—	—	42,254,114.00	98.83
DFEW	14,500,720.00	99.32	—	—	—	—	14,500,720.00	99.32
DFEM Control Equipment Co., Ltd	13,100,400.00	97.04	—	—	—	—	13,100,400.00	97.04

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

45. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES *(continued)*

(1) Details of relationships with related parties are showed below: *(Continued)*

D. Related parties without controlling relationship.

Company name	Relationship with the company
Dongle Heavy Piece Handling Co	Associate company
Sichan Jiaxin 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
SiChuan Dongfang Electrical Engineering United Co., Ltd	Subsidiary company of DFEW's superior administrative organization
Sichuan Dongfang Electronic auto-control Co.,Ltd.	Subsidiary company of DFEW's superior administrative organization
Dongfang Steam Turbine Works	Subsidiary company of DFEW's superior administrative organization
Sichuan Dongfang Electric Machinery Supplementary Equipment Company	Subsidiary company of DFEW
Sichuan Dongfang Electric Machinery General Equipment Company	Subsidiary company of DFEW
Sichuan DFEM Matal Framework Accessory Co., Ltd.	Subsidiary company of DFEW
Sichuan DFEM insulating material Co.,Ltd.	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:

Items	2004		2003	
	Amounts RMB	Percentage %	Amounts RMB	Percentage %
Staff accommodation management fees	2,626,493.00	2.90	2,323,903.00	3.01
Product packing fees	16,498,975.48*	18.22	21,326,520.89	27.66
Environmental, hygiene and greenery expenses	2,529,128.00	2.79	2,223,187.00	2.88
Refreshment	4,361,422.50	4.82	2,476,176.28	3.21
Nursery service for children of employees	1,327,500.00	1.47	1,327,500.00	1.72
Staff retirement plan	2,615,299.50	2.89	1,679,715.00	2.18
Transportation and repair	55,913,284.38	61.75	39,951,673.55	51.82
Medicare for staff and family members	924,395.00	1.02	1,088,482.00	1.41
Rental and land use fees	3,435,355.75	3.79	3,769,132.69	4.89
Others	316,042.00	0.35	938,122.82	1.22
	90,547,895.61	100.00	77,104,413.23	100.00

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.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

45. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES *(continued)*

(2) Related parties transactions *(Continued)*

- B. The details of raw material purchase and labour charges from DFEW, DFEM Matal Framework Accessory Co., Ltd. and other related parties by the Company and its subsidiaries are listed as follows:

Company name	Items	2004		2003	
		Amount RMB	Percentage %	Amount RMB	Percentage %
DFEW	Raw material purchase	790,308.82	0.04	18,247,075.94	1.99
DFEW	Labor charges	4,417,587.93	7.63	4,381,413.51	10.51
DFEW	Fixed assets purchase	1,202,357.06	0.81	—	—
DFEW	Removal compensate payment	535,968.00	100.00	—	—
		6,946,221.81		22,628,489.45	
DFEM Matal Framework Accessory Co., Ltd.	Raw material purchase	15,896,557.08	0.89	—	—
DFEM Insulating Material Co.,Ltd.	Raw material purchase	21,482,540.34	1.21	—	—
DFEM Supplementary Equipment Company	Raw material purchase	37,435,437.94	2.11	21,174,527.36	2.31
DFEM General Co.,Ltd.	Raw material purchase	13,910,757.15	0.78	7,479,579.48	0.82
		95,671,514.32		51,282,596.29	

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

Items	2004		2003	
	Amounts RMB	Percentage to the account balance %	Amounts RMB	Percentage to the account balance %
Raw material and finished products	28,433,621.07	58.64	11,085,428.85	27.85
Energy cost	7,220,571.04	83.53	4,623,763.43	64.56
Labor and other costs	4,193,619.86	11.11	3,415,899.83	56.35
Packing materail withheld	171,907.00	100.00	—	—
	40,019,718.97		19,125,092.11	

- D. As mentioned in Notes 16, DFEW has provided guarantees on loans for the Company amount to RMB 10,000,000.00 as at 31 December 2004, and amount to RMB 1,744,900.83 interest cost has been charged by DFEW.
- E. As mentioned in Note 5 the Company saved RMB 30,014,856.27 saving deposit and three months Fixed deposit amount to RMB 10,000,000.00 in the Finance Company of Dongfang Group as at 31 December 2004.
- F. The details of sales on behalf of the Company and its subsidiaries by China Dongfang Electric Corporation (DFEC) is showed as follows:

Items	2004		2003	
	Amounts RMB	Percentage to the account balance %	Amounts RMB	Percentage to the account balance %
Finished Product sales	8,251,871.80	0.40%	35,512,816.85	2.96%

- G. The remuneration paid to the key management of the Company amount to RMB 813,867.74.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

45. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES *(continued)*

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

Items	Related company name	2004.12.31		2003.12.31	
		Amount RMB	Percentage to the account balance %	Amount RMB	Percentage to the account balance (%)
Account receivable	DFEM Matal Framework Accessory Co., Ltd.	12,905,400.65	1.58	—	—
	SiChuan Dongfang Electrical Engineering United Co., Ltd	12,106,569.13	1.49	—	—
	DFEC	12,330,248.76	1.51	29,068,394.57	3.47
	DFEM General Machinery Co., Ltd.	3,322,496.17	0.41	—	—
	Dongfang Steam Turbine Works	1,917,000.00	0.23	—	—
	DFEM General Equipment Company	229,658.55	0.03	—	—
	DFEM Insulating Material Co.,Ltd	172,980.07	0.02	—	—
	DFEW	—	—	8,807,700.47	1.05
		42,984,353.33	5.27	37,876,095.04	4.52
Prepayment	DFEM Matal Framework Accessory Co., Ltd.	3,654,881.20	0.76	—	—
	DFEW	—	—	650,916.79	0.36
		3,654,881.20	0.76	650,916.79	0.36
Other receivable	Dongle Heavy Piece Handling Co	10,498,182.40	13.18	11,607,300.40	13.08
Receipt in advance	DFEC	190,150,181.77	5.11	30,689,680.25	1.97
	Dongfang Electronic auto-control Co.,Ltd	1,263,200.00	0.03	—	—
	DFEW	—	—	808,000.00	0.05
		191,413,381.77	5.14	31,497,680.25	2.02
Other payable	DFEW	10,214,085.92	15.39	2,331,224.62	7.30
Accounts payable	DFEM General Equipment Company	12,143,227.16	7.00	6,610,855.00	7.60
	DFEM General Equipment Company	8,507,946.00	4.91	3,175,694.00	3.65
	DFEM Insulating Material Co.,Ltd	3,976,844.60	2.29	—	—
	DFEM Matal Framework Accessory Co., Ltd.	997,232.25	0.57	—	—
	DFEW	111,630.24	0.07	7,062,501.60	8.13
		25,736,880.25	14.84	16,849,050.60	19.38
Notes payable	DFEM General Equipment Company	2,800,000.00	3.55	—	—
	DFEM General Equipment Company	300,000.00	0.38	—	—
	DFEM Insulating Material Co.,Ltd	2,737,867.67	3.47	—	—
	DFEW	—	—	7,868,715.23	4.57
		5,837,867.67	7.40	7,868,715.23	4.57

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

46. CONTINGENT ITEM

There exists no material contingency item necessary for disclosure.

47. COMMITMENTS

Details of the approved capital expenditures within the year as at 31 December 2004 are listed as follows:

	2004.12.31 RMB
Contracted but not provided for	99,051,031.08
Authorised but not contracted for	<u>25,917,100.00</u>

48. POST-BALANCE SHEET EVENTS

1. The Company has received RMB 2,000,000.00 from Chongqing Xinlongda Co., Ltd., which is at the age of over 5 years, at 7 January 2005.
2. According to the resolution of the 16th director meeting, a cash dividend of RMB 54,000.000.00 for the year end of 2004 has been approved as at 21 March 2005.

49. OTHER MAJOR EVENTS

1. In accordance with the resolution of 10th,12th,13th,15th director meetings, the company has written down accounts payable of RMB73,030,004.81, which are long age and high risk of redemption, written down the inventories at net book value of RMB 5,836,322.45, which are long age and useless, scraped the fixed assets and Construction in progress at the net book value of RMB 3,185,804.69, which are useless due to plan changed, unused for long time, outdated and unable to repair. Nevertheless, the approval by the tax department is still carrying out.
2. As stated in Note 12 there are still RMB 113,087,764.20 worth of buildings and plants have not applied for license, account for 58.95% of the consolidated buildings and plants, and account for 21.84% of the consolidated fixed assets as at 31 December 2004.

50. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors at 21 March 2005.

Other Financial Information

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

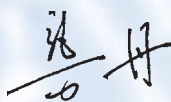
SUPPLEMENTARY INFORMATION ON DFEM'S CONSOLIDATED PROFIT AND LOSS STATEMENT

Details of exceptional items in profit and loss statement:

Items	Consolidated	
	2004 RMB	2003 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	—	—
4. Gains or losses from debt restructuring	—	—
5. Other exceptional items	16,365,205.63	3,082,994.78
	16,365,205.63	3,082,994.78
Percentage to consolidated net profit	6.18%	9.31%



Legal Representative



General Accountant



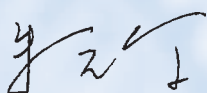
Finance Manager

Other Financial Information *(continued)*

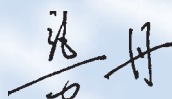
For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

DETAILS OF RETURN ON NET ASSETS AND RETURN PER SHARE ARE LISTED AS FOLLOWS FOR THE ACCOUNTING YEAR 2004

	Return on net asset (%)				Return on per share (RMB/share)			
	Ending value		Weighted average		Ending value		Weighted average	
	2004	2003	2004	2003	2004	2003	2004	2003
	<i>RMB</i>				<i>RMB</i>		<i>RMB</i>	<i>RMB</i>
Profit from principal Operations	57.42%	30.83%	67.43%	31.38%	1.621	0.650	1.621	0.650
Operating profit	25.38%	2.48%	29.80%	2.52%	0.716	0.052	0.716	0.052
Net profit	20.85%	3.49%	24.48%	3.55%	0.588	0.074	0.588	0.074
Profit exclude extraordinary gain or loss	19.56%	3.17%	22.96%	3.22%	0.552	0.067	0.552	0.067



Legal Representative



General Accountant



Finance Manager

Other Financial Information (continued)

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

DETAILS OF PROVISION FOR IMPAIRMENT LOSS OF ASSETS OF THE COMPANY FOR THE ACCOUNTING YEAR 2004

	2004.01.01	Increase	fixed assets	Reverse this period	Sum	2004.12.31
	RMB	this period	value this period	other reverse back	RMB	RMB
		RMB	RMB	RMB		
1. Provision for bad-debt	96,895,589.93	134,066,248.78	—	—	73,743,747.90	157,218,090.81
Including:Accounts receivable	61,846,244.33	105,015,168.19	—	—	70,227,135.21	96,634,277.31
Other receivable	35,049,345.60	29,051,080.59	—	—	3,516,612.69	60,583,813.50
2. Provision for devaluation of short-term investment including:equity investment	—	—	—	—	—	—
3. Provision for devaluation of Inventory	3,233,825.66	2,677,005.91	—	1,109,739.37	1,109,739.37	4,801,092.20
Raw material	—	—	—	—	—	—
Manufacturing in process	1,572,673.01	360,658.49	—	405,939.40	405,939.40	1,527,392.10
Finished product	1,661,152.65	2,316,347.42	—	703,799.97	703,799.97	3,273,700.10
4. Provision for devaluation of long-term investment	310,941.25	—	—	—	—	310,941.25
Long term equity investment	310,941.25	—	—	—	—	310,941.25
5. Provision for impairment of Fixed Assets	1,211,724.50	—	—	50,970.40	50,970.40	1,160,754.10
Machinery and equipment	1,211,724.50	—	—	50,970.40	50,970.40	1,160,754.10
6. Provision for Estimated loss	19,684,346.69	—	—	14,212,351.81	14,212,351.81	5,471,994.88

Legal Representative

General Accountant

Finance Manager

Other Financial Information (continued)

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

DETAILS OF UNUSUAL CHANGES OF THE COMPANY FOR THE ACCOUNTING YEAR 2004

Items	2004.12.31 RMB	2003.12.31 RMB	Unit:RMB Percentage of changes %
Cash and cash equivalents	3,297,846,004.30	1,297,677,203.31	154.13
Accounts receivable	718,272,188.40	775,239,494.19	(7.35)
Other receivable	19,077,591.08	53,709,580.87	(64.48)
Prepayment	479,279,571.03	181,829,359.42	163.59
Amount due from customers on contract works	226,720,875.22	160,719,286.12	41.07
Inventory	924,440,842.08	581,337,419.48	59.02
Construction in progress	107,719,740.79	74,673,968.51	44.25
Short-term investment	56,840,950.50	125,600,000.00	(54.74)
Notes payable	78,878,810.93	172,005,817.24	(54.14)
Accounts payable	173,453,299.52	86,962,353.14	99.46
Receipt in advance	3,722,708,650.40	1,556,590,902.21	139.16
Salary payable	46,378,668.67	15,813,772.68	193.28
Other payable	66,386,349.68	43,511,688.69	52.57
Accruals	39,973,977.30	74,647,344.36	(46.45)
Current portion of long-term liabilities	10,000,000.00	255,000,000.00	(96.08)
Revenue	2,051,360,454.99	1,199,621,959.95	71.00
Costs of sales	1,309,413,274.52	900,757,480.88	45.37
Other operating profit	24,954,630.62	10,371,251.15	140.61
Management expenses	443,797,672.63	261,115,240.53	69.96
Finance expenses	(13,161,122.11)	16,213,929.32	(181.17)
Corporate tax	59,004,185.85	1,008,907.36	5748.33
A.	Increase of cash and cash equivalent mainly because this year the Company signed more sales contracts and received more deposit;		
B.	Decrease of Accounts receivable mainly because accounts receivable have been written down and provisions for bad debt increase due to changes of accounting estimated°F		
D.	Increase of prepayment mainly because this year the Company signed more sales contracts, so increased its raw material purchase;		
E.	Increase of amount due from customer for contract works mainly because this year the Company signed more sales contracts of Hydro power products°F		
F.	Increase of inventories mainly because this year the Company signed more sales contracts and production increased		
G.	Increase of construction in progress mainly because in order to expanded production capacity the Company need to purchase more manufacturing equipments;		
H.	Decrease of short-term loan mainly because the company repaid the loan this year;		
I.	Decrease of notes payable mainly because this year the settlement of raw material purchase used account payable;		
J.	Increase of accounts payable mainly because the settlement of raw material purchase used less notes payment		
K.	Increase of receive in advance mainly because this year the Company signed more sales contracts and received more deposit;		
L.	Increase of salary payable mainly because this year the company signed more contracts and the salary is related to the sales;		
M.	Increase of othe payables mainly because the increase of the deposit for construction in progress;		

Other Financial Information *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

- N. Decrease of Accruals mainly because this year the company increased the settlement of the accruals
- O. Decrease of current portion of long-term liabilities mainly because the company repaid the longterm loan
- P. Increase of Revenue mainly because this year the company signed more sales contracts,
- Q. Increase of non-operating expense mainly because this year the company signed more sales contracts
- R. Increase of other operating profit mainly because this year the Company received more income from sale of scraps;
- S. Increase of management expense mainly because the raise of provisions for bad debt due to the changes of accounting estimated and employees' salaries and related expenses, and inventory stock take loss;
- T. Decrease of finance expense mainly because this year the cash in bank increased and the company repaid more loans from banks.
- U. Increase of Corporate income tax mainly because this year the company signed more contracts and make profit after deducted the tax loss brought forward.



Legal Representative



General Accountant



Finance Manager

Other Financial Information *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

RECONCILIATION FOR FINANCIAL STATEMENTS OF 2004 PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND PRC ACCOUNTING STANDARDS

Unit: RMB

	Notes	Net assets 2004.12.31	Net profit 2004
Net assets/net profit as reported in accordance with HK GAAP		1,217,758,878.40	252,587,558.87
Adjustments:			
— capital reserve	1	53,141,269.04	—
— Non-operating income			15,757,262.43
Including: Difference arising from fixed assets acquired by specific fund granted to three-tier enterprises for removal and renovation	1		(2,186,571.72)
Difference arising from fixed assets acquired by specific fund for environment protection	1		(20,689.66)
Accounts payable which are not obligated to repay	2(1)		(732,737.19)
Difference from provision for impairment of fixed assets	2(2)		18,697,261.00
— Investment income	3	(958,673.37)	(4,304,476.93)
— Others		(2,497.36)	680,295.25
Net amount of increase/(decrease)		52,180,098.31	12,133,080.75
Net assets/net profit as reported in accordance with PRC GAAP		1,269,938,976.71	264,720,639.62

Note 1. Capital Reserve

As mentioned in Note 28 to Consolidated Financial Statement, the Company has utilized the specific fund granted to "Three-tier Enterprises" for removal and renovation and the specific fund for environmental protection that respectively amounted to RMB55,148,530.42 and RMB200,000.00, totaling RMB55,348,530.42 during the year. The said amounts were transferred from Specific Payables into Capital Reserve account. The PRC auditors concurred with the above accounting treatment in accordance with the Accounting Standards for Enterprises and Accounting Systems for Enterprises and their supplementary rules of the PRC. However, in accordance with the Accounting Principles Generally Accepted in Hong Kong, the Hong Kong auditors have adjusted the specific fund granted to "Three-tier Enterprise" for removal and renovation and the specific fund for environmental protection to "Deferred income" account. The deferred income was released to the income statement over the expected useful life of the relevant assets, and the amounts accounted for during the year were RMB2,186,571.72 and RMB 20,689.66 respectively. The closing balance of capital reserve was therefore decreased by RMB53,141,269.04 accordingly.

Note 2. Non-operating income


- (1) As mentioned in Note 28 to Consolidated Financial Statement, the Company transferred RMB732,737.19 that was not obligated to repay from Accounts Payable to Capital Reserve according to the Accounting Standards for Enterprises, Accounting System for Enterprises and the supplementary rules of the PRC. In accordance with the Accounting Principles Generally Accepted in Hong Kong, the accounts payable that was not obligated to repay are recognized in the income statement in the current period.
- (2) In accordance with the Accounting Standards for Enterprises, Accounting System for Enterprises and the supplementary rules of the PRC, the buildings obtained from debt restructuring in 2002 was stated at the original book value of the debts. While in accordance with Accounting Principles Generally Accepted in Hong Kong, the buildings obtained from debt restructuring were stated at their fair value. During the year, a provision for impairment loss amounted to RMB 18,697,261.00 was made by the Hong Kong auditors.

Other Financial Information *(continued)*

For the year ended 31 December 2004
(prepared under PRC Accounting Standards)

Note 3. Investment income

- (1) In accordance with Accounting Principles Generally Accepted in Hong Kong, the difference on equity investment in subsidiaries is one-off recognized in the income statement of the current year upon its arising. In accordance with Accounting Standards for Enterprises and Accounting System for Enterprises of the PRC, the difference on equity investment is amortized over 10 years, thus increasing the Company's net profit by RMB 375,616.05 for the year.
- (2) As mentioned in Note 11(4) to the consolidated financial statements, the Company injected monetary fund to replace the assets in kind as capital contribution to subsidiaries. In accordance with the Accounting Standards for Enterprises and Accounting System for Enterprises and the supplementary rules of the PRC, the previous years' difference on equity investment amounting to RMB4,680,092.98 was reversed. While in accordance with Accounting Principles Generally Accepted in Hong Kong, the previous years' difference on equity investment that was one-off recognized in the income statement in that year upon its arising was charged to the income statement in the current year, thus decreasing the Company's net profit by RMB 4,680,092.98 for this year.



Legal Representative



General Accountant



Finance Manager