

7. FINANCIAL STATEMENT

(1) The unaudited financial statements prepared in accordance with PRC Accounting Standards

Balance Sheets

June 30 2005

Unit: RMB

	Consolidated		The Company	
	2005.06.30	2004.12.31	2005.06.30	2004.12.31
CURRENT ASSETS:				
Cash and cash equivalents	3,588,438,786.83	3,297,846,004.30	3,472,082,954.19	3,203,384,745.39
Notes receivable	47,132,480.00	35,923,636.50	25,401,900.00	35,873,636.50
Accounts receivable	740,366,188.36	718,272,188.40	747,696,467.17	688,088,843.64
Other receivable	19,535,278.35	19,077,591.08	35,768,327.77	18,795,392.27
Prepayments	763,825,139.31	479,279,571.03	814,898,417.50	504,773,384.83
Inventory	1,286,649,913.71	924,440,842.08	1,147,101,065.92	826,130,948.46
Amount due from customer for contract works	169,912,675.46	226,720,875.22	157,264,956.95	215,474,615.90
Deferred expenses	604,443.26	895,501.97	159,709.35	400,830.59
Total Current Assets	6,616,464,905.28	5,702,456,210.58	6,400,373,798.85	5,492,922,397.58
LONG TERM INVESTMENTS:				
Long-term equity investment	617,883.70	654,044.04	79,920,501.07	65,191,275.16
Including: consolidated difference	(881,752.95)	(958,673.37)	—	—
Total long-term investments	617,883.70	654,044.04	79,920,501.07	65,191,275.16
FIXED ASSETS:				
Fixed assets at cost	1,135,484,357.49	1,095,820,989.94	1,068,551,348.65	1,028,722,681.05
Less: Accumulated depreciation	614,047,500.40	578,108,506.75	566,540,817.79	533,154,628.55
Fixed assets, NBV	521,436,857.09	517,712,483.19	502,010,530.86	495,568,052.50
Less: Provision for impairment of fixed assets	1,160,754.10	1,160,754.10	1,160,754.10	1,160,754.10
Fixed assets, net	520,276,102.99	516,551,729.09	500,849,776.76	494,407,298.40
Construction materials	22,156,090.02	16,590,585.12	22,726,441.02	18,761,976.12
Construction-in-progress	139,486,853.39	107,719,740.79	138,090,063.39	107,582,165.59
Total fixed assets	681,919,046.40	640,862,055.00	661,666,281.17	620,751,440.11
INTANGIBLE ASSETS AND OTHER ASSETS:				
Intangible assets	29,273,133.90	30,094,685.94	29,243,860.26	30,057,875.04
Total intangible assets and other assets	29,273,133.90	30,094,685.94	29,243,860.26	30,057,875.04
TOTAL ASSETS	7,328,274,969.28	6,374,066,995.56	7,171,204,441.35	6,208,922,987.89

Balance Sheets (Continued)

June 30 2005

Unit: RMB

	Consolidated		The Company	
	2005.06.30	2004.12.31	2005.06.30	2004.12.31
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	32,708,500.00	56,840,950.50	32,708,500.00	56,840,950.50
Notes payable	122,923,126.76	78,878,810.93	122,923,126.76	78,878,810.93
Accounts payable	223,562,837.47	173,453,299.52	269,054,705.84	170,935,328.41
Advances from customers	4,153,412,543.45	3,722,708,650.40	4,110,408,765.51	3,655,543,329.24
Salaries payable	26,409,965.61	46,378,668.67	25,502,663.64	44,659,151.07
Staff welfare payable	14,374,564.74	12,576,457.30	9,362,416.93	7,622,590.88
Taxes payable	109,636,015.74	185,032,286.39	108,454,368.27	185,892,810.19
Other payables	11,898,112.32	4,990,377.06	11,650,345.24	4,548,597.86
Other unpaid amounts	50,522,330.69	66,386,349.68	44,222,197.56	58,609,302.45
Withheld expenses	78,766,499.10	39,973,977.30	49,610,353.15	31,757,232.44
Provision for estimated losses	1,694,786.13	5,471,994.88	1,694,786.13	5,471,994.88
Current portion of long-term liabilities	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00
Amount due to customer for contract works	895,054,814.48	583,315,130.95	768,288,884.30	503,020,743.46
Total current liabilities	5,730,964,096.49	4,986,006,953.58	5,563,881,113.33	4,813,780,842.31
LONG TERM LIABILITIES				
Long-term payables	685,252.84	685,252.84	685,252.84	685,252.84
Specific loans	98,971,741.78	116,405,334.49	98,432,356.78	115,865,949.49
Total long-term liabilities	99,656,994.62	117,090,587.33	99,117,609.62	116,551,202.33
TOTAL LIABILITIES	5,830,621,091.11	5,103,097,540.91	5,662,998,722.95	4,930,332,044.64
Minority interests	1,256,736.52	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	681,655,763.19	663,868,429.42	681,655,763.19	663,868,429.42
Surplus reserve	70,975,019.24	70,975,019.24	70,259,733.04	70,259,733.04
Including: Statutory public welfare fund	31,792,187.48	31,792,187.48	31,553,770.75	31,553,770.75
Undistributed profits	293,766,359.22	85,095,528.05	306,290,222.17	94,462,780.79
Total shareholders' equity	1,496,397,141.65	1,269,938,976.71	1,508,205,718.40	1,278,590,943.25
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,328,274,969.28	6,374,066,995.56	7,171,204,441.35	6,208,922,987.89

Statements of Profit and Profit Distribution

For the six months ended 30th June 2005

Unit: RMB

	Consolidated		The Company	
	2005.1.1-6.30	2004.1.1-6.30	2005.1.1-6.30	2004.1.1-6.30
1. Revenue	1,176,354,054.58	891,383,801.99	1,126,170,399.48	844,865,247.66
Less: Cost of Sales	775,242,240.49	582,933,507.84	761,848,121.82	578,264,217.79
Sales tax and surcharge	3,892,509.65	4,114,598.30	3,569,222.48	3,837,621.70
2. Profit from principle operations	397,219,304.44	304,335,695.85	360,753,055.18	262,763,408.17
Add: Other operating profit	20,745,074.64	8,573,045.43	19,052,384.61	22,424,362.54
Less: Operating expenses	7,460,991.91	6,610,402.93	5,847,180.35	4,397,627.85
Management expenses	123,836,454.87	259,524,937.74	102,578,088.30	241,379,676.84
Provision for expected loss	(3,777,208.75)	(1,986,228.23)	(3,777,208.75)	(1,986,228.23)
Finance expenses	(14,700,225.99)	(1,943,826.25)	(14,263,436.32)	(1,683,824.25)
3. Operating profit	305,144,367.04	50,703,455.09	289,420,816.21	43,080,518.50
Add: Investment income	1,189,263.25	288,319.90	17,676,509.21	5,098,503.01
Non-operating income	390,528.65	5,701,271.36	248,060.00	5,616,142.62
Less: Non-operating expenses	1,525,813.08	3,781,427.36	1,534,714.94	3,864,020.25
4. Total profit	305,198,345.86	52,911,618.99	305,810,670.48	49,931,143.88
Less: Income tax	42,255,352.71	15,920,590.02	39,983,229.10	14,017,685.87
Minority interests	272,161.98	111,281.17	0.00	0.00
5. Net profit	262,670,831.17	36,879,747.80	265,827,441.38	35,913,458.01
Add: Retained earnings, beginning of period	85,095,528.05	(162,632,995.71)	94,462,780.79	(155,764,555.13)
6. Distributable profits	347,766,359.22	(125,753,247.91)	360,290,222.17	(119,851,097.12)
Less: Statutory surplus reserve fund	0.00	0.00	0.00	0.00
Statutory public welfare fund	0.00	0.00	0.00	0.00
Profit available for distribution to shareholders	347,766,359.22	(125,753,247.91)	360,290,222.17	(119,851,097.12)
Less: Common stock dividend payable	54,000,000.00	0.00	54,000,000.00	0.00
7. Retained earnings, end of period	293,766,359.22	(125,753,247.91)	306,290,222.17	(119,851,097.12)

CASH FLOW STATEMENTS

For the six months ended 30th June 2005

Unit: RMB

	Consolidated 2005.1.1-6.30	The Company 2005.1.1-6.30
1. Cash flow from operating activities		
Cash received from sales of goods or rendering of services	2,011,843,601.25	1,974,483,406.11
Other cash received relate to operating activities	58,189,371.26	55,108,894.76
Sub-total of cash inflows	2,070,032,972.51	2,029,592,300.87
Cash paid for goods and services	1,257,140,623.02	1,257,192,823.34
Cash paid to and on behalf of employees	192,805,052.78	172,621,429.73
Payment of all types of taxes	157,287,539.32	150,594,929.87
Other cash paid relate to operating activities	57,873,023.02	66,077,027.10
Sub-total of cash outflows	1,665,106,238.14	1,646,486,210.04
Net cash flows from operating activities	404,926,734.37	383,106,090.83
2. Cash flows from investing activities		
Cash received from investment	147,140,092.72	147,140,092.72
Cash received from investment earnings	3,208,656.46	2,877,207.71
Cash received from disposal of fixed assets, intangible assets, and other long-term assets	14,120.00	321,012,826.96
Other cash received relate to investing activities	321,012,826.96	471,030,127.39
Sub-total of cash inflows	471,375,696.14	0.00
Cash paid to acquire of fixed assets, intangible assets and other long-term assets	80,267,804.23	78,364,842.23
Cash paid to acquire investments	147,070,017.13	147,070,017.13
Other cash paid relate to investing activities	1,875,000,000.00	1,875,000,000.00
Sub-total of cash outflows	2,102,337,821.36	2,100,434,859.36
Net cash flows from investing activities	(1,630,962,125.22)	(1,629,404,731.97)
3. Cash flows from financing activities		
Cash received from borrowing	10,000,000.00	10,000,000.00
Sub-total of cash inflows	10,000,000.00	10,000,000.00
Cash repayments of amounts borrowed	20,000,000.00	20,000,000.00
Cash payments of dividends, profit or interests	55,325,481.90	53,226,270.04
Sub-total of cash outflows	75,325,481.90	73,226,270.04
Net cash flows from financing activities	(65,325,481.90)	(63,226,270.04)
4. Effect of foreign exchange rate change on cash	999.46	999.46
5. Net increase (decrease) in cash and cash equivalents	(1,291,359,873.29)	(1,309,523,911.72)

CASH FLOW STATEMENTS (Continued)

Supplementary Information

For the six months ended 30th June 2005

	<i>Unit: RMB</i>	
	Consolidated	The Company
	2005.1.1-6.30	2005.1.1-6.30
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	262,670,831.17	265,827,441.38
Add: Minority interests	272,161.98	0.00
Provision for impairment loss of assets	(18,750,898.01)	(15,521,560.32)
Provision for estimated loss of assets	(3,777,208.75)	(3,777,208.75)
Depreciation of fixed assets	35,938,993.65	33,386,189.24
Amortization for intangible assets	821,552.04	814,014.78
Decrease in deferred expense (less: increase)	291,058.71	0.00
Increase in accrued expense (less: decrease)	38,792,521.80	17,853,120.71
Loss on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	893,335.95	982,748.70
Finance expenses	(17,714,978.45)	(17,906,340.20)
Loss on investment (less: gains)	(17,676,441.20)	(17,676,441.20)
Decrease in inventories (less: increase)	(359,860,131.61)	(318,656,837.25)
Decrease in operating receivables (less: increase)	(250,092,241.26)	(302,502,635.93)
Increase in operating payables (less: decrease)	739,074,280.36	760,156,809.56
Others	(5,956,102.01)	(19,873,209.89)
Net cash flows from operating activities	404,926,734.37	383,106,090.83
2. Net Increase in cash and cash equivalents		
Cash and cash equivalents, end of the period	1,375,967,824.53	1,285,919,558.45
Cash and cash equivalents, beginning of the period	2,667,327,697.82	2,595,443,470.17
Net Increase (Decrease) in cash and cash equivalents	(1,291,359,873.29)	(1,309,523,911.72)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the accounting period from 1st January 2005 to 30th June 2005

Unit: RMB

1. Accounting treatment in respect of enterprise income tax

Before 1 January 2005, the Company and its subsidiaries accounted for enterprise income tax according to the tax payable method. According to the document “No.5, Regulations of information disclosure for Public issuing company – the difference and its disclosure of the financial statements prepared in China’s and International accounting standards” issued by China Securities Regulatory Commission, for the management, the subsidiary accounting policies should be applied consistently in the same items during the same accounting period, except that when it is limited by any local accounting standards or custom if the stock exchanges are various. Thus, since 1 January 2005 the liability method of tax effect accounting method has been introduced against the tax payable method.

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%

2. Influences of changes of accounting policy, estimated and correction of accounting errors

Since 1 January 2005, the Company and its subsidiaries used the liability method of tax effect accounting method as the accounting method of enterprise income tax instead of the tax payable method. Considering the uncertainty of the reversal of the deferred tax, the Company has not recognized it in the account based on the principle of prudence.

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

	2005.6.30 RMB	2004.12.31 RMB
Cash and Bank Deposit	3,588,438,786.83	3,297,846,004.30
Less: Term deposits with a fixed term longer than 3 months	(1,996,476,792.09)	(491,434,965.13)
Other restricted amount	(215,994,170.21)*	(139,083,341.35)
	<u>1,375,967,824.53</u>	<u>2,667,327,697.82</u>

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

4. Accounts receivable and other receivable

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

	2005.6.30			2004.12.31		
	Balance	Percentage	Provision for Bad Debts	Balance	Percentage	Provision for Bad Debts
	RMB	%	RMB	RMB	%	RMB
Within 1 year	588,714,343.10	71.70	28,782,564.14	481,919,013.90	59.14	23,415,488.52
1-2 years	132,969,229.60	16.20	13,293,819.87	191,306,364.82	23.48	19,130,636.48
2-3 years	54,272,928.13	6.61	10,854,585.63	81,297,199.66	9.98	16,259,439.93
3-4 years	22,241,669.84	2.71	8,896,667.93	31,386,811.74	3.85	12,554,724.70
4-5 years	5,248,660.80	0.64	2,624,330.40	4,646,160.80	0.57	2,323,080.40
Over 5 years	17,579,616.23	2.14	16,208,291.37	24,350,914.79	2.98	22,950,907.28
Including: related parties	13,441,248.63	1.59	12,097,123.77	2,551,280.00	0.30	765,384.00
	<u>821,026,447.70</u>	<u>100.00</u>	<u>80,660,259.34</u>	<u>814,906,465.71</u>	<u>100.00</u>	<u>96,634,277.31</u>

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

	2005.6.30	2004.12.31
	RMB	RMB
Top five largest accounts receivables	191,713,001.29	319,803,831.15
Total of accounts receivables	821,026,447.70	814,906,465.71
Ratio	23.35%	39.24%

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

	2005.06.30
	RMB
Amount due from related parties	64,000,374.25
Fuet-GE Canada – Siemens Three Gorges	67,759,601.29
Huarun(Changshu) Electric Co Ltd.	40,819,400.00
Jiangxi Wanan Hongyuan Electric Co.,Ltd.	32,174,700.00
Sichun Jialinjiang Tongzhihao Electric Development Co.	25,854,800.00
Inner Mongolia Tuoketuo Electric Co. Ltd.	25,104,500.00

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

	2005.6.30			2004.12.31		
	Balance	Percentage	Provision for Bad Debts	Balance	Percentage	Provision for Bad Debts
	RMB	%	RMB	RMB	%	RMB
Within 1 year	16,349,244.86	20.52	629,307.69 *	12,851,299.04	16.13	429,087.94
1-2 years	443,679.00	0.56	44,367.90	537,650.00	0.67	53,765.00
2-3 years	2,950,000.00	3.70	590,000.00	3,779,680.92	4.74	755,936.18
3-4 years	2,968.47	0.00	1,187.39	10,000.00	0.01	4,000.00
4-5 years	110,000.00	0.14	57,500.00	183,864.00	0.23	91,932.00
Over 5 years	59,831,559.50	75.08	58,829,810.50	62,298,910.62	78.22	59,249,092.38
Including related parties	10,017,490.00	12.57	9,015,741.00	11,607,300.40	13.08	4,642,920.16
	<u>79,687,451.83</u>	<u>100.00</u>	<u>60,152,173.48</u>	<u>79,661,404.58</u>	<u>100.00</u>	<u>60,583,813.50</u>

* Fixed deposit interest receivable for this accounting period is RMB 3,759,730.64 has not made any provision for bad debt.

- (5) The top five largest balances of other accounts receivables of the Company and its subsidiaries totals RMB 59,325,106.67, which constituted 74.45% of the total other accounts receivables.

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

	2005.6.30 RMB	Year of Receivable Inception
Chongqing Xinglongda Real Estate Development Co. Ltd.	36,000,000.00	1999
Dongle Heavy Piece Handling Company	10,017,490.00	1999
Chengdu Dayang Property Company	7,030,000.00	1996
Sichuan Mianzhu Tiankang Medical Equipment Co. Ltd.	3,527,616.67	1995
Deyang Bajiaojin Industry Garden Management Committee	2,750,000.00	2002
Deyang Qicheng Industry Co. Ltd.	1,247,500.00	1997
Reserves	13,398,864.01	—

5. Prepayments

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

	2005.6.30		2004.12.31	
	Balance RMB	Percentage (%)	Balance RMB	Percentage (%)
Within 1 year	748,290,243.37	97.97	432,068,798.56	90.15
1-2 years	14,130,455.94	1.85	46,176,146.47	9.63
2-3 years	1,390,400.00	0.18	1,034,626.00	0.22
Over 3 years	14,040.00	0.00	—	—
	763,825,139.31	100.00	479,279,571.03	100.00

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

(2) Details of prepayments are show as follows:

	2005.6.30 RMB	Payment Inception	Purpose
Related Parties	7,410,021.32	2005	Material Procurement
Chengdu Tianqi Engining Wukuang Ltd., Co.	90,985,590.48	2005	Material Procurement
VA TECH HYDRO GMBH&CO	66,385,659.06	2005	Material Procurement
Sichuan Wuyang Steal Technology Company	60,519,503.60	2005	Material Procurement
Erzhong Jitian Heavy Co. Machinery Equipment	50,078,252.10	2005	Material Procurement
Shanghai Qiancheng Logistics Co., Ltd.	48,591,805.31	2005	Material Procurement

6. Fixed assets and accumulated depreciation

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

	2005.1.1 RMB	Increase RMB	Decrease RMB	2005.6.30 RMB	Provision for Impairment RMB
Original cost of the fixed assets:					
Building	320,064,981.20	5,770,565.67	958,165.51	324,877,381.36*	—
Plant and machinery	683,545,047.75	37,649,883.68	5,314,020.31	715,851,871.12	1,160,754.10
Equipment	82,975,370.01	1,459,887.25	1,161,413.23	83,090,713.53	—
Motor vehicle	9,235,590.98	2,216,630.00	—	11,664,391.48	—
	<u>1,095,820,989.94</u>	<u>47,096,966.60**</u>	<u>7,433,599.05</u>	<u>1,135,484,357.49</u>	<u>1,160,754.10</u>
Accumulated depreciation:					
Building	128,230,594.97	8,381,706.64	431,851.54	136,180,450.07	
Plant and machinery	378,036,200.57	32,112,929.81	3,573,413.68	406,575,716.70	
Equipment	65,337,352.76	264,732.96	1,094,915.64	64,346,205.92	
Motor vehicle	6,504,358.45	279,805.10	—	6,945,127.71	
	<u>578,108,506.75</u>	<u>41,039,174.51</u>	<u>5,100,180.86</u>	<u>614,047,500.40</u>	
Net fixed assets	<u>517,712,483.19</u>			<u>521,436,857.09</u>	

* Buildings without license amount to RMB 110,655,998.41 at the end of 30 June 2005, and buildings have not transferred the title deed from DFEW amount to RMB 4,512,903.40.

** An increase of RMB 46,085,918.19 in the fixed assets of this year is transferred from construction-in-progress upon completion.

7. Undistributed profit

Details of undistributed profit are listed as follows:

	2005.6.30 RMB	2004.6.30 RMB
Undistributed profit at beginning of the year	85,095,528.05	(162,632,995.71)
Add: Net profit of the year	262,670,831.17	36,879,747.80
Increase or decrease of net profit this year	—	—
Increase of decrease of undistributed profit at beginning of the year	—	—
Less: Transfer to statutory surplus reserve	—	—
Transfer to statutory welfare fund	—	—
Distributable common stock dividend	54,000,000.00*	—
Undistributed profit at the end of the year (Accumulated loss)	<u>293,766,359.22</u>	<u>(125,753,247.91)</u>

* On 21 March 2005, the Company came to a resolution in its Fourth Session Sixteenth Board of Directors Meeting that it would pay the 2004 dividend to stockholders with cash of RMB54,000,000.00.

8. Principal operations

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

	Income from principal operation		Cost of principal operation		Gross profit of principal operation	
	2005.1.1-6.30	2004.1.1-6.30	2005.1.1-6.30	2004.1.1-6.30	2005.1.1-6.30	2004.1.1-6.30
	RMB	RMB	RMB	RMB	RMB	RMB
Machinery Manufacturing:						
Sales from power generators	1,071,963,491.13	835,246,778.31	701,392,979.68	547,249,828.25	370,570,511.45	287,996,950.06
Income from labor and technology improvement	104,390,563.45	56,137,023.68	73,849,260.81	35,683,679.59	30,541,302.64	20,453,344.09
	<u>1,176,354,054.58</u>	<u>891,383,801.99</u>	<u>775,242,240.49</u>	<u>582,933,507.84</u>	<u>401,111,814.09</u>	<u>308,450,294.15</u>

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

	Amount <i>RMB</i>	Percentage %
2005.1.1-6.30	283,610,938.45	24.11

9. Finance expenses

Details of financial expenses are listed as follows:

	2005.1.1-6.30 <i>RMB</i>	2004.1.1-6.30 <i>RMB</i>
Interest expense	1,633,520.13	4,317,977.83
Less: Interest income	20,043,722.96	8,385,556.07
Loss on foreign exchange	1,603,731.26	188,995.41
Less: gain on foreign exchange	624,755.67	23,188.19
Others	2,731,001.25	1,957,944.77
	(14,700,225.99)	(1,943,826.25)

10. Non-operating income

Details of non-operating income are listed as follows:

	2005.1.1-6.30 <i>RMB</i>	2004.1.1-6.30 <i>RMB</i>
Income from disposal of fixed assets	246,468.65	230,128.74
Surplus on physical count of fixed assets	—	—
Income from penalty and breach of faith	—	3,534,533.42
Others	144,060.00	1,936,609.20
	390,528.65	5,701,271.36

11. Non-operating expenses

Details of non-operating expenses are listed as follows:

	2005.1.1-6.30 RMB	2004.1.1-6.30 RMB
Loss on disposal of fixed assets	887,926.52	2,013,787.86
Education fund for primary and secondary school	477,886.56	528,083.90
Others	160,000.00	1,239,555.60
	<u>1,525,813.08</u>	<u>3,781,427.36</u>

12. Relationships and transactions with related parties

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

A. Related parties with controlling relationships:

Company 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 Yuanchao

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

Company Name	2005.1.1	Increase	Decrease	2005.6.30
	RMB	in this period RMB	in this period RMB	
DFEW	128,420,000.00	—	—	128,420,000.00
DFEM Control Equipment Co.	13,000,000.00	—	—	13,000,000.00
DFEM Power System Co.	42,754,340.00	—	—	42,754,340.00
DFEM Tooling & Moulding Co.	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	2005.1.1		Increase		Decrease		2005.6.30	
	Amount		in this period		in this period		Amount	
	RMB	%	RMB	%	RMB	%	RMB	%
DFEW	220,000,000	48.89	—	—	—	—	220,000,000	48.89
DFEM Control Equipment Co.	12,499,500	96.15	—	—	—	—	12,499,500	96.15
DFEM Power System Co.	42,254,114	98.83	—	—	—	—	42,254,114	98.83
DFEM Tooling & Moulding Co.	14,500,720	99.32	—	—	—	—	14,500,720	99.32
DFEM Equipment Engineering Co.	13,100,400	97.04	—	—	—	—	13,100,400	97.04

D. Related parties without controlling relationship

Company name	Relationship with the company
Dongle Heavy Piece Handling Co	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
Deyang Dongtuo Engineering Company	Subsidiary company of DFEW's superior administrative organization
Dongfang Company Jiujiang Electricity Plant	Subsidiary company of DFEW's superior administrative organization
Deyang Dongdian Electrical Machinery Equipment Whole Set Co.,Ltd.	Subsidiary company of DFEW's superior administrative organization
Sichuan Dongfang Electric Machinery Supplementary Equipment Co., Ltd. ("Supplementary Equipment Co., Ltd.")	Subsidiary company of DFEW
Sichuan Dongfang Electric Machinery General Equipment Co., Ltd. ("General Equipment Co., Ltd.")	Subsidiary company of DFEW
Sichuan DFEM Metal Framework Accessory Co., Ltd. ("Metal Framework Co., Ltd.")	Subsidiary company of DFEW
Sichuan DFEM Insulating Material Co.,Ltd. ("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:

	2005.1.1-6.30	2004.1.1-6.30
	<i>RMB</i>	<i>RMB</i>
Staff accommodation management fees	1,198,877.50	1,216,693.50
Environmental, hygiene and greenery expenses	2,199,505.26	1,215,646.00
Nursery service for children of employees	663,750.00	787,871.50
Staff retirement plan	812,398.50	1,121,203.50
Transportation and repair	35,444,917.31	27,060,533.21
Rental and land use fees	1,512,118.50	1,531,548.10
Others	220,828.50	1,406,680.16
Product packing fees	—	13,182,940.16
Refreshment	—	1,453,772.25
Medicare for staff and family members	—	505,413.00
	42,052,395.57	49,482,301.38

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

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

		2005.1.1-6.30	2004.1.1-6.30
		<i>RMB</i>	<i>RMB</i>
DFEW	Raw materials	576,816.50	—
DFEW	Labour	565,845.16	2,473,828.19
		1,142,661.66	2,473,828.19
Supplementary Equipment Co. Ltd.	Raw materials	1,808,883.63	22,365,921.57
General Equipment Co. Ltd.	Raw materials	16,983,543.80	12,317,534.86
Metal Framework Co. Ltd.	Raw materials	6,921,094.64	12,416,579.00
Insulation Material Co. Ltd.	Raw materials	11,692,047.74	12,476,465.82
		38,548,231.47	62,050,329.44

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

	2005.1.1-6.30 <i>RMB</i>	2004.1.1-6.30 <i>RMB</i>
Raw material and finished product	20,320,741.27	16,817,521.12
Energy cost	3,629,019.51	3,267,702.59
Labour cost	1,533,587.57	3,224,829.92
	<u>25,483,348.35</u>	<u>23,310,053.63</u>

- D. China Dongfang Electric Corporation (DFEC) has made loans on behalf of the Company from State Development Bank amount to RMB 10,000,000.00 as at 30th June 2005, and the Company has paid RMB 309,200.00 for the interests.

- E. The Company has borrowed RMB 10,000,000.00 from the Finance Company of Dongfang Group as at 30th June 2005, and the Company has paid RMB 241,605.00 interest to the Finance Company of Dongfang Group.

- F. The Company saved RMB 25,412,125.64 saving deposit and three months fixed deposit amount to RMB 10,000,000.00 in the Finance Company of Dongfang Group as at 30th June 2005.

- G. The details of sales on behalf of the Company and its subsidiaries by China Dongfang Electric Corporation (DFEC) is showed as follows:

	2005.1.1-6.30 <i>RMB</i>	2004.1.1-6.30 <i>RMB</i>
Revenue from sales on behalf	12,109,743.58	772,430.77

- H. The remuneration paid to the key management of the Company amount to RMB 451,541.72.

- I. In the current accounting period, the Company transferred 40% equity of Sichuan Dongfang Jiaxin Construction Supervisory Co. Ltd. to DFEW, with transferred price of RMB70,075.59.

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

Item	Related company name	2005.6.30		2004.12.31	
		Amount	Percentage to the account balance (%)	Amount	Percentage to the account balance (%)
Accounts receivable	DFEM Matal Framework	26,598,649.43	3.24	12,905,400.65	1.58
	Accessory Co., Ltd.				
	SiChuan Dongfang Electrical Engineering United Co., Ltd	18,106,522.73	2.21	12,106,569.13	1.49
	DFEC	5,108,044.99	0.62	12,330,248.76	1.51
	DFEM General Machinery Co., Ltd.	5,021,399.66	0.61	3,322,496.17	0.41
	Dongfang Steam Turbine Works	1,917,000.00	0.23	1,917,000.00	0.23
	DFEM General Equipment Co., Ltd.	2,547,447.76	0.31	229,658.55	0.03
	DFEM Insulating Material Co.,Ltd	267,712.06	0.03	172,980.07	0.02
	DFEW	355,527.62	0.04	—	—
	Dongfang Electronic Auto-control Co., Ltd	3,322,070.00	0.40	—	—
	Deyang Dongtou Engineering Co., Ltd.	215,000.00	0.03	—	—
	Dongfang Company Jiujiang Electricity Plant	209,000.00	0.03	—	—
	Deyang Dongdian Electrical Machinery Equipment Whole Set Co., Ltd.	332,000.00	0.04	—	—
		64,000,374.25	7.80	42,984,353.33	5.27
Prepayment	DFEM Matal Framework. Accessory Co., Ltd	6,565,981.32	0.86	3,654,881.20	0.76
	SiChuan Dongfang Electrical Engineering United Co., Ltd	830,000.00	0.11		
	DFEC	14,040.00	0.01	—	—
		7,410,021.32	0.87	3,654,881.20	0.76

Item	Related company name	2005.6.30		2004.12.31	
		Amount	Percentage to the account balance (%)	Amount	Percentage to the account balance (%)
Other receivables	Dongle Heavy Piece Handling Company	10,017,490.00	12.57	10,498,182.40	13.18
Payment in advance	DFEC	5,108,044.99	0.62	190,150,181.77	5.11
	Dongfang Electronic auto-control Co.,Ltd	819,000.00	0.02	1,263,200.00	0.03
	DFEM Matal Framework Accessory Co., Ltd.	2,000,000.00	0.05	—	—
	SiChuan Dongfang Electrical Engineering United Co., Ltd	31,844,823.00	0.77	—	—
		203,760,948.77	4.91	191,413,381.77	5.14
Other payables	DFEW	99,362.89	0.20	10,214,085.92	15.39
Accounts payable	DFEM General Machinery Co., Ltd.	5,778,587.16	2.58	12,143,227.16	7.00
	DFEM General Equipment Co., Ltd.	11,472,418.00	5.13	8,507,946.00	4.91
	DFEM Insulating Material Co., Ltd	3,970,095.04	1.78	3,976,844.60	2.29
	DFEM Matal Framework Accessory Co., Ltd.	—	—	997,232.25	0.57
	DFEW	631,520.00	0.28	111,630.24	0.07
		21,852,620.20	9.77	25,736,880.25	14.84
Notes payables	DFEM General Equipment Co., Ltd.	4,337,332.80	3.53	2,800,000.00	3.55
	DFEM General Machinery Co., Ltd.	2,413,930.00	1.96	300,000.00	0.38
	DFEM Matal Framework Accessory Co., Ltd.	600,000.00	0.49	—	—
	DFEM Insulating Material Co., Ltd	—	—	2,737,867.67	3.47
		7,351,262.80	5.98	5,837,867.67	7.40

13. Contingent item

There exists no material contingency item necessary for disclosure.

14. Financial Commitments

Details of the approved capital expenditures within the year as at 30th June 2005 are listed as follows:

	2005.6.30
	<i>RMB</i>
<hr/>	
Approved and signed	130,328,410.26
Approved but not signed	684,000.00
<hr/>	

OTHER FINANCIAL INFORMATION (1)

SUPPLEMENTARY INFORMATION ON CONSOLIDATED PROFIT AND LOSS STATEMENT

From 1st Jan 2005 to 30th Jun 2005

Unit: RMB

Details of exceptional items:

Items	Consolidated	
	2005.6.30	2004.6.30
1. Gains on disposal of department or investment	—	—
2. Losses on natural disaster	—	—
3. Increase (decrease) in profits due to change of accounting policy and accounting estimate	—	(167,883,541.82)
4. Gains or losses from debt restructuring	—	—
5. Other exceptional items	27,432,851.35	7,349,392.73
	27,432,851.35	(160,534,149.09)
Percentage to consolidated net profit	10.44%	(435.29%)

OTHER FINANCIAL INFORMATION (2)

DETAILS OF RETURN ON NET ASSETS AND RETURN PER SHARE

From 1st Jan 2005 to 30th Jun 2005

Unit: RMB

	Return on net asset				Return per share			
	Fully diluted		Weighted average		Fully diluted		Weighted average	
	2005.6.30	2004.6.30	2005.6.30	2004.6.30	2005.6.30	2004.6.30	2005.6.30	2004.6.30
Profit from principal								
Operations	26.55%	30.86%	28.35%	31.45%	0.883	0.676	0.883	0.676
Operating profit	20.39%	5.14%	21.78%	5.24%	0.678	0.113	0.678	0.113
Net profit	17.55%	3.74%	18.75%	3.81%	0.584	0.082	0.584	0.082
Profit after								
extraordinary gain or loss	15.72%	20.02%	16.79%	20.40%	0.523	0.439	0.523	0.439

OTHER FINANCIAL INFORMATION (3)

DETAILS OF PROVISION FOR IMPAIRMENTS OF ASSETS

From 1st Jan 2005 to 30th Jun 2005

Unit: RMB

			fixed assets	other		
	2005.01.01	increase this period	value this period	reverse back this period	Total	2005.6.30
1. Provision for bad debt	157,218,090.81	8,729,452.85	—	25,131,410.84	25,131,410.84	140,816,132.82
Trade debtors	96,634,277.31	8,723,797.11	—	24,694,115.08	24,694,115.08	80,663,959.34
Other debtors	60,583,813.50	5,655.74	—	437,295.76	437,295.76	60,152,173.48
2. Provision for devaluation						
of short-term investment	—	—	—	—	—	—
Stock investment	—	—	—	—	—	—
3. Provision for devaluation						
of Inventory	4,801,092.20	—	—	2,348,940.02	2,348,940.02	2,452,152.18
Raw materials	—	—	—	—	—	—
Manufacturing in process	1,527,392.10	—	—	32,592.60	32,592.60	1,494,799.50
Finished product	3,273,700.10	—	—	2,316,347.42	2,316,347.42	957,352.68
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	1,160,754.10	—	—	—	—	1,160,754.10
Machinery and equipment	1,160,754.10	—	—	—	—	1,160,754.10
6. Provision for estimated loss	5,471,994.88	—	—	3,777,208.75	3,777,208.75	1,694,786.13

OTHER FINANCIAL INFORMATION (4)

DETAILS OF EXCEPTIONAL CHANGES FOR THE PERIOD

From 1st Jan 2005 to 30th Jun 2005

Unit: RMB

Item	2005.6.30	2004.12.31/ 2005.1.1-6.30	Percentage of changes
Prepayment	763,825,139.31	479,279,571.03	59.37%
Inventories	1,286,649,913.71	924,440,842.08	39.18%
Construction in progress	139,486,853.39	107,719,740.79	29.49%
Notes payable	122,923,126.76	78,878,810.93	55.84%
Other payables	11,898,112.32	4,990,377.06	138.42%
Accruals	78,766,499.10	39,973,977.30	97.04%
Revenue	1,176,354,054.58	891,383,801.99	31.97%
Costs of sales	775,242,240.49	582,933,507.84	32.99%
Other operating profit	20,745,074.64	8,573,045.43	141.98%
Finance expense	(14,700,225.99)	(1,943,826.25)	656.25%
Investment gains	1,189,263.25	288,319.90	312.48%

- A. Increase of prepayment was mainly due to the Company has signed more sales contracts this year, so its raw material purchase increased accordingly;
- B. The increase of inventories was due to more sales contract signed in current period and the rapid increase of the purchase of raw materials and finished goods;
- C. Increase of construction in progress mainly was due to expansion in production capacity of the Company and the need to purchase more manufacturing equipments;
- D. The increase of notes payable was due to more sales contracts were signed in current accounting period, which raised the purchase of raw materials, and the notes payment method was adopted increasingly by the Company;
- E. The increase of other payables was the result of the existence of unpaid reserve fund for housing in current accounting period;

- F. The increase of accruals comes from the reason that more sales contracts were signed in the current accounting period, which resulted in the corresponding increase is cost of accrued water & electricity and the package of fire-electricity products;
- G. The increase of revenue was due to shortage of electric power in the country. Therefore, more projects in manufacturing of hydro-electric and thermal-electric stations. Therefore, as one of the major suppliers of power-generating equipments, the business of the Company increased rapidly and more sales contracts were signed in the current accounting period;
- H. The increase in cost of sales was due to the more sales contracts signed in the current accounting period and the increase of revenue;
- I. The increase in other operating profit was due to the rise of price of steel and the corresponding increase of waste steel price in the current accounting period;
- J. A great number of fixed deposit receipt, increase in monetary fund, and fewer bank loans in the current accounting period result;
- K. Investment gains were due to the receipt of investment gains from national debt in the current accounting period.

(2) **The unaudited financial statements prepared in accordance with HK GAAP**

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

		Six months ended 30th June	
		2005	2004
		RMB'000	RMB'000
	NOTES	(Unaudited)	(Unaudited)
Turnover	4	1,176,354	891,384
Cost of sales		(775,358)	(585,062)
Gross profit		400,996	306,322
Other revenue		44,176	22,430
Distribution costs		(7,461)	(6,611)
Administrative expenses		(129,246)	(264,466)
Finance costs		(700)	(5,292)
Share of results of associates		—	(24)
Profit before taxation	5	307,765	52,359
Income tax charge	6	(42,255)	(15,921)
Profit for the period		265,510	36,438
Attributable to:			
Equity holders of the Company		265,238	36,327
Minority interests		272	111
		265,510	36,438
Dividend	7	—	—
Basic earnings per share	8	RMB0.589	RMB0.081

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2005

		30/6/2005 RMB'000 (Unaudited)	31/12/2004 RMB'000 (Audited) (As restated)
	NOTES		
Non-current assets			
Intangible assets		1,841	2,306
Property, plant and equipment	9	520,276	516,552
Construction in progress	9	161,643	124,310
Interests in associates		—	113
Available-for-sale investments/			
Investment securities		1,499	1,499
Prepaid lease payments			
on land use rights		26,719	27,075
		<u>711,978</u>	<u>671,855</u>
Current assets			
Inventories		1,286,650	924,441
Prepaid lease payments			
on land use rights		713	713
Amount due from customers			
for contract works		169,913	226,721
Trade receivables	10	740,366	718,272
Bills receivables		34,424	9,083
Prepayment		763,825	479,280
Other receivables		19,138	18,923
Amount due from an associate	14	1,002	1,050
Pledged bank deposits		215,994	139,083
Bank deposit with maturity			
over three months		1,996,477	491,435
Bank balances and cash		1,375,968	2,667,328
		<u>6,604,470</u>	<u>5,676,329</u>

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30TH JUNE 2005

		30/6/2005	31/12/2004
		RMB'000	RMB'000
	NOTES	(Unaudited)	(Audited)
			(As restated)
Current liabilities			
Trade payables	11	223,563	173,453
Bills payables		122,923	78,879
Other payables		202,862	247,422
Accrued expenses		78,766	39,974
Receipts in advance		4,153,413	3,722,709
Amount due to customers			
for contract works		896,750	588,787
Tax liabilities		109,636	185,032
Unsecured long-term loans			
– amount due within one year		10,000	10,000
Unsecured short-term loans		20,000	30,000
		<u>5,817,913</u>	<u>5,076,256</u>
Net current assets		<u>786,557</u>	<u>600,073</u>
		<u>1,498,535</u>	<u>1,271,928</u>
Capital and reserves			
Share capital	12	450,000	450,000
Reserves	13	978,997	767,759
		<u>1,428,997</u>	<u>1,217,759</u>
Minority interests		1,254	1,028
Non-current liability			
Deferred income		68,284	53,141
		<u>1,498,535</u>	<u>1,271,928</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Total equity <i>RMB'000</i>
At 1st January 2004	965,171
Net profit for the six months ended 30th June 2004	36,327
At 30th June 2004	1,001,498
Net profit for the six months ended 31st December 2004	216,261
At 31st December 2004	1,217,759
Dividend paid	(54,000)
Net profit for the six months ended 30th June 2005	265,238
At 30th June 2005	1,428,997

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash generated from operating activities	420,323	1,105,952
Net cash used in investing activities	(1,646,628)	(282,275)
Net cash used in financing activities	(65,055)	(360,894)
Net (decrease) / increase in cash and cash equivalents	(1,291,360)	462,783
Cash and cash equivalents at beginning of the period	2,667,328	958,550
Cash and cash equivalents at end of the period	<u>1,375,968</u>	<u>1,421,333</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

1. GENERAL

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

The Company’s ultimate holding company is DFEW and the superior administrative organisation of DFEW is China Dongfang Electric Corporation (“DFEC”).

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

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

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The HKSE and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December 2004 except as described below.

In the current interim period, the Group has adopted, for the first time, a number of new and revised applicable HKASs, Hong Kong Financial Reporting Standards (“HKFRS(s)”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by HKICPA that are effective for accounting periods beginning on or after 1st January 2005.

The adoption of these new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas. However, the adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented for the current and prior periods. Accordingly, no prior period adjustment is required.

(i) Financial instruments

In the current period, the Group has adopted and applied HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has adopted and applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments”. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale financial assets of which the fair value cannot be measured reliably are stated at cost less accumulated impairment losses. “Loans and receivable” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investment securities classified under non-current assets with carrying amount of RMB1,499,000 were reclassified to available-for-sale investments on 1st January 2005.

(ii) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured by the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land would continue to be accounted for as property, plant and equipment.

Effect of adopting HKAS 17 on condensed consolidated balance sheet:

	30/6/2005 RMB'000	31/12/2004 RMB'000
Decrease in property, plant and equipment	(27,432)	(27,788)
Increase in prepaid lease payments on land use rights	27,432	27,788
Changes in equity	—	—

(iii) Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

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

An analysis of the Group's revenue for the six months ended 30th June 2005 and 2004 is as follows:

	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Sales revenue from hydro power generators, steam power generators and AC / DC electrical motors	1,071,963	835,247
Rendering of repair, upgrade, maintenance and other services	104,391	56,137
	<u>1,176,354</u>	<u>891,384</u>

The directors are of the opinion that different products manufactured and sold by the Group are subject to common risks and returns and consequently do not reflect distinct business segments under HKAS 14. All of the Group's products are manufactured and sold in the PRC, therefore no geographical segment information is presented.

5. PROFIT BEFORE TAXATION

	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit before taxation has been arrived at after charging:–		
Depreciation of property, plant and equipment	41,038	65,064
Amortisation of intangible assets	465	274
Loss on disposal of an associate	43	—
Loss on disposal and written off of property, plant and equipment	2,050	745
Amortisation of prepaid lease payments on land use rights	356	356
	<u>41,952</u>	<u>76,439</u>

6. INCOME TAX CHARGE

	Six months ended 30th June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
The income tax comprises:		
Taxation attributable to the Company and its subsidiaries		
PRC income tax		
– Provided for the period	42,255	10,157
– Under-provision in prior periods	—	5,764
	<u>42,255</u>	<u>15,921</u>

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

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

7. DIVIDEND

The board of directors do not recommend the payment of an interim dividend (six months ended 30th June 2004: Nil).

8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share was based on the net profit for the period of RMB265,238,000 (six months ended 30th June 2004: RMB36,327,000) and on 450,000,000 (30th June 2004: 450,000,000) shares in issue during the period.

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the period, the Group spent approximately RMB1,011,000 and RMB83,437,000 (six months ended 30th June 2004: RMB2,762,000 and RMB93,803,000) on additions to property, plant and equipment and construction in progress respectively.

10. TRADE RECEIVABLES

	30/6/2005 <i>RMB'000</i> <i>(Unaudited)</i>	31/12/2004 <i>RMB'000</i> <i>(Audited)</i>
An aged analysis of trade receivables is as follows:		
Within one year	559,932	458,504
1 – 2 years	119,675	172,176
2 – 3 years	43,418	65,038
Over 3 years	17,341	22,554
	<u>740,366</u>	<u>718,272</u>

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

11. TRADE PAYABLES

	30/6/2005 <i>RMB'000</i> <i>(Unaudited)</i>	31/12/2004 <i>RMB'000</i> <i>(Audited)</i>
An aged analysis of trade receivables is as follows:		
Within one year	205,159	168,893
1 - 2 years	14,630	3,182
2 - 3 years	2,455	1,105
Over 3 years	1,319	273
	<u>223,563</u>	<u>173,453</u>

12. SHARE CAPITAL

There were no movements in share capital of the Company during the period from 1st January 2004 to 30th June 2005.

13. RESERVES

	Capital surplus	Statutory surplus reserve	Statutory welfare reserve	Dividend reserve	Accumulated profits/ (losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2004	636,061	27,854	26,129	—	(174,873)	515,171
Net profit for the six months ended 30th June 2004	—	—	—	—	36,327	36,327
At 30th June 2004	636,061	27,854	26,129	—	(138,546)	551,498
Net profit for the six months ended 31st December 2004	—	—	—	—	216,261	216,261
Transfer	—	11,328	5,664	—	(16,992)	—
Dividend set aside	—	—	—	54,000	(54,000)	—
At 31st December 2004	636,061	39,182	31,793	54,000	6,723	767,759
Dividend paid	—	—	—	(54,000)	—	(54,000)
Net profit for the six months ended 30th June 2005	—	—	—	—	265,238	265,238
At 30th June 2005	<u>636,061</u>	<u>39,182</u>	<u>31,793</u>	<u>—</u>	<u>271,961</u>	<u>978,997</u>

14. 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:

	Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<hr/>		
(a) Transactions with DFEC and its subsidiaries:—		
Expenditure		
– Interest paid and payable	<u>551</u>	<u>1,272</u>
Revenue		
– Sales of finished goods	<u>12,110</u>	<u>772</u>
(b) Transactions with DFEW and its subsidiaries:—		
Expenditure		
– Purchase of materials costs	37,982	59,577
– Packaging costs	—	13,183
– Freight and maintenance expenses	35,445	27,061
– Others	<u>7,173</u>	<u>11,712</u>
	<u>80,600</u>	<u>111,533</u>
Revenue		
– Provision of power supply	3,629	3,268
– Proceeds on sales of raw materials and finished goods	20,321	16,817
– Others	<u>1,534</u>	<u>3,225</u>
	<u>25,484</u>	<u>23,310</u>
Other		
– Income from disposal of an associate	<u>70</u>	<u>—</u>
<hr/>		

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

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

Name of related company	Related balances	30/6/2005	31/12/2004
		RMB'000 (Unaudited)	RMB'000 (Audited)
DFEC and its subsidiaries	Trade receivables	<u>28,877</u>	<u>26,354</u>
	Receipts in advance	<u>201,761</u>	<u>191,413</u>
	Prepayment	<u>844</u>	<u>—</u>
DFEC Finance Company (subsidiary of DFEC)	Bank balances	<u>35,412</u>	<u>40,015</u>
DFEW and its subsidiaries	Trade receivables	<u>35,123</u>	<u>16,631</u>
	Receipts in advance	<u>2,000</u>	<u>—</u>
	Prepayment	<u>6,566</u>	<u>3,655</u>
	Trade payables	<u>21,853</u>	<u>25,737</u>
	Bills payable	<u>7,351</u>	<u>5,838</u>
	Other payables	<u>99</u>	<u>10,214</u>

Except as disclosed above, other loans advanced from DFEC was amounted to RMB 10,000,000 (31/12/2004: RMB10,000,000) and the interest was charged at 6.12% per annum. Unsecured short term loan advanced from DFEC Finance Company was amounted to RMB10,000,000 (31/12/2004: RMB10,000,000) and the interest was charged at 4.779% per annum.

Balance with associates are unsecured, interest free and has no fixed terms of repayment.

15. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments in respect of acquisition of construction-in-progress, so far as not provided for in the financial statements:

	30/6/2005 <i>RMB'000</i> <i>(Unaudited)</i>	31/12/2004 <i>RMB'000</i> <i>(Audited)</i>
Contracted but not provided for	130,328	99,051
Authorised but not contracted for	684	25,917
	<u>131,012</u>	<u>124,968</u>