

Report of the Auditors



SHINEWING (HK) CPA Limited
Suites 09-18, 20/F.
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

To the shareholders of

Dongfang Electrical Machinery Company Limited

(a joint stock limited company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Dongfang Electrical Machinery Company Limited ("the Company") and its subsidiaries ("the Group") from pages 39 to 73 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 financial 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2005 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.

ShineWing (HK) CPA Limited

Certified Public Accountants

Lau Miu Man

Practising Certificate Number: P03603

Hong Kong

20th April 2006

Dongfang Electrical Machinery Company Limited

Consolidated Income Statement

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2005 RMB'000	2004 RMB'000
Turnover	6	3,047,858	2,051,360
Cost of sales		(2,094,581)	(1,307,886)
Gross profit		953,277	743,474
Other operating income	7	126,774	54,639
Distribution costs		(20,989)	(15,512)
Administrative expenses		(440,589)	(446,763)
Impairment losses on property, plant and equipment		—	(18,697)
Finance costs	8	(1,272)	(5,323)
Share of results of associates		—	(59)
Profit before tax		617,201	311,759
Income tax charge	9	(82,213)	(59,004)
Profit for the year	10	534,988	252,755
Attributable to:			
Equity holders of the parent		534,698	252,588
Minority interests		290	167
		534,988	252,755
Dividends:			
Proposed final dividend of RMB0.5 (2004: RMB0.12) per ordinary share	13	225,000	54,000
Earnings per share	14		
Basic		RMB1.188	RMB0.561
Diluted		Not applicable	Not applicable

Consolidated Balance Sheet

As at 31st December 2005

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

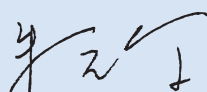
	NOTES	2005 RMB'000	2004 RMB'000 (As restated)
Non-current assets			
Intangible assets	15	1,427	2,306
Property, plant and equipment	16	569,034	516,552
Construction in progress	17	151,654	124,310
Prepaid lease payments on land use rights	18	26,363	27,075
Interests in associates	19	—	113
Interest in a jointly controlled entity	20	6,375	—
Available-for-sale investments	21	1,499	—
Investment securities	22	—	1,499
		756,352	671,855
Current assets			
Inventories	23	1,794,023	924,441
Prepaid lease payments on land use rights	18	713	713
Amounts due from customers for contract works	24	259,869	226,721
Trade receivables	25	852,385	718,272
Bills receivables		18,629	9,083
Prepayment		713,701	479,280
Other receivables		38,819	18,923
Amount due from an associate	32	904	1,050
Deposits in non-banking financial institution	32	35,800	40,015
Pledged bank deposits	26	154,254	139,083
Bank deposits with maturity over three months		1,957,009	491,435
Bank balances and cash		1,880,430	2,627,313
		7,706,536	5,676,329
Current liabilities			
Trade payables	27	450,198	173,453
Bills payables		237,321	78,879
Other payables		307,647	247,422
Accrued expenses		33,410	39,974
Receipts in advance		3,626,785	3,722,709
Amounts due to customers for contract works	24	1,835,767	588,787
Tax liabilities	28	126,270	185,032
Unsecured long-term loan		—	10,000
— amount due within one year	29	—	10,000
Unsecured short-term loans	29	10,000	30,000
		6,627,398	5,076,256
Net current assets		1,079,138	600,073
Total assets less current liabilities		1,835,490	1,271,928

Consolidated Balance Sheet *(continued)*

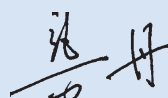
As at 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2005 RMB'000	2004 RMB'000 (As restated)
Capital and reserves			
Share capital	31	450,000	450,000
Reserves		1,248,457	767,759
Equity attributable to equity holders of the parent		1,698,457	1,217,759
Minority interests		1,272	1,028
		1,699,729	1,218,787
Non-current liability			
Deferred Income	30	135,761	53,141
		1,835,490	1,271,928

The financial statement on pages 39 to 73 were approved and authorised for issue by the Board of Directors on 20th April 2006 and are signed on its behalf by:



ZHU YUANCHAO
CHAIRMAN



GONG DAN
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31st December 2005

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

	Attributable to equity holders of the parent								
	Share capital	Capital surplus	Statutory surplus reserve	Statutory public welfare fund	Dividend reserve	Accumulated (losses) / retained earnings	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note a)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2004 as originally stated	450,000	636,061	27,854	26,129	—	(174,873)	965,171	—	965,171
Effect of changes in accounting policies (Note 2)	—	—	—	—	—	—	—	882	882
At 1st January 2004 as restated	450,000	636,061	27,854	26,129	—	(174,873)	965,171	882	966,053
Profit for the year	—	—	—	—	—	252,588	252,588	167	252,755
Transfer from retained earnings	—	—	11,328	5,664	—	(16,992)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(21)	(21)
Proposed final 2004 dividend (Note 13)	—	—	—	—	54,000	(54,000)	—	—	—
At 31st December 2004	450,000	636,061	39,182	31,793	54,000	6,723	1,217,759	1,028	1,218,787
Profit for the year	—	—	—	—	—	534,698	534,698	290	534,988
Transfer from retained earnings	—	—	53,510	26,754	—	(80,264)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(46)	(46)
Dividends paid	—	—	—	—	(54,000)	—	(54,000)	—	(54,000)
Proposed final 2005 dividend (Note 13)	—	—	—	—	225,000	(225,000)	—	—	—
At 31st December 2005	450,000	636,061	92,692	58,547	225,000	236,157	1,698,457	1,272	1,699,729

Notes:

(a) Statutory reserves

In accordance with the relevant laws and regulations in the People's Republic of China (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.

Consolidated Cash Flow Statement

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	2005 RMB'000	2004 RMB'000
OPERATING ACTIVITIES		
Profit before tax	617,201	311,759
Adjustments for:		
Share of results of associates	—	59
Finance costs	1,272	5,323
Interest income	(47,036)	(22,146)
Amortisation of deferred income	(6,664)	(2,208)
Impairment losses on property, plant and equipment	—	18,697
Depreciation and amortisation	98,251	133,035
Allowance for bad and doubtful debts for trade and other receivables	11,215	133,228
Written off of inventories	656	1,567
Recovery of allowance for inventories	(2,597)	—
Loss / (gain) on disposal of property, plant and equipment and construction in progress	2,380	(932)
Expenses of research and development cost in construction in progress	13,719	5,664
Loss on disposal of an associate	43	—
Operating cash flows before movements in working capital	688,440	584,046
Increase in inventories	(867,641)	(344,670)
Increase in net amounts due to / from customers for contract works	1,213,832	413,157
Increase in trade receivables, other receivables, bills receivables and prepayment	(410,504)	(302,885)
Decrease in amount due from an associate	1,459	1,109
Increase in trade payables, bills payables, other payables, accrued expenses, receipts in advance and deferred income	482,208	2,253,645
Decrease in tax liabilities	(85,610)	(19,042)
Cash generated from operations	1,022,184	2,585,360
PRC enterprise income tax paid	(55,365)	(260)
NET CASH FROM OPERATING ACTIVITIES	966,819	2,585,100

Consolidated Cash Flow Statement

For the Year ended 31st December 2005

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

	2005 RMB'000	2004 RMB'000
INVESTING ACTIVITIES		
Increase in bank deposits with maturity over three months and pledged bank deposits	(1,480,745)	(291,391)
Purchase of property, plant and equipment, construction in progress and intangible assets	(192,916)	(207,297)
Proceeds from disposal of an associate	70	—
Acquisition of a jointly controlled entity	(6,375)	—
Interest received	47,036	22,146
Proceeds from disposal of property, plant and equipment	895	12,486
NET CASH USED IN INVESTING ACTIVITIES	(1,632,035)	(464,056)
FINANCING ACTIVITIES		
Dividends paid	(54,000)	—
Repayment of loans	(40,000)	(435,600)
New loans raised	10,000	30,000
Interest paid	(1,836)	(6,645)
Dividends paid to minority shareholders	(46)	(21)
NET CASH USED IN FINANCING ACTIVITIES	(85,882)	(412,266)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(751,098)	1,708,778
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,667,328	958,550
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,916,230	2,667,328
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by:		
Bank balances and cash	1,880,430	2,627,313
Deposits in non-banking financial institution	35,800	40,015
	1,916,230	2,667,328

Notes to the Consolidated Financial Statements

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

1. GENERAL

Dongfang Electrical Machinery Company Limited 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 registered office of the Company is disclosed in the Company Profile to the annual report.

DFEW has entered into the share transfer agreement with China Dongfang Electric Corporation ("DFEC") on 10th November 2005. Pursuant to the transfer agreement, DFEW shall transfer its 220,000,000 state-owned legal person shares (representing 48.89% of the Company's total issued share capital) in the Company to DFEC at nil consideration. On 30th December 2005, the State-owned Assets Supervision and Administration Commission promulgated "Approval of certain issues in the transfer of state-owned shares of Dongfang Electrical Machinery Company Limited" to approve the transfer. In the opinion of the directors, the Company's ultimate holding company is DFEC since 30th December 2005.

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries ("the Group").

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. 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 application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. 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 applied the relevant transitional provisions in HKAS 39 with respect to the 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 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "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 profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured 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". "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 equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "investment securities" amounted to approximately RMB1,499,000 has been classified as "available-for-sale investments" on 1st January 2005 (see Note 2A for the financial impact).

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 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”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, 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 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. (see Note 2A for the financial impact)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

There is no effect of the changes in accounting policies on the results for the current and prior years. The cumulative effects of the application of the new HKFRSs on 31st December 2004 and 1st January 2005 are summarised below:

	As at 31st December 2004 (originally stated)	Retrospective adjustments		As at 31st December 2004 (restated)	Prospective adjustments	As at 1st January 2005 (restated)
	RMB'000	RMB'000 HKAS 1	RMB'000 HKAS 17	RMB'000	RMB'000 HKAS 39	RMB'000
Balance sheet items						
Property, plant and equipment	544,340	—	(27,788)	516,552	—	516,552
Prepaid lease payments on land use rights	—	—	27,788	27,788	—	27,788
Investment securities	1,499	—	—	1,499	(1,499)	—
Available-for-sale investments	—	—	—	—	1,499	1,499
Total effect on assets and liabilities	545,839	—	—	545,839	—	545,839
 Minority interests	 —	 1,028	 —	 1,028	 —	 1,028
Total effect on equity	—	1,028	—	1,028	—	1,028
 Minority interests	 1,028	 (1,028)	 —	 —	 —	 —

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES *(continued)*

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January 2004 are summarised below:

	As originally stated RMB'000	Adjustments RMB'000 HKAS 1	As restated RMB'000
Minority interests	—	882	882
Total effects on equity	—	882	882

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease ²
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment ³
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st January 2006.

³ Effective for annual periods beginning on or after 1st December 2005.

⁴ Effective for annual periods beginning on or after 1st March 2006.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for financial instruments, which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchanges of Hong Kong Limited and by the Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(c) Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against the profit in the year in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost and less any subsequent accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets are tested for impairment annually either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and, where applicable, adjustments are made on a prospective basis.

As intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognised in the income statement in the year the intangible asset is derecognised.

Technical know-how

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

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the depreciation method as stated below.

The depreciation method for the plant and machinery and furniture, fixtures and equipment of the Group was using the double reducing-balance method, others are 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
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%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

(f) Construction in progress

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 appropriate category of property, plant and equipment and depreciation commences when the asset has been completed and reaches the status for intended use.

(g) Land use rights

Land use rights are stated 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 Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, bills receivables, prepayment, other receivables, amounts due from customers for contract works and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the year in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the income statement in the year in which it arises. Such impairment losses recognised shall not be reversed in subsequent periods.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade payables, bills payables, other payables, accrued expenses, receipts in advance, amounts due to customers for contract works and loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method.

(j) Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the consolidated 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 for work performed to date bear to the estimated total contract costs.

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 Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

(l) Revenue recognition

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.

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.

Repair, upgrade and maintenance service income

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

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) 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 income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rate that have been enacted or substantially 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 bases 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 profits 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, and interests in jointly controlled entities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference 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 profits 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.

(n) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (i.e. the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Government grant

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expenses.

(p) Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense as they fall due.

(q) Impairment losses (other than intangible assets, see the accounting policies in respect of intangible assets above)

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the financial information is discussed below.

Depreciation of property, plant and equipment

The plant and machinery and furniture, fixtures and equipment are depreciated on the double reducing-balance basis, and the building and motor vehicles are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Amortisation of intangible assets

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, loans, trade and bills receivables, other receivables, trade and bills payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has foreign currency purchases and sales, which expose the Group to foreign currency risk.

Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing bank loans. (see Note 29 for details of these loans)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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6. TURNOVER AND SEGMENT INFORMATION

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

	2005 RMB'000	2004 RMB'000
Turnover		
Sales of Hydro power generators, steam power generators and AC/DC electrical motors	2,902,404	1,925,095
Provision of repair, upgrade, maintenance and other services	145,454	126,265
	3,047,858	2,051,360

The above Group's operations are regarded as a single segment. All of the Group's sales and provision of services are in the PRC and all of the Group's carrying amount of segment assets and additions to property, plant and equipment are situated in the PRC. Accordingly, no segmental analysis of business and geographical segments is presented for both years.

7. OTHER OPERATING INCOME

	2005 RMB'000	2004 RMB'000
Interest income	47,036	22,146
Amortisation of deferred income (Note 30)	6,664	2,208
Gain on disposal of raw materials and work in progress	57,575	29,302
Recovery of bad debts	6,627	—
Other income	8,872	983
	126,774	54,639

8. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank loans, wholly repayable within 5 years	939	4,900
Interest on other loans, wholly repayable within 5 years	897	1,745
	1,836	6,645
Total borrowing costs	(564)	(1,322)
Less: Amount capitalised in respect of construction in progress		
	1,272	5,323

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
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9. INCOME TAX CHARGE

	2005 RMB'000	2004 RMB'000
Income tax charge comprises:		
Tax attributable to the Group		
PRC enterprise income tax		
— Provided for the year	82,213	53,241
— Under-provision in prior years	—	5,763
	82,213	59,004

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

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

	2005 RMB'000	2004 RMB'000
Profit before tax	617,201	311,759
Tax at applicable tax rate of 15% (2004: 15%)	92,580	46,764
Tax effect of income not taxable for tax purpose	(22,777)	(5,627)
Tax effect of expenses not deductible for tax purpose	10,017	29,654
Utilisation of tax losses previously not recognised	(3,315)	(19,020)
Under-provision in prior years	—	5,763
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	5,708	1,470
Tax charge for the year	82,213	59,004

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

At the balance sheet date, the Group has deferred tax assets arising from temporary differences of RMB29,147,000 (2004: RMB26,805,000) which have not been recognised in the consolidated financial statements due to the unpredictability of future profit streams.

At the balance sheet date, the Group has no estimated unused tax losses (2004: Nil). No deferred tax assets arising from estimated unused tax losses (2004: Nil).

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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10. PROFIT FOR THE YEAR

	2005 RMB'000	2004 RMB'000
Profit for the year is stated after charging / (crediting):		
Auditors' remuneration	1,070	970
Amortisation of intangible assets	933	869
Allowance for bad and doubtful debts for trade receivables	11,688	102,930
Amortisation of prepaid lease payments on land use rights	712	712
Depreciation on property, plant and equipment**	86,335	120,642
Impairment loss on property, plant and equipment	—	18,697
Loss / (gain) on disposals and written off of property, plant and equipment and construction in progress	2,380	(932)
Loss on disposal of an associate	43	—
(Recovery of) / allowance for bad and doubtful debts for other receivables	(473)	30,298
Recovery of allowances for inventories	(2,597)	—
Research and development costs **	80,535	51,142
Staff costs ** (Note 11)	400,852	280,406
Written off of inventories	656	1,567

** Included in the research and development costs are staff costs and depreciation on property, plant and equipment of RMB48,986,000 (2004: RMB32,336,000) and RMB10,271,000 (2004: RMB10,812,000) respectively, which have not been included in staff costs and depreciation of property, plant and equipment as disclosed above.

11. STAFF COSTS

	2005 RMB'000	2004 RMB'000
Salaries and wages	359,042	242,365
Staff welfare	43,175	29,897
Retirement benefits scheme contributions — defined contribution plans (Note 34)	47,621	40,480
Housing fund (Note 34)	25,732	13,388
	475,570	326,130

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

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
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12. DIRECTORS' AND SUPERVISOR'S EMOLUMENTS

- (a) The emoluments paid or payable to each of the 19 (2004: 15) directors and supervisors were as follows:

For the year ended 31st December 2005

	Fees	Basic salaries and allowances	Bonuses	Retirement benefits scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Directors:					
Zhu Yuanchao (Note i)	—	175	—	10	185
Han Zhiqiao (Note i)	—	175	—	10	185
Zhang Tiande (Note ii)	—	129	—	20	149
Li Hongdong (Note iii)	—	129	—	20	149
Gong Dan (Note i)	—	129	—	20	149
He Jianhua (Note ii)	—	129	—	20	149
Gao Feng (Note ii)	—	65	—	20	85
Liu Hui (Note ii)	—	129	—	20	149
Fu Haibo (Note iv)	—	—	—	—	—
Liu Shigang (Note iv)	—	—	—	—	—
	—	1,060	—	140	1,200
Independent non-executive directors:					
Jing Jiachuan (Note ii,v)	—	65	—	20	85
Chen Zhangwu (Note i)	—	30	—	—	30
Xie Songlin (Note i)	—	30	—	—	30
Zheng Peimin (Note i)	—	30	—	—	30
	—	155	—	20	175
Supervisors:					
Zhou Xiaomin (Note ii,v)	—	23	68	12	103
Xiao Shuiquan (Note ii)	—	26	70	13	109
Wen Bingyou (Note iv)	—	—	—	—	—
Wang Wanling (Note iv)	—	—	—	—	—
Fang Yunfu (Note iv)	—	—	—	—	—
	—	49	138	25	212
	—	1,264	138	185	1,587

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

12. DIRECTORS' AND SUPERVISOR'S EMOLUMENTS *(continued)*

For the year ended 31st December 2004

	Fees RMB'000	Basic salaries and allowances RMB'000	Bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Directors:					
Zhu Yuanchao	—	72	—	14	86
Han Zhiqiao	—	72	—	14	86
Zhang Tiande	—	60	—	12	72
Gong Dan	—	60	—	12	72
He Jianhua	—	60	—	12	72
Gao Feng	—	60	—	11	71
Liu Hui	—	60	—	11	71
	—	444	—	86	530
Independent non-executive directors:					
Jing Jiachuan (Note v)	—	60	—	12	72
Chen Zhangwu	—	30	—	—	30
Xie Songlin	—	30	—	—	30
Zheng Peimin	—	30	—	—	30
Ada Ying Kay Wong (Note vi)	—	30	—	—	30
	—	180	—	12	192
Supervisors:					
Zhou Xiaomin (Note v)	—	23	37	8	68
Li Hongdong	—	60	—	12	72
Xiao Shuiquan	—	28	36	8	72
	—	111	73	28	212
	—	735	73	126	934

Notes:

- (i) Reappointed on 28th December 2005.
- (ii) Expiring on 27th December 2005.
- (iii) Expiring as office of supervisor on 27th December 2005 and appointed as director of the Company on 28th December.
- (iv) Appointed on 28th December 2005.
- (v) Emoluments paid by DFEW, 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 DFEW.
- (vi) Resigned on 26th August 2004.

No directors waived any emoluments for the years ended 31st December 2005 and 2004. 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) The five highest paid individuals in the Group in 2005 and 2004 were all directors and supervisors of the Company and the details of their emoluments are included in note 12a above.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
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13. DIVIDENDS

	2005 RMB'000	2004 RMB'000
Proposed final dividend of RMB0.5 (2004: RMB0.12) per ordinary share	225,000	54,000

At a meeting held on 20th April 2006, the Board of Directors proposed a final dividend of RMB 0.5 per ordinary share for the year ended 31st December 2005. The proposed final dividend is not accounted for until it has been approved in the Annual General Meeting and included as a dividend reserve in these financial statements.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the parent of RMB534,698,000 (2004: RMB252,588,000) and the number of 450,000,000 ordinary shares (2004: 450,000,000 shares) in issue during the year.

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

15. INTANGIBLE ASSETS

	Technology know-how RMB'000	Computer software and telecommunication system RMB'000	Total RMB'000
Cost			
At 1st January 2004	2,556	146	2,702
Addition	—	1,953	1,953
At 31st December 2004	2,556	2,099	4,655
Additions	—	54	54
At 31st December 2005	2,556	2,153	4,709
Accumulated amortisation and impairment			
At 1st January 2004	1,406	74	1,480
Charge for the year	511	358	869
At 31st December 2004	1,917	432	2,349
Charge for the year	511	422	933
At 31st December 2005	2,428	854	3,282
Carrying values			
At 31st December 2005	128	1,299	1,427
At 31st December 2004	639	1,667	2,306

The Group's intangible assets were acquired from third parties. The intangible assets have definite useful lives are amortised on a straight-line basis over 3 to 5 years.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1st January 2004	321,824	576,790	75,660	9,266	983,540
Additions	30,449	127,398	10,359	1,126	169,332
Disposals	(12,928)	(19,918)	(3,044)	(1,156)	(37,046)
At 31st December 2004	339,345	684,270	82,975	9,236	1,115,826
Reclassification	—	(29)	29	—	—
Additions	24,945	113,246	9,919	4,235	152,345
Disposals / written off	(2,502)	(8,408)	(11,571)	(1,155)	(23,636)
At 31st December 2005	361,788	789,079	81,352	12,316	1,244,535
Accumulated depreciation and impairment					
At 1st January 2004	103,586	310,281	55,415	6,695	475,977
Charge for the year	27,850	89,919	12,859	826	131,454
Eliminated on disposals / written off	(2,622)	(20,278)	(2,937)	(1,017)	(26,854)
Impairment loss recognised for the year	18,697	—	—	—	18,697
At 31st December 2004	147,511	379,922	65,337	6,504	599,274
Charge for the year	15,685	74,999	4,885	1,037	96,606
Eliminated on disposals / written off	(486)	(7,762)	(11,001)	(1,130)	(20,379)
At 31st December 2005	162,710	447,159	59,221	6,411	675,501
Net book values					
At 31st December 2005	199,078	341,920	22,131	5,905	569,034
At 31st December 2004	191,834	304,348	17,638	2,732	516,552

As at 31st December 2005, the Group has not obtained the building ownership certificates for certain buildings with net book value of RMB127,117,000. All the buildings are located in the PRC.

17. CONSTRUCTION IN PROGRESS

	2005 RMB'000	2004 RMB'000
Cost		
As at 1st January	124,310	94,002
Additions	185,876	184,907
Capitalisation of interest expenses	564	1,322
	310,750	280,231
Written off	(18)	(1,362)
Expenses of research and development cost to income statement for the year	(13,719)	(5,664)
Transfer to property, plant and equipment	(145,359)	(148,895)
As at 31st December	151,654	124,310

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

18. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

The Group's prepaid lease payments on land use rights comprise:

	2005 RMB'000	2004 RMB'000
Medium-term leasehold land in PRC	27,076	27,788
Analysed for reporting purposes as:		
Current asset	713	713
Non-current asset	26,363	27,075
	27,076	27,788

19. INTERESTS IN ASSOCIATES

	2005 RMB'000	2004 RMB'000
Unlisted investments in the PRC:		
At cost	490	690
Share of post-acquisition losses	(490)	(577)
	—	113

Particulars of the associate as at 31st December 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Class of share held	Percentage of equity interests owned by the Company	Principal activity
Leshan City Dongle Heavy Piece Handling Co., Ltd.	Incorporated	PRC	Registered capital	49	Provision of transportation and warehousing services

The summarised financial information in respect of the Group's associates are extracted from the financial statements for the year ended 31st December 2005 and 2004 which are prepared under the PRC accounting standards are as follows:

	2005 RMB'000	2004 RMB'000
Total assets	11,196	13,617
Total liabilities	(11,139)	(13,982)
Net assets / (liabilities)	57	(365)
Turnover	8,603	3,918
Profit for the year	377	125

In the opinion of the directors, the amounts of share of results of the associates and share of net assets are insignificant to the Group.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005 RMB'000	2004 RMB'000
Unlisted investment in the PRC:		
At cost	6,375	—
Share of post-acquisition profits	—	—
	<u>6,375</u>	<u>—</u>

Particulars of the jointly controlled entity as at 31st December 2005 is as follows:

Name of company	Form of business structure	Place of incorporation and operation	Class of share held	Percentage of equity interests owned by the Company %	Principal activity
AREVA - DONGFANG Reactor Coolant Pumps Company Limited	Incorporated	PRC	Registered capital	50	Design, manufacture and sales of reactor coolant pumps for nuclear power stations

The summarised financial information in respect of the Group's jointly controlled entity is set out below:

	2005 RMB'000	2004 RMB'000
Total assets	12,750	—
Total liabilities	—	—
Net assets	<u>12,750</u>	<u>—</u>
Turnover	<u>—</u>	<u>—</u>
Result for the year	<u>—</u>	<u>—</u>

21. AVAILABLE-FOR-SALE INVESTMENTS

	2005 RMB'000	2004 RMB'000
Unlisted equity shares in the PRC, at cost	1,810	—
Less: Impairment losses recognised	(311)	—
	<u>1,499</u>	<u>—</u>

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

22. INVESTMENT SECURITIES

Investment securities as at 31st December 2004 are set out below. Upon the application of HKAS 39 on 1st January 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see note 2 for details).

	2004 RMB'000
Unlisted investments, at cost	1,810
Less: Impairment losses recognised	(311)
	<u>1,499</u>

23. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	892,564	392,009
Work in progress	534,404	385,552
Finished goods	361,076	143,427
Spare parts and consumables	5,979	3,453
	<u>1,794,023</u>	<u>924,441</u>

At 31st December 2005, the carrying amount of inventories of the Group that are carried at net realisable value amounted to RMB32,240,000 (2004: RMB35,438,000).

During the year, goods which allowance had been made in prior years had been sold. As a result, a reversal of write down of inventories of RMB2,597,000 has been recognised and included in the administrative expenses in the current year.

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

	2005 RMB'000	2004 RMB'000
Construction contracts in progress at the balance sheet date:		
Contract cost incurred	897,471	493,226
Attributable profits less foreseeable losses	160,387	75,575
	<u>1,057,858</u>	568,801
Less: Progress billings received and receivable	<u>(2,633,756)</u>	(930,867)
	<u>(1,575,898)</u>	(362,066)
Represented by:		
Amounts due from customers for contract works	259,869	226,721
Amounts due to customers for contract works	<u>(1,835,767)</u>	(588,787)
	<u>(1,575,898)</u>	<u>(362,066)</u>

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

25. TRADE RECEIVABLES

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

	2005 RMB'000	2004 RMB'000
Trade receivables	960,707	814,906
Less: allowance for bad and doubtful debts	(108,322)	(96,634)
	852,385	718,272

An ageing analysis of the trade receivables is as follows:

	2005 RMB'000	2004 RMB'000
Within 1 year	575,234	458,504
1 - 2 years	176,443	172,176
2 - 3 years	69,625	65,038
More than 3 years	31,083	22,554
	852,385	718,272

The fair value of the Group's trade receivables at 31st December 2005 was approximated to the corresponding carrying amount.

26. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to bank to secure short-term banking facilities granted to the Group and are therefore classified as current assets. The deposits carry interest rate at prevailing market rate at around 0.72% per annum. The pledged bank deposits will be released upon the settlement of relevant bank loans. The fair value of bank deposits at 31st December 2005 was approximated to the corresponding carrying amount.

27. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	2005 RMB'000	2004 RMB'000
Within 1 year	435,556	168,893
1 - 2 years	12,730	3,182
2 - 3 years	692	1,105
More than 3 years	1,220	273
	450,198	173,453

The fair value of the Group's trade payables as at 31st December 2005 was approximated to the corresponding carrying amount.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

28. TAX LIABILITIES

	2005 RMB'000	2004 RMB'000
Value added tax	36,999	113,271
Business tax	811	875
Enterprise income tax	87,456	60,608
Urban development tax	505	9,824
Others	499	454
	126,270	185,032

29. UNSECURED LOANS

	Long-term		Short-term	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Bank loans	—	—	10,000	20,000
Other loans	—	10,000	—	10,000
	—	10,000	10,000	30,000

Unsecured loans are repayable within one year.

At 31st December 2005, the short-term bank loan is fixed-rate borrowing which carry interest at 5.022% per annum.

At 31st December 2004, the loans are fixed-rate borrowings, of which the short-term loans carry interest at 4.779% per annum and the long-term loan carry interest at 5.76% per annum.

During the year, the Group obtained short-term bank loan in the amount of RMB10,000,000. The loan bear interest at 5.022% per annum and will be repayable in 2006.

The directors consider that the carrying amount of loans were approximated to their fair value.

30. DEFERRED INCOME

Deferred income represents government grants received by way of tax refund for the removal and renovation and purchase of environmental protection equipments.

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:

	2005 RMB'000	2004 RMB'000
At 1st January	53,141	—
Additions	89,284	55,349
Transfer to consolidated income statement	(6,664)	(2,208)
At 31st December	135,761	53,141

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

31. SHARE CAPITAL

	2005 and 2004	
	No. of shares '000	Amount RMB'000
Registered, issued and fully paid up capital of RMB1 each:		
State-owned legal person shares	220,000	220,000
A shares	60,000	60,000
H shares	170,000	170,000
	450,000	450,000

32. 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:

	2005 RMB'000	2004 RMB'000
Expenditure		
– Interest paid and payable	897	1,745
Revenue		
– Interest income	1,118	336
– Sales of finished goods	187,696	8,252
– Others	403	—
	189,217	8,588

(b) Transactions with DFEW and its subsidiaries:

	2005 RMB'000	2004 RMB'000
Expenditure		
– Purchase of raw materials	119,651	89,516
– Packaging costs	—	16,499
– Freight and maintenance	63,031	55,913
– Others	22,980	24,292
	205,662	186,220
Revenue		
– Provision of power supply	5,757	7,221
– Proceeds on sales of raw materials and finished goods	47,562	28,606
– Proceeds from disposal of interest in an associate	70	—
– Others	5,722	4,233
	59,111	40,060

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

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

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

Name of related company	Related balances	2005 RMB'000	2004 RMB'000
DFEC and its subsidiaries	Trade receivables	111,105	26,354
	Receipts in advance	135,604	191,413
DFEC Finance Company (subsidiary of DFEC)	Deposits in non-banking financial institution	35,800	40,015
DFEW and its subsidiaries	Trade receivables	45,518	16,631
	Other receivables	72	—
	Prepayment	5,068	3,655
	Trade payables	40,423	25,737
	Bills payables	3,157	5,838
	Receipts in advance	203	—
	Other payables	3,143	10,214

Except as disclosed above, there was no other loan advanced from DFEC (2004: RMB10,000,000) as at balance sheet date. There was no unsecured short-term loans advanced from DFEC Finance Company (2004: RMB10,000,000) as at balance sheet date.

Balance with associate is unsecured, interest free and repayable on demand. Details of the balance with associate of the Group are set out in the consolidated balance sheet.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 RMB'000	2004 RMB'000
Short-term benefits	1,591	808
Post-employment benefits	223	126
	1,814	934

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005

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

33. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2005 RMB'000	2004 RMB'000
Capital expenditure in respect of the acquisition of interest in a jointly controlled entity		
Contracted but not provided for	36,125	—
Capital expenditure in respect of the acquisition of construction in progress		
Contracted but not provided for	123,507	99,051
Authorised but not contracted for	—	25,917
	159,632	124,968

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

The Group's full-time employees are covered by a government sponsored defined contribution pension scheme, and are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the pension scheme on 20% of employees' salaries, which are charged as an expense when the contributions are due. In addition, the Group has offered an additional pension scheme to the key staffs and major technical staffs, as a medium to long-term encouragement. The additional pension scheme, which is an insurance scheme and operated by China Life Insurance Company Limited. Staffs under the scheme are entitled to a yearly pension at their retirement dates. The above pension schemes are wholly contributed by the Group. The amount of contribution depends on the result for the year. For the year ended 31st December 2005, the retirement benefits scheme contributions made by the Group amounted to RMB47,621,000 (2004: RMB40,480,000).

On 26th June 2003, the Group has abolished the socialised health care scheme and carried out a defined contribution health care scheme. Under this scheme, the Group is required to make annual contributions to the health care scheme on 7% of employees' salaries. The maximum amount of reimbursed medical expenses for each staff is RMB34,000 per annum. In addition, the Group has offered additional health care scheme to the staffs, which is also an insurance scheme and operated by China Life Insurance Company Limited. This additional healthcare scheme covered the protection over the basis maximum amount of reimbursed medical expenses. For the year ended 31st December 2005, the health care scheme contributions made by the Group amounted to RMB8,423,000 (2004: RMB9,404,000).

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 11% of employees' salaries. From 1st February 2005, the contribution rate was changed to 15%. For the year ended 31st December 2005, the housing fund contributions made by the Group amounted to RMB25,732,000 (2004: RMB13,388,000).

35. POST BALANCE SHEET EVENT

- (1) On 17th February 2006, the Company had received a Transfer and Registration Confirmation issued by the China Securities Depository and Clearing Corporation Limited Shanghai Branch confirming that the 220,000,000 state-owned legal person shares of the Company have been transferred into the securities account of DFEC. The abovesaid shares will remain state-owned legal person shares in nature and there will be no change in the ultimate beneficial ownership of the state-owned legal person shares.
- (2) Subsequent to the balance sheet date, the Company announced that DFEC, the controlling shareholder, has proposed a share segregation reform (the "Reform Proposal"). It is proposed by DFEC that 2.7 non-circulating state-owned legal person shares ("Non-circulating Shares") would be allocated to each A Shares shareholder for every 10 A Shares held by such A Shares shareholder at the close of business on the Reform Proposal record date, in exchange for the consent of A Shares shareholders on the conversion of all Non-circulating Shares into A Shares. Accordingly, an aggregate of 16,200,000 shares will be allocated by DFEC to the A Shares shareholders. On 6th April 2006, the Reform Proposal was approved at the A Shares shareholders' meeting.

Notes to the Consolidated Financial Statements *(continued)*

For the Year ended 31st December 2005
(prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

36. SUBSIDIARIES

Particulars of the subsidiaries as at 31st December 2005, all of which were limited companies established and operating in the PRC, are as follows:

Name of subsidiary	Class of shares held	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.	Registered capital	13,500	97.04	2.22	Provision of services for repair and upgrade of electrical machinery equipment
DFEM Power Equipment Co. Ltd.	Registered capital	42,754	98.83	—	Manufacture and sales of AC/DC electrical motors
DFEM Tooling and Moulding Co., Ltd.	Registered capital	14,600	99.32	—	Manufacture and sales of tools and moulds
DFEM Control Equipment Co., Ltd.	Registered capital	13,000	96.15	—	Manufacture and sales of control equipment of power generators

37. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005 RMB'000	2004 RMB'000 (As restated)
Interests in subsidiaries	82,354	60,512
Other non-current assets	732,947	649,538
Amounts due from subsidiaries	85,296	—
Other current assets	7,323,761	5,383,168
Amounts due to subsidiaries	—	(36,251)
Other current liabilities	(6,380,755)	(4,781,443)
	1,843,603	1,275,524
Share capital	450,000	450,000
Reserves	1,257,842	772,383
Non-current liability	135,761	53,141
	1,843,603	1,275,524

38. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20th April 2006.

Deloitte. 德勤

De Shi Bao (Shen) Zi (06) No. PSZ017

To the Shareholders of
Dongfang Electrical Machinery Company Limited:

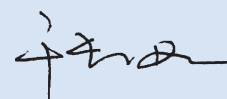
We have audited the accompanying balance sheets of the Company and the Group as of 31 December 2005 and the related statements of income and cash flow of the Company and the Group for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We planned and performed our audit in accordance with China's Independent Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatement. 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 policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2005 and the results of their operations and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises promulgated by the State.

Deloitte Touche Tohmatsu Certified Public Accountants Ltd.
Shanghai • China

Chinese Certified Public Accountant



GAn Chang Ru

Chinese Certified Public Accountant



Tong Yu Jian

April 20, 2006

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 Sheet (continued)

For the Year ended 31 December 2005
(prepared under PRC Accounting Standards)

		Group		Company	
	Notes	31/12/2005 RMB	12/31/2004 RMB	31/12/2005 RMB	12/31/2004 RMB
ASSETS					
CURRENT ASSETS:					
Bank balance and cash	6	4,027,493,299.29	3,297,846,004.30	3,921,304,333.42	3,203,384,745.39
Notes receivable	7	18,629,152.00	35,923,636.50	6,261,000.00	35,873,636.50
Accounts receivable	8, 10	852,384,702.76	718,272,188.40	859,771,253.97	688,088,843.64
Other receivables	9, 10	39,532,097.00	19,077,591.08	54,370,131.68	18,795,392.27
Prepayments	11	713,701,300.91	479,279,571.03	726,597,377.37	504,773,384.83
Inventories	12	2,053,892,146.91	1,151,161,717.30	1,896,280,386.37	1,041,605,564.36
Including: Amounts due from Customers for contract work	13	259,868,982.06	226,720,875.22	236,222,120.06	215,474,615.90
Deferred Expenses		190,983.43	895,501.97	—	400,830.59
Total current assets		7,705,823,682.30	5,702,456,210.58	7,464,584,482.81	5,492,922,397.58
LONG-TERM INVESTMENTS:					
Long-term equity investments	14	7,069,804.12	654,044.04	93,727,056.12	65,191,275.16
Including: Equity investment difference		(804,832.53)	(958,673.37)	—	—
Total long-term investments		7,069,804.12	654,044.04	93,727,056.12	65,191,275.16
FIXED ASSETS:					
Fixed assets-cost	15	1,225,255,745.96	1,095,820,989.94	1,155,876,066.27	1,028,722,681.05
Less: Accumulated depreciation	15	655,060,709.86	578,108,506.75	607,355,429.77	533,154,628.55
Fixed assets-net		570,195,036.10	517,712,483.19	548,520,636.50	495,568,052.50
less: Impairment	15	1,160,754.10	1,160,754.10	1,160,754.10	1,160,754.10
Fixed assets-net book value	15	569,034,282.00	516,551,729.09	547,359,882.40	494,407,298.40
Materials held for construction of fixed assets		31,087,864.99	16,590,585.12	32,776,101.99	18,761,976.12
Construction in progress	16	120,565,260.60	107,719,740.79	118,857,476.82	107,582,165.59
Total fixed assets		720,687,407.59	640,862,055.00	698,993,461.21	620,751,440.11
INTANGIBLE ASSETS AND OTHER ASSETS:					
Intangible assets	17	28,502,581.86	30,094,685.94	28,480,845.48	30,057,875.04
Total intangible assets and other assets		28,502,581.86	30,094,685.94	28,480,845.48	30,057,875.04
TOTAL ASSETS		8,462,083,475.87	6,374,066,995.56	8,285,785,845.62	6,208,922,987.89

Balance Sheet (continued)

At 31 December 2005
(prepared under PRC Accounting Standards)

	Notes	Group		Company	
		31/12/2005 RMB	12/31/2004 RMB	31/12/2005 RMB	12/31/2004 RMB
LIABILITIES AND OWNERS' EQUITY:					
CURRENT LIABILITIES:					
Short-term loans	18	10,000,000.00	56,840,950.50	10,000,000.00	56,840,950.50
Notes payable	19	237,320,706.67	78,878,810.93	237,320,706.67	78,878,810.93
Accounts payable	20	450,197,991.13	173,453,299.52	434,054,884.91	170,935,328.41
Advances form customers	21	5,462,233,395.22	4,306,023,781.35	5,331,147,247.13	4,158,564,072.70
Including: Amounts due to customers for contract work		1,835,448,146.77	583,315,130.95	1,713,874,808.68	503,020,743.46
Salaries and wages payable		96,080,879.22	46,378,668.67	88,156,510.85	44,659,151.07
Employee benefits payable		25,068,810.87	12,576,457.30	19,841,315.58	7,622,590.88
Taxes payable	22	126,270,414.76	185,032,286.39	111,584,575.69	185,892,810.19
Other fees payable		546,156.17	4,990,377.06	513,170.80	4,548,597.86
Other payables		60,976,263.91	66,386,349.68	54,129,572.31	58,609,302.45
Accrued expenses	23	33,410,088.63	39,973,977.30	27,182,493.80	31,757,232.44
Provisions		318,508.00	5,471,994.88	318,508.00	5,471,994.88
Long-term liabilities due Within one year		—	10,000,000.00	—	10,000,000.00
Total current liabilities		6,502,423,214.58	4,986,006,953.58	6,314,248,985.74	4,813,780,842.31
LONG-TERM LIABILITIES:					
Long-term loans	24	685,252.84	685,252.84	685,252.84	685,252.84
Specific accounts payables	25	124,290,003.62	116,405,334.49	123,750,618.62	115,865,949.49
Total long-term liabilities		124,975,256.46	117,090,587.33	124,435,871.46	116,551,202.33
TOTAL LIABILITIES		6,627,398,471.04	5,103,097,540.91	6,438,684,857.20	4,930,332,044.64
MINORITY INTERESTS		1,274,298.89	1,030,477.94	—	—
OWNERS' EQUITY:					
Paid-in capital	26	450,000,000.00	450,000,000.00	450,000,000.00	450,000,000.00
Capital reserve	27	753,283,467.94	663,868,429.42	753,283,467.94	663,868,429.42
Surplus reserves	28	151,239,144.70	70,975,019.24	150,223,984.04	70,259,733.04
Including: statutory welfare reserve	29	58,546,895.97	31,792,187.48	58,208,521.08	31,553,770.75
Unappropriated profits	29	478,888,093.30	85,095,528.05	493,593,536.44	94,462,780.79
Including: Profit distribution/cash dividend proposed after the balance sheet date		225,000,000.00	54,000,000.00	225,000,000.00	54,000,000.00
TOTAL OWNERS' EQUITY		1,833,410,705.94	1,269,938,976.71	1,847,100,988.42	1,278,590,943.25
TOTAL LIABILITIES AND OWNERS EQUITY		8,462,083,475.87	6,374,066,995.56	8,285,785,845.62	6,208,922,987.89

The accompanying notes are part of the financial statements

The financial statements on pages 75 to 120 were signed on 20/4/2006 by the following:

Head of the company:

Chief Financial Officer:

Head of Accounting Department

Statement of Income and Profit Appropriation

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

	Notes	Group		Company	
		Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Revenue	30	3,047,858,001.17	2,051,360,454.99	2,890,267,928.02	1,939,342,900.92
Less: Cost of sales	30	2,094,601,972.91	1,309,413,274.52	2,052,180,807.04	1,289,994,618.51
Sales tax	31	5,132,604.12	12,685,578.68	4,017,815.97	11,906,365.41
Gross profit		948,123,424.14	729,261,601.79	834,069,305.01	637,441,917.00
Add: Other operating profit	32	63,839,253.23	24,954,630.62	82,653,854.98	60,184,571.36
Less: Operating expenses		20,989,176.89	15,511,826.34	17,044,929.43	10,515,517.26
General and administrative expenses		410,286,735.23	429,585,320.82	348,010,566.26	389,000,599.82
Finance costs	33	(30,618,001.51)	(13,161,122.11)	(30,127,795.44)	(12,337,715.49)
Profit from operating		611,304,766.76	322,280,207.36	581,795,459.74	310,448,086.77
Add: Investment income	34	1,266,183.67	(372,503.65)	25,107,489.26	11,615,981.00
Subsidy income	35	100,000.00	14,000.00	—	—
None-operating income		1,090,588.64	5,802,693.89	811,534.90	4,953,533.26
Less: None-operating expenses		3,202,056.78	3,832,335.24	2,871,125.33	3,810,568.48
Profit before tax		610,559,482.29	323,892,062.36	604,843,358.57	323,207,032.55
Less: Income tax		82,213,090.23	59,004,185.85	71,748,351.92	56,309,794.13
Minority interest		289,701.35	167,236.89	—	—
Net profit		528,056,690.71	264,720,639.62	533,095,006.65	266,897,238.42
Add: Retain earnings beginning of period		85,095,528.05	(162,632,995.71)	94,462,780.79	(155,764,555.13)
Distributable profits		613,152,218.76	102,087,643.91	627,557,787.44	111,132,683.29
Less: Statutory surplus reserve fund		53,509,416.97	11,328,089.24	53,309,500.67	11,113,268.33
Statutory welfare reserve fund		26,754,708.49	5,664,026.62	26,654,750.33	5,556,634.17
Profit available for distribution to shareholders		532,888,093.30	85,095,528.05	547,593,536.44	94,462,780.79
Less: Common shares dividend		54,000,000.00	—	54,000,000.00	—
Retain earnings, end of period		478,888,093.30	85,095,528.05	493,593,536.44	94,462,780.79

Supplementary Information

Notes	Group		Company	
	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Gains on disposal of operating division or investment	—	—	—	—
Losses from natural disaster	—	—	—	—
Increase (decrease) in profit due to changes in accounting policies	—	—	—	—
Increase (decrease) in profit due to changes in accounting estimates	—	—	—	—
Losses from debt restructuring	—	—	—	—
Others	—	—	—	—

The accompanying notes are part of the financial statements

Statement of Cash Flow

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

	Notes	Group		Company	
		Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
1. Cash Flow from Operating Activities:					
Cash received from sales of goods or rendering services		4,468,197,774.80	4,804,023,941.14	4,366,736,176.26	4,617,658,871.33
Refunds of taxes		106,270,260.38	91,761,772.53	106,170,260.38	91,747,772.53
Other cash received relating to operating activities	36	199,867,156.70	117,426,543.75	208,576,703.62	112,382,721.37
Sub-total of cash inflows		4,774,335,191.88	5,013,212,257.42	4,681,483,140.26	4,821,789,365.23
Cash paid for goods and services		2,922,122,050.46	1,890,972,366.31	2,908,416,771.05	1,829,405,968.87
Cash paid to and on behalf of employees Tax payments		448,815,111.83	322,173,817.39	423,029,601.14	271,203,442.95
Tax payments		185,732,664.80	137,721,002.24	173,123,729.58	122,680,075.02
Cash paid relating to other operating activities	37	220,799,946.17	147,207,586.06	205,166,140.24	116,299,700.86
Sub-total of cash outflows		3,777,469,773.26	2,498,074,772.00	3,709,736,242.01	2,339,589,187.70
Net Cash Flow from Operating Activities		996,865,418.62	2,515,137,485.42	971,746,898.25	2,482,200,177.53
2. Cash Flow from Investing Activities:					
Cash received from disposal of investment		147,140,092.72	48,788,700.00	147,140,092.72	48,788,700.00
Cash received from return on investment		1,155,348.00	61,450.00	2,877,207.71	804,200.00
Net cash receipts from disposal of fixed assets, intangible assets and other long term assets					
Net cash receipts from disposal of fix assets		2,415,468.30	2,043,608.00	2,127,333.60	1,957,208.00
Net cash receipts relating to other investing activities	38	1,672,723,446.86	342,544,175.37	1,672,723,446.86	338,544,175.37
Sub-total of cash inflows		1,823,434,355.88	393,437,933.37	1,824,868,080.89	390,094,283.37
Cash paid to acquire fix assets, intangibles assets and other long-term assets		178,613,846.97	165,919,884.52	172,635,933.65	158,836,361.87
Cash paid to acquire investments		153,445,017.13	48,788,700.00	153,445,017.13	59,110,066.87
Cash payments relating to other investing activities	39	3,126,060,111.76	599,907,110.69	3,126,060,111.76	599,907,110.69
Sub-total of cash outflows		3,458,118,975.86	814,615,695.21	3,452,141,062.54	817,853,539.43
Net cash flows from investing activities		(1,634,684,619.98)	(421,177,761.84)	(1,627,272,981.65)	(427,759,256.06)
3. Cash flow from Financing Activities :					
Cash received from borrowing		10,000,000.00	56,840,950.50	10,000,000.00	56,840,950.50
Sub total of cash inflow		10,000,000.00	56,840,950.50	10,000,000.00	56,840,950.50
Repayments of borrowings		66,840,950.50	435,600,000.00	66,840,950.50	435,600,000.00
Dividends paid, profit distributed or interest paid		55,836,016.63	4,944,868.23	55,836,016.63	4,923,618.23
Cash payments relating to other financing activities		—	1,321,600.00	—	1,321,600.00
Sub-total of cash outflows		122,676,967.13	441,866,468.23	122,676,967.13	441,845,218.23
Net cash flows from financing activities		(112,676,967.13)	(385,025,517.73)	(112,676,967.13)	(385,004,267.73)
4. Effect of Foreign Exchange rate Changes on Cash and Cash Equivalents		(601,436.18)	(156,835.29)	(601,436.18)	(156,835.29)
5. Net Increase in cash and Cash Equivalents		(751,097,604.67)	1,708,777,370.56	(768,804,486.71)	1,669,279,818.45

Statement of Cash Flow

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

Supplementary Information

	Group		Company	
	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2005	Year ended 31/12/2004
Notes	RMB	RMB	RMB	RMB
1. Reconciliation of net profit to cash flow from operating activities:				
Net Profit	528,056,690.71	264,720,639.62	533,095,006.65	266,897,238.42
Add: Minority interest	289,701.35	167,236.89	—	—
Impairment losses on assets	12,255,772.69	61,838,797.02	12,697,285.12	61,255,723.86
Depreciation of fixed assets	96,464,257.75	120,692,864.39	90,906,564.19	118,041,244.16
Amortization for intangible assets	1,646,104.08	1,581,451.86	1,631,029.56	1,551,643.34
Amortization of long-term deferred expenses	—	2,239,648.47	—	149,349.97
Decrease (increase) in deferred expenses	704,518.54	(856,858.34)	400,830.59	(362,186.96)
Increase(decrease) in accrued expenses	(6,563,888.67)	(34,673,367.06)	(4,574,738.64)	(32,068,714.17)
Decrease in provision	(5,153,486.88)	(14,212,351.81)	(5,153,486.88)	(14,212,351.81)
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	983,168.33	1,737,554.59	974,001.94	1,764,541.32
Financial expenses	(32,207,942.46)	496,917.22	(32,207,942.46)	1,246,015.04
Losses (gains) arising from investments	(1,266,183.67)	372,503.65	(25,107,489.26)	(11,615,981.00)
Decrease (Increase) in inventory	(900,789,230.00)	(344,670,689.14)	(831,610,970.43)	(289,732,211.33)
Decrease (Increase) in receivables under operating activities	(367,916,857.72)	(321,137,642.51)	(417,870,093.19)	(353,113,928.23)
Increase (Decrease) in payables under operating activities	1,588,233,374.82	2,709,686,995.26	1,566,437,481.31	2,665,246,009.61
Increase (Decrease) in specific accounts payable	7,884,669.13	26,582,382.97	7,884,669.13	26,582,382.97
Increase (Decrease) in capital reserve	89,415,038.52	56,081,267.61	89,415,038.52	56,081,267.61
Others	(15,170,287.90)	(15,509,865.27)	(15,170,287.90)	(15,509,865.27)
Net Cash Flow from Operating activities	996,865,418.62	2,515,137,485.42	971,746,898.25	2,482,200,177.53
2. Investing and Financing Activities that do not Involve Cash Receipts and Payments				
	—	—	—	—
3. Net Increase in Cash and Cash Equivalents:				
Cash at the end of the year,	1,916,230,093.15	2,667,327,697.82	1,826,638,983.46	2,595,443,470.17
Less: Cash at the beginning of the period	2,667,327,697.82	958,550,327.26	2,595,443,470.17	926,163,651.72
Net Increase in Cash and Cash Equivalents.	(751,097,604.67)	1,708,777,370.56	(768,804,486.71)	1,669,279,818.45

The accompanying notes are part of the financial statements.

Notes to the Financial Information

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

1. GENERAL

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, Dongfang Electrical Machinery Company Limited (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.

By approval document Guo Zi Chan Quan [2005] No.1604 of the State-owned Assets Supervision and Administration Commission of the State Council on 30 December 2005, the 48.89% equity (i.e. 220,000,000 State-owned Legal person share) held by the Company's biggest shareholder DFEW was transferred to Dongfang Electric Corporation ("DEC"). Then DEC has become the biggest shareholder of the Company.

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. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTMATES

Accounting System and Accounting Standards Adopted

The Group has adopted the Accounting Standards for Business Enterprises, the "Accounting System for Business Enterprises" and the supplementary regulations thereto.

Basis of Accounting and Principle of Measurement

The Group has adopted the accrual basis of accounting and uses the historical cost convention as the principle of measurement. If there is any subsequent impairment loss, provision for decline in value should be made in accordance with appropriate standards.

Accounting year

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Reporting currency

The recording currency of the Group is the Renminbi ("RMB").

Foreign currency translation

Transactions denominated in foreign currencies (currencies other than the recording currency) are translated into RMB at the applicable rate of exchange ("market exchange rate") prevailing at the beginning of the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the market exchange rate prevailing at the balance sheet date. Exchange gains or losses are dealt with as finance costs.

Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Accounting for Bad Debts

1) Criteria for recognition of bad debts

Bad debts are recognized in the following circumstances:

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures;

The irrecoverable amount of a debtor who has deceased and has insufficient estate to repay;

The amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

Accounting for Bad Debts

2) Accounting treatment for bad debt losses

Bad debt is accounted for using the allowance method and provided according to the recoverability of receivables at the year-end. The appropriate percentages of provision for bad debts relating to significant receivable accounts are reasonably determined based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated, based on aging analysis, as follows:

Age of Receivables	Percentage of bad debt provision
Within 1 year	5%
1-2 years	10%
2-3 years	20%
3-4 years	40%
4-5 years	50%
Over 5 years	100% (Note)

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

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Transfer/Discount of Notes Receivables and Accounts receivable

When the Group has transferred to the financial institutes the risk and reward related to the transfer/discount of notes receivable and accounts receivable, the balance between the carrying amount of the receivables (as reduced by any related taxes) and the actual amount received is charged to the income statement in the period. If the related risk and reward has not transferred, such receivables are treated as secured bank loans.

Inventories

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories mainly include raw materials, work in progress and finished goods.

Inventories are accounted for using the standard costing method. Cost variances are computed periodically to adjust standard costs to actual costs.

Low-value consumables are written off in full when issued for use.

The Group adopts perpetual inventory record policy.

Provision for decline in value of inventories

Inventories are measured at the lower of cost and net realizable value at the end of a period. Where the net realizable value is lower than the cost, the difference is recognized as a provision for decline in value. Provision for decline in value of inventories is made by comparing cost with net realizable value on an individual item basis.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to completion, the estimated expenses and the related taxes necessary to make the sale.

Construction Contracts

Construction contracts are accounted for at actual cost, which includes direct and indirect costs incurred and attributable to the contract for the period from the date the contract was signed to the final completion of the contract. The aggregate amount of accumulated costs incurred and accumulated gross profit (loss) recognized for the construction contract is presented in the balance sheet after netting off against the progress billings. An excess of the aggregate amount of accumulated costs incurred and accumulated gross profit (loss) recognized over the progress billing is presented as "Amounts due from customers for contract work" included in "inventories" under current assets. An excess of the progress billing over the aggregate amount of accumulated costs incurred and accumulated gross profit (loss) recognized is presented as "Amounts due to customers on contract work" included in "advances from customers" under current liabilities.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Long-term investments

(1) Accounting treatment for long-term investments

A long-term investment is initially recorded at its cost on acquisition.

The cost method is used to account for a long-term equity investment when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used when the Company can control, jointly control or has significant influence over the investee enterprise.

When the cost method is adopted, the amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee enterprise that has arisen after the investment was made. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

When the equity method is adopted, the investment income for the current period is recognized according to the attributable share of the net profit or loss of the investee enterprises. The attributable share of net losses incurred by the investee enterprise is recognized to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's attributable share of profits over the share of unrecognized losses.

When a long-term equity investment is accounted for using the equity method, the excess of the initial investment cost over the Company's share of owners' equity of the investee enterprise is debited to "long-term equity investment - equity investment difference" and amortised on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not more than 10 years. A shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising before the issuance of Caikuai [2003] 10, is credited to "long-term equity investment - equity investment difference", and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not less than 10 years. The shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising after the issuance of Caikuai [2003] 10 is credited to "capital surplus - provision for equity investment".

(2) Impairment of long-term investments

At the end of each period, the Group determines whether an impairment loss should be recognized for a long-term investment by considering the indications that such a loss may have occurred. Where the recoverable amount of any long-term investment is lower than its carrying amount, an impairment loss on the long-term investment is recognized for the difference.

Recoverable Amount

Recoverable amount is the higher of an asset's net selling price, and the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

Fixed Assets and Depreciation

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives from the month after they are put into use, Plant, machinery and electronic equipment using the double-declining-balance method and other fixed assets using straight-line method. The estimated residual value, useful life and annual depreciation rate of each category of fixed assets are as follows:

Category of fixed assets	Residual value	Useful life	Annual depreciation rate
Productive buildings and structures	5%	20Years	4.75%
Non-productive buildings and structure	5%	25Years	3.80%
Plant and machinery	5%	10Years	double-declining-balance method %
Electronic equipment	5%	5-6Year(s)	double-declining-balance method %
Transportation equipment	5%	6Year(s)	15.83%

If the subsequent expenses associated with fixed assets result in the economic benefits which will flow to the Company becoming higher than previous estimate, carrying amount of the fixed assets should increase. The increased carrying amount should not exceed the recoverable amount of the fixed assets.

Impairment of fixed assets

At the end of each period, the Company determines whether an impairment loss should be recognized for a fixed asset by considering the indications that such a loss may have occurred. Where the recoverable amount of any fixed asset is lower than its carrying amount, an impairment loss on fixed asset is recognized for the difference.

Construction-in-progress

Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction in progress before it has reached the working condition for its intended use, and other related expenses. A construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for construction in progress.

At the end of each period, the Company determines whether an impairment loss should be recognized for construction in progress by considering the indications that such a loss may have occurred. Where the recoverable amount of any construction in progress is lower than its carrying amount, an impairment loss on construction in progress is recognized for the difference.

Intangible Assets

Intangible assets are recorded at the actual cost of acquisition. For an intangible asset received as a capital contribution by an investor, the actual cost is the value agreed by all investing parties. For a self-developed intangible asset that is obtained by legal application, the actual cost capitalized is the amount of expenditure incurred for the legal application for obtaining the asset, such as registration fees and legal fees. Other costs incurred in the research and development process are expensed in the current period. For a purchased intangible asset, the actual cost is the actual purchase price.

Land use rights purchased or acquired by payment of land transfer fees before the adoption of the "Accounting System for Business Enterprises", are accounted for as intangible assets and are amortized evenly. Those purchased or acquired after the adoption of the "Accounting System for Business Enterprises", are accounted for as intangible assets before construction work for own-use purpose or development commences and are amortized evenly. Upon using the land to construct fixed assets for own use, the carrying amount of the land use right is transferred to the cost of fixed assets under construction.

The cost of an intangible asset is amortized evenly over its expected useful life from the month in which it is obtained. If the expected useful life exceeds the beneficial period prescribed in the relevant contract or the effective period stipulated by law, the amortization period is limited to the shorter of the beneficial period and the effective period. If the relevant contract does not prescribe the beneficial period and the law does not stipulate the effective period, the amortization period is 10 years.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Impairment Loss on Intangible Assets

At the end of each period, the Company determines whether an impairment loss should be recognized for an intangible asset by considering the indications that such a loss may have occurred. Where the recoverable amount of any intangible asset is lower than its carrying amount, an impairment loss on the intangible asset is recognized for the difference.

Provisions

The obligation related to a contingency is recognized as a liability when it meets the following conditions:

- (1) the obligation is a present obligation of the Company;
- (2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

Where some or all of the expenditure required to settle a liability that meets the above recognition criteria is expected to be reimbursed by a third party or other parties, the reimbursement is separately recognized as an asset when, and only when, it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

When the Company recognized revenue based on the Accounting Standards for Business Enterprises- Construction Contract, if expected aggregate contract costs exceed the expected aggregate contract revenue, the expected loss is recognized as provision.

Borrowing Costs

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred on a specific borrowing for the acquisition or construction of a fixed asset, are capitalized as the cost of the fixed asset to the extent that they are incurred before the fixed asset has reached the working condition for its intended use and limited to the amount calculated by applying the capitalization rate to the weighted average amount of accumulated expenditure for the fixed asset. Other borrowing costs are recognized as expenses and included as finance costs in the period in which they are incurred.

Revenue Recognition

Revenue from Sales of goods

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the economic benefits associated with the transaction will flow to the Company, and the relevant amount of revenue and costs can be measured reliably.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Revenue Recognition *(continued)*

Construction Contract Revenue

Contract revenue of a construction contract that is to be completed within an accounting year is recognized at the time of completion. For construction contracts that are to be started and completed in different accounting years, when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized as revenue and expenses respectively by reference to the percentage of completion at the balance sheet date. The stage of completion of a contract is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of the contract costs incurred that are recoverable, and contract costs are recognized as expenses in the period in which they are incurred. If the contract costs are not recoverable, they are recognized as expenses immediately when incurred, and contract revenue is not recognized.

If expected aggregate contract costs exceed the expected aggregate contract revenue, the expected loss is recognized as an expense in the current period.

Interest Income

Interest income is measured based on the length of time for which the enterprise's cash is used by others and the applicable interest rate.

Subsidy Income

Subsidy Income mainly includes VAT returns, other award or subsidy amounts. Tax returns and subsidiary income are recognized in the period in which they are actually received.

Income Tax

Income tax is provided under the tax effect accounting method. Income tax expense for the year is calculated based on the income tax provision and tax effect of timing difference. The income tax provision is calculated based on the accounting results for the year as adjusted in accordance with the relevant tax laws. Due to different recognition periods for revenue, expenses and losses under the tax rules and accounting requirements, there are timing differences between accounting profit before tax and taxable income. The tax effect of timing differences, computed under the liability method, is recognized as deferred tax in the financial statements. However, a deferred tax debit resulting from timing differences is recognized and presented as a deferred tax debit only if there will be sufficient taxable income during the period of their reversal. Otherwise, the differences are treated as if they were permanent differences.

Basis of Consolidation

(1) Scope of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of the equity, or whose operating activities are controlled by the Company through other mechanisms

(2) Accounting for consolidation

The accounting policies used by the subsidiaries conform to those used by the Company.

The operating results and cash flows of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and consolidated cash flow statement respectively from the effective dates of acquisition or up to the effective dates of disposal.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

3. CHANGES IN ACCOUNTING POLICIES

According to the resolution of the 19th meeting from the 4th board of directors, started from 01/01/2005, income tax is provided under the tax effect accounting method instead of the tax payable method. As there's no sufficient taxable income during the period of time differences' reversal (nomally 3 years), the changes of the above accounting policies had no effect on the opening of retain earnings and the net income of 2005.

4. TAXATION

Value Added Tax

Value added tax ("VAT") payable is the balance of input VAT paid less balance of output VAT, VAT on sales is calculated at 17% on revenue from principal operations and paid after deducting input VAT on purchases.

Income Tax

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%.

The enterprise income rate applicable to the subsidiaries of the Company, including DFEM Control Equipment Company Limited, DFEM Power System Company Limited, DFEM Tooling & Moulding Company Limited and DFEM Equipment Engineering Company Limited, is 33%.

Other Taxes

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

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

Land use tax is calculated on the actual occupation of the area of the land, and is calculated on RMB 2.00 per square meter.

5. SCOPE OF CONSOLIDATION AND SUBSIDIARIES

Details of subsidiaries of the Company are shown as follows:

Name of Subsidiary	Place of Registration (%)	Equity directly held by the Company RMB	Registered Capital	Principal Business Activities	Type of Enterprises	Legal Representative	Consolidated or not
DFEM Control Equipment Manufactory Co. Ltd	Deyang, Sichuan Province	96.15	13,000,000.00	Design, Production and Sale of Power generating equipment and A.C. and D.C. motors	Limited Liability Company	Wang Yansong	Yes
DFEM Power System Co. Ltd	Deyang, Sichuan Province	98.83	42,754,300.00	Design, Production and Sale of Large and Medium A.C. and D.C. motors and Special motors.	Limited Liability Company	Cao Jianmian	Yes
DFEM Tooling & Manufactory Moulding Co. Ltd.	Deyang, Sichuan Province	99.32	14,600,000.00	Moulding, design, manufacturing; Sales of knife, machinery, parts producing and Sales.	Limited Liability Company	Chen Xianhai	Yes
DFEM Equipment Engineering Co. Ltd.	Deyang, Sichuan Province	97.04	13,500,000.00	Maintenance of Machinery, Technology improvement, Sales machine system manufacturing, environment protection facilities, Specified tailored-made facilities, design, sales, etc.	Limited Liability Company	Ding Yihong	Yes

The scope of consolidation in the current year is the same as that in the preceding year.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

6. CASH AT BANKS AND IN HAND

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

Item	31/12/2005			31/12/2004		
	Original Currency	Ex. Rate	Amount in RMB	Original Currency	Ex. Rate	Amount in RMB
Cash on Hand						
RMB	24,030.77	—	24,030.77	48,148.63	—	48,148.63
Cash in Bank						
RMB	3,855,277,031.09	—	3,855,277,031.09*	3,126,374,240.72	—	3,126,374,240.72
USD	2,222,820.77	8.0702	17,938,608.18	3,906,756.97	8.2765	32,333,262.57
HKD	—	—	—	6,586.35	1.0637	7,011.03
Other Cash— Equivalents						
RMB	154,253,629.25	—	154,253,629.25**	139,083,341.35	—	139,083,341.35
			4,027,493,299.29			3,297,846,004.30

* Including amount RMB 25,800,041.47 saving deposit and RMB 10,000,000 fixed deposit (due in 3 months) in Finance Company of Dongfang Group.

** Mainly are security deposits for banker's acceptances, tenders and contracts.

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

	31/12/2005 RMB	31/12/2004 RMB
Cash and Bank Deposit	4,027,493,299.29	3,297,846,004.30
Less: Term deposits with a fixed term longer than 3 months	(1,957,009,576.89)	(491,434,965.13)
Other restricted amount	(154,253,629.25)	(139,083,341.35)
	1,916,230,093.15	2,667,327,697.82

7. NOTES RECEIVABLE

Details of notes payable are as follows(Group):

	31/12/2005 RMB	31/12/2004 RMB
Bank Acceptance Notes	18,629,152.00	35,923,636.50

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

8. ACCOUNTS RECEIVABLES

- (1) The aging analysis of accounts receivable is as follows (Group):

	31/12/2005				31/12/2004			
	Amount	Ratio	Bad debt provision	Net Amount	Amount	Ratio	Bad debt provision	Net Amount
	RMB	%	RMB	RMB	RMB	%	RMB	RMB
within 1 year	606,238,439.66	63.10	31,004,986.26(*)	575,233,453.40	481,919,013.90	59.14	23,415,488.52	458,503,525.38
1 to 2 years	196,047,944.71	20.41	19,604,794.48	176,443,150.23	191,306,364.82	23.48	19,130,636.48	172,175,728.34
2 to 3 years	87,031,322.17	9.06	17,406,264.43	69,625,057.74	81,297,199.66	9.98	16,259,439.93	65,037,759.73
3 to 4 years	37,386,994.60	3.89	14,954,797.84(**)	22,432,196.76	31,386,811.74	3.85	12,554,724.70	18,832,087.04
4 to 5 years	14,975,439.54	1.56	7,632,719.77(**)	7,342,719.77	4,646,160.80	0.57	2,323,080.40	2,323,080.40
over 5 years	19,026,528.63	1.98	17,718,403.77(**)	1,308,124.86	24,350,914.79	2.98	22,950,907.28	1,400,007.51
	960,706,669.31(***)	100.00	108,321,966.55	852,384,702.76	814,906,465.71(***)	100.00	96,634,277.31	718,272,188.40

* For receivables less than 1 year, the bad debt provision ratio is low as the possibility of collection is high.

** For receivables over 3 year, the bad debt provision ratio is high as the possibility of collection is low.

*** Including RMB 481,453,731.58 deposit for product warranty. (At 31/12/2004, this figure is 360,930,580.24). These deposits will be collected after the expiration of the warranty (around 2 to 3 years).

- (2) The top five largest accounts receivables over the total accounts receivables of the Group are as follows (Group):

Top Five Largest Accounts Receivable	Percentage of the Total Account Receivable
RMB	%
264,759,138.35	27.56

- (3) For account receivables from big shareholders (holding over 5 % of the company's shares), please refer to note 42(3).

9. OTHER ACCOUNT RECEIVABLES

- (1) The aging analysis of other receivables is as follows (Group):

	31/12/2005				31/12/2004			
	Amount	Ratio	Bad debt provision	Net Amount	Amount	Ratio	Bad debt provision	Net Amount
	RMB	%	RMB	RMB	RMB	%	RMB	RMB
Within 1 year	36,972,475.36	37.11	885,486.67(*)	36,086,988.69	12,851,299.04	16.13	429,087.94	12,422,211.10
1-2 years	590,218.26	0.59	59,021.83	531,196.43	537,650.00	0.67	53,765.00	483,885.00
2-3 years	450,000.00	0.45	90,000.00	360,000.00	3,779,680.92	4.74	755,936.18	3,023,744.74
3-4 years	2,750,000.00	2.76	1,100,000.00(**)	1,650,000.00	10,000.00	0.01	4,000.00	6,000.00
4-5 years	—	—	—	—	183,864.00	0.23	91,932.00	91,932.00
Over 5 years	58,881,321.57	59.09	57,977,409.69	903,911.88	62,298,910.62	78.22	59,249,092.38	3,049,818.24
	99,644,015.19	100.00	60,111,918.19	39,532,097.00	79,661,404.58	100.00	60,583,813.50	19,077,591.08

* For receivables less than one year, the bad debt provision ratio is low as the possibility of collection is high. And there's no bad debt provision for receivable from the interest of fix deposit, which is RMB 19,262,742.11 in 2005.

** For receivables over 3 year, the bad debt provision ratio is high as the possibility of collection is low.

- (2) The top five largest balances of other accounts receivables of the Group totals RMB 74,859,477.58, which constituted 75.13% of the total other accounts receivables.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

9. OTHER ACCOUNT RECEIVABLES (continued)

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

	31/12/2005 RMB	31/12/2004 RMB	Year of Receivable Inception
Chongqing Xinglongda Real Estate Development Co. Ltd.	36,000,000.00	38,000,000.00	1999
The interest of fix deposit	19,262,742.11	4,269,540.24	2005
Dongle Heavy Piece Handling Company	9,498,182.40	10,498,182.40	1999
Chengdu Dayang Property Company	7,030,000.00	7,030,000.00	1996
Sichuan Mianzhu Tiankang Medical Equipment Co. Ltd.	3,527,616.67	3,527,616.67	1999

* The receivable of RMB 36,000,000.00 from Chongqing Yangguang Real Estate Development Co. Ltd. ("Yangguang Co.") is more than 7 years, all of which has been put into bad debt provision.

(4) For the other account receivables from big shareholders (holding over 5 % of the company's shares), please refer to note 42(3).

10. PROVISION FOR BAD DEBT

	Account Receivable RMB	Other account Receivables RMB	Total Receivables RMB
1/1/2005	96,634,277.31	60,583,813.50	157,218,090.81
Additions	12,072,005.91	—	12,072,005.97
Reversals	—	471,895.31	471,895.31
Other transfer out	384,316.73	—	384,316.73
31/12/2005	108,321,966.55	60,111,918.19	168,433,884.74

11. PREPAYMENTS

(1) The aging analysis of other receivables is as follows:

	31/12/2005		31/12/2004	
	Amount RMB	Ratio (%)	Amount RMB	Ratio (%)
Within 1 year	623,971,262.89	87.43	432,068,798.56	90.15
1-2 years	86,729,318.08	12.15	46,176,146.47	9.63
2-3 years	3,000,719.94	0.42	1,034,626.00	0.22
	713,701,300.91	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. There's no prepayment to big shareholders (holding over 5% of the company's shares).

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
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12. INVENTORIES AND PROVISION FOR DECLINE OF INVENTORIES

	31/12/2005			31/12/2004		
	Amount	Provision for decline in value	Net amount	Amount	Provision for decline in value	Net Amount
	RMB	RMB	RMB	RMB	RMB	RMB
Raw materials	888,793,710.33	20,254.06	888,773,456.27	388,557,821.38	—	388,557,821.38
Work-in-progress	535,741,447.67	1,337,098.36	534,404,349.31	387,079,274.86	1,527,392.10	385,551,882.76
Finished goods	362,578,845.44	1,502,540.17	361,076,305.27	146,700,741.87	3,273,700.10	143,427,041.77
Amount due from customers for contract work included in inventories	259,868,982.06	—	259,868,982.06	226,720,875.22	—	226,720,875.22
Low-value consumables	5,978,622.29	—	5,978,622.29	3,452,689.04	—	3,452,689.04
Materials on consignment for further processing	3,790,431.71	—	3,790,431.71	2,703,533.31	—	2,703,533.31
Materials in transits	—	—	—	747,873.82	—	747,873.82
	2,056,752,039.50	2,859,892.59	2,053,892,146.91	1,155,962,809.50	4,801,092.20	1,151,161,717.30

Movement of the provision for decline in value of inventories are as follows:

	1/1/2005	Additions	Reversals	Other transfer out	31/12/2005
	RMB	RMB	RMB	RMB	RMB
Provision for decline in value					
Raw materials	—	20,254.06	—	—	20,254.06
Work-in-progress	1,527,392.10	63,533.40	—	253,827.14	1,337,098.36
Finished goods	3,273,700.10	571,874.56	—	2,343,034.49	1,502,540.17
Sub	4,801,092.20	655,662.02	—	2,596,861.63	2,859,892.59
Provision for expected loss on construction contract *	5,471,994.88	—	—	5,153,486.88	318,508.00
Total	10,273,087.08	655,662.02	—	7,750,348.51	3,178,400.59

* In some construction contracts, the expenceted cost exceeded the expected losses. For the exceeding amount, the company has recognized them as expected losses.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

13. CONSTRUCTION CONTRACTS

	31/12/2005 RMB	31/12/2004 RMB
Contracts in progress at balance sheet date		
Amount due from customers for contract works included in "inventories" under current assets	259,868,982.06	226,720,875.22
Amount due to customers on contract works included in "advances from customers" under current liabilities	(1,835,448,146.77)	(583,315,130.95)
	(1,575,579,164.71)	(356,594,255.73)
	31/12/2005 RMB	31/12/2004 RMB
Analysis of contracts in progress	897,471,407.18	493,226,355.02
Accumulated contract costs incurred plus recognized gross profit	160,705,260.90	81,046,923.65
Less: Progress billings	2,633,755,832.79	930,867,534.40
	(1,575,579,164.71)	(356,594,255.73)

Total amount of the construction contracts in progress was RMB 7,858,896,327.97 (without VAT) as at 31 December 2005.

14. LONG-TERM EQUITY INVESTMENTS

	31/12/2005 RMB	31/12/2004 RMB
Long-term share investment	44,263.24	44,263.24
Investments in joint ventures	6,375,000.00	—
Investments in associated enterprises	—	113,080.76
Other equity investments	1,766,314.66	1,766,314.66
Equity investment difference	(804,832.53)	(958,673.37)
Total	7,380,745.37	964,985.29
Less: Provision for loss on long-term equity investment	310,941.25	310,941.25
Long-term equity investments-net	7,069,804.12	654,044.04

(1) Movements of the provision for loss on long-term equity investments are as follows:

	RMB
1 January 2005	310,941.25
Additions	—
Reversals	—
Other transfer out	—
31 December 2005	310,941.25

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

14. LONG-TERM EQUITY INVESTMENTS *(continued)*

(2) Details of long-term share investment:

Invested company	Category	Quantity of shares	Ratio against of invested Company (%)	Invested company RMB	Provision for impairment RMB	Net value at year end RMB	Initial cost of investment RMB
Sichuan Sofcra Special Tyaped Fiber Co., Ltd	A shares	62,773	0.02	44,263.24	—	44,263.24	44,263.24

(3) Investments in joint ventures and associated companies are as follows:

Invested Company	01/01/2005										31/12/2005	
	Investment term (%)	Ratio against Invested company RMB	Initial Investment RMB	Balance RMB	Provision for impairment RMB	Increase in initial investments RMB	Increases (Decrease) in Equity RMB	Cash Dividend Received RMB	Accumulated Equity RMB	Provision for impairment RMB		Balance
Joint Ventures												
Areva DongFang Reactor Coolant Pumps Company *	2005.10	50.00	6,375,000.00	—	—	6,375,000.00	—	—	—	6,375,000.00	—	—
Associated Companies												
Dongle Heavy Piece Handling Company	1997.7	49.00	490,000.00	—	—	—	—	—	(490,000.00)	—	—	—
Sichuan Dongfang Jiaxin Construction Supervisory Co. Ltd. **	2001.5	40.00	200,000.00	113,080.76	—	(113,080.76)	—	—	(200,000.00)	—	—	—
			690,000.00	113,080.76	—	(113,080.76)	—	—	(690,000.00)	—	—	—

* The company signed the Contract on the Join Veturn Areva DongFang Reactor Coolant Pumps Company with Jeumont S.A. in 23 August 2005. Under this contract, investment on Areva DongFang Reactor Coolant Pumps Company (ADFRCP) is RMB 85 Million. Each party invests RMB 42,500,000, constituting 50% of the total equity each.

In 14 November 2005 and 13 December 2005, total investment from the company on ADFRCP was up to RMB 6,375,000. Jeumont S.A. has also invested Euro 616,708.18 (RMB 6,375,000), which was varified by Si Chuang Ling Tong Accountants Ltd with the verification report no. Chuan Ling Suo Yan Zhi(2005) No.105 and 119. In 31 December 2005, business license was issued with the issuing no. Qi He Quan De Zhong Zhi No. 000352. ADFRCP has not been included in the scope of consolidation, as its total assets, revenue and net profit were less than 10% of the group's figure. This accounting policy is in accordance with the requirement of the relative document About the Reply of the Question on the Scope of Consolidation Financial Report (Document No.: Caihui er zhi(1996) No. 2) from the Ministry of Finance.

** The company sold out all the holding shares of Sichuan Dongfang Jiaxin Construction Supervisory Co. Ltd in 2005.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

14. LONG-TERM EQUITY INVESTMENTS (continued)

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

Invested Company	Investment term (%)	Ratio against Invested company RMB	Initial Investment RMB	01/01/2005		Increase in initial investment RMB	Increase (Decrease) in equity RMB	Cash Dividend Received RMB	Accumulated Equity RMB	31/12/2005	
				Balance RMB	Provision for loss on long-term equity investment RMB					Balance RMB	Provision for loss on long-term equity investment RMB
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 Electric Equipment Import and Export Company	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	—
Sum			1,766,314.66	1,766,314.66	310,941.25	—	—	—	—	1,766,314.66	310,941.25

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

term of Invested Company	Initial Investment RMB	Amortization Term (Months)	1/1/2005 RMB	Additions RMB	Amortization RMB	Other Decrease RMB	31/12/2005 RMB	Remaining term of Amortization (Months)
DFEM Tooling and Molding	(1,082,220.62)	120	(658,350.65)	—	108,222.12	—	(550,128.53)	61
DFEM Equipment	(624,538.25)	120	(300,322.72)	—	45,618.72	—	(254,704.00)	67
	(1,706,758.87)		(958,673.37)	—	153,840.84	—	(804,832.53)	

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
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15. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings RMB	Plant and machine RMB	Electronic equipment furniture & fixtures RMB	Transportation equipment RMB	Total RMB
Cost					
1 January 2005	320,064,981.20	683,516,007.75	83,004,410.01	9,235,590.98	1,095,820,989.94
Additions	57,660.43	2,566,527.21	3,669,042.47	693,100.00	6,986,330.11
Transfer from					
Construction in progress	24,887,198.46	110,679,992.43	6,250,316.29	3,541,610.00	145,359,117.18
Disposals	2,501,474.43	7,682,956.99	11,571,054.69	1,155,205.16	22,910,691.27
31 December 2005	342,508,365.66	789,079,570.40	81,352,714.08	12,315,095.82	1,225,255,745.96
Accumulated depreciation					
1 January 2005	128,230,594.97	378,036,200.57	65,337,352.76	6,504,358.45	578,108,506.75
Charge for the year	15,684,618.36	74,857,028.53	4,885,814.88	1,036,795.98	96,464,257.75
Eliminated on disposals	485,527.35	6,894,657.15	11,001,736.23	1,130,133.91	19,512,054.64
31 December 2005	143,429,685.98	445,998,571.95	59,221,431.41	6,411,020.52	655,060,709.86
Impairment loss					
1 January 2005	—	1,160,754.10	—	—	1,160,754.10
Additions	—	—	—	—	—
Reversals	—	—	—	—	—
31 December 2005	—	1,160,754.10	—	—	1,160,754.10
Net book value					
1 January 2005	191,834,386.23	304,319,053.08	17,667,057.25	2,731,232.53	516,551,729.09
31 December 2005	199,078,679.68	341,920,244.35	22,131,282.67	5,904,075.30	569,034,282.00

* Buildings without license amount to RMB 122,557,636.75 at the end of 31st December 2005, and buildings have not transferred the title deed from DFEW amount to RMB 4,559,790.22.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
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16. CONSTRUCTION-IN-PROGRESS

Project Name	Projected Amount RMB	1/1/2005 RMB	Additions RMB	Capitalized interest in 2005 RMB	Transferred to fixed assets RMB	31/12/2005 RMB	Source of funds	Progress (%)
Research Center	43,000,000.00	17,359,726.08	19,614,901.61	—	—	36,974,627.69	Demolish & renovation fund for San-Xian enterprise	85.99
260 boring machine	39,000,000.00	30,227,166.61	2,925,487.10	339,815.94	—	33,492,469.65	Loans and listing proceeds	85.88
Material Input Center Factory	10,000,000.00	6,768,723.46	1,561,563.31	78,200.41	511,503.50	7,896,983.68	Loans and listing proceeds	84.08
130 boring machine	9,500,000.00	—	4,387,015.75	—	—	4,387,015.75	SanXian Taxation Relief	46.18
Eltromotor Factory Power Supply Network reconstruction	5,200,000.00	131,554.00	4,575,676.76	—	1,985,168.50	2,722,062.26	Demolish & renovation fund for San-Xian enterprise	90.52
Power network reconstruction	3,900,000.00	2,815,241.64	—	—	194,800.00	2,620,441.64	Demolish & renovation fund for San-Xian enterprise	72.19
Eltromotor Factory	9,000,000.00	8,236.27	1,659,939.88	—	—	1,668,176.15	listing proceeds	18.54
Digital Plano Milling machine	3,840,000.00	1,147,648.02	114,680.50	—	—	1,262,328.52	Demolish & renovation fund for San-Xian enterprise	32.87
Digital Control Lathe	1,200,000.00	—	1,095,978.08	—	—	1,095,978.08	Demolish & renovation fund for San-Xian enterprise	91.33
Digital Plano Milling machine	1,200,000.00	—	1,073,254.64	—	—	1,073,254.64	Demolish & renovation fund for San-Xian enterprise	89.44
Filing Center	12,000,000.00	—	1,061,850.44	—	—	1,061,850.44		8.85
Others		49,261,444.71	119,570,088.92	146,183.65	142,667,645.18	26,310,072.10		
	107,719,740.79	157,640,436.99	564,200.00	145,359,117.18	120,565,260.60			

The Capitalized interest expenses is RMB 564,200.00 and the capitalized rate is 1.53% in 2005.

17. INTANGIBLE ASSETS

	Acquire RMB	Cost RMB	1/1/2005 RMB	Additions RMB	Amortization RMB	31/12/2005 (Month)	Remaining period of amortization
Land use right *	from investor	35,626,000.00	27,788,279.60	—	712,520.04	27,075,759.56	456
Proprietary technology **	Purchase	2,556,000.00	639,000.00	—	511,200.00	127,800.00	3
Software	Purchase	2,067,254.15	1,667,406.34	54,000.00	422,384.04	1,299,022.30	13-58
		40,249,254.15	30,094,685.94	54,000.00	1,646,104.08	28,502,581.86	

* Approved by the State Land Administration in 28/1/1994, a land with an area of 470,955.31 square meters was injected into the Company by the holdings company DFEW on 28 January 1994 The injected amount was amortized over 50 years under straight line method.

** The Company acquired the Proprietary Technology of 600MW steam power generator from Japan HTC Company. The amount was evenly amortized over five years since 20 April 2001.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
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18. SHORT-TERM LOANS

	31/12/2005 RMB	31/12/2004 RMB
Loan by credit	10,000,000.00	30,000,000.00
Loan by mortgage	—	26,840,950.50
	10,000,000.00	56,840,950.50

19. NOTES PAYABLE

	31/12/2005 RMB	31/12/2004 RMB
Commercial acceptable bill	47,910,388.99	37,795,335.64
Bank acceptable bill	189,410,317.68	41,083,475.29
	237,320,706.67	78,878,810.93

20. ACCOUNTS PAYABLE

Details of accounts payable are listed as follows:

	31/12/2005 RMB	31/12/2004 RMB
With in 1 year	435,555,885.38	168,893,459.15
1-2 years	12,730,090.75	3,181,641.98
2-3 years	691,877.14	1,105,102.29
Over 3 years	1,220,137.86	273,096.10
	450,197,991.13	173,453,299.52

Trade creditors over three years are mainly deposits for project quality.

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).

21. RECEIPT IN ADVANCE

	31/12/2005 RMB	31/12/2004 RMB
華電國際電力股份有限公司鄭縣發電廠	146,640,000.00	24,440,000.00
雲南國華滇東能源有限公司	103,485,000.00	75,889,000.00
內蒙古大唐托克托發電有限責任公司	102,585,000.00	40,440,000.00
四川巴蜀電力開發公司瀘州電廠	101,528,000.00	29,008,000.00
廣州汕尾發電廠	100,268,000.00	57,296,000.00
Others	4,907,727,395.22	4,078,950,781.35
	5,462,233,395.22	4,306,023,781.35

Details of the amount due to related parties are listed in Note 42(3).

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

22. TAXES PAYABLE

	31/12/2005 RMB	31/12/2004 RMB
Value add tax	36,998,929.38	113,271,208.74
Business Tax	811,071.62	875,203.36
Urban development tax	505,264.67	9,824,156.60
Income tax	87,456,291.65	60,608,069.91
Real estate tax	251,665.23	435,366.14
Land use tax	—	(216,322.57)
Personal income tax	247,192.21	234,604.21
	126,270,414.76	185,032,286.39

23. ACCRUALS

	31/12/2005 RMB	31/12/2004 RMB	Reason
Cost of hydro power product	29,248,558.39	22,652,793.57	Pay upon installation
Transport cost	—	9,824,800.00	Invoice not received
Consulting expenses	1,080,000.00	1,455,000.00	Invoice not received
Outsource processing expenditure	1,630,782.42	2,156,859.08	Invoice not received
Others	1,450,747.82	3,884,524.65	
	33,410,088.63	39,973,977.30	

24. LONG TERM PAYABLES

	31/12/2005 RMB	31/12/2004 RMB
Authorized reserve fund	685,252.84	685,252.84

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

25. SPECIFIC PAYABLES

	31/12/2005 RMB	31/12/2004 RMB
Research and development fund	18,154,098.93*	22,280,318.60
Demolish & renovation fund for San-xian enterprise	104,485,519.69**	93,244,630.89
Other provisions	1,650,385.00	880,385.00
	124,290,003.62	116,405,334.49

* 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 11 July 2005, Sichuan provincial financial supervisor office which under Ministry of Finance qualified the tax rebate in an amount of RMB 106,170,260.38 for product VAT at 2004 according to CAI ZHU CHUAN JIAN TUI ZI (2005)NO.175 and CAI ZHU CHUAN JIAN TUI ZI (2005)NO.383. 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 106,170,260.38 in total at 2 times and had been classified into "specific payables".

The company used the Demolish& renovation fund for San-xian enterprise amount RMB 94,929,371.58 in this period, including capitalizing into Fixed assets amount to RMB88,459,432.24, which have been transferred from Specific Payables to Capital reserve.

26. SHARE CAPITAL

Movement of share capital during 2005 is as below:

	1/1/2005 share	Increase (decrease) share	31/12/2005 share
Non-circulating share:			
Promoters Shares:			
- Domestic legal person shares(Note)	220,000,000	—	220,000,000
Circulating shares:			
Overseas listing foreign investment share (H Share)	170,000,000	—	170,000,000
Domestic listing ordinary share (A Share)	60,000,000	—	60,000,000
Total number of circulating shares	230,000,000	—	230,000,000
Total number of shares issued	450,000,000	—	450,000,000

Note: As disclosed in note 1, the 220,000,000 State-owned Legal person share held by DFEW was transferred to DEC on 30 December 2005.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

26. SHARE CAPITAL (continued)

Movement of share capital during 2004 is as below:

	1/1/2005 share	Increase (decrease) share	31/12/2005 share
Non-circulating share:			
- Domestic legal person shares	220,000,000	—	220,000,000
Circulating shares:			
Overseas listing foreign investment share (H Share)	170,000,000	—	170,000,000
Domestic listing ordinary share (A Share)	60,000,000	—	60,000,000
	230,000,000	—	230,000,000
	450,000,000	—	450,000,000

The above capital is RMB1.00 per share.

The above capital contribution has been verified by capital verification report Xin De Yan Zi Bao Zi (1994) No.9 issued by the Certified Public Accountants of P.R. China.

27. CAPITAL RESERVES

Year 2005	1/1/2005 RMB	Additions RMB	Reversals RMB	31/12/2005 RMB
Capital premium	522,548,287.37	—	—	522,548,287.37
Restricted capital reserve arising from non-cash asset donations received	323,000.00	—	—	323,000.00
Restricted reserve arising from equity investment	1,710,158.37	575.00	—	1,710,733.37
Other capital reserves	139,286,983.68	89,544,937.20(Note)	130,473.68	228,701,447.20
	663,868,429.42	89,545,512.20	130,473.68	753,283,467.94
Year 2004	1/1/2004 RMB	Additions RMB	Reversals RMB	31/12/2005 RMB
Capital premium	522,548,287.37	—	—	522,548,287.37
Restricted capital reserve arising from non-cash asset donations received	323,000.00	—	—	323,000.00
Restricted reserve arising from equity investment	1,710,158.37	—	—	1,710,733.37
Other capital reserves	83,205,716.07	56,081,267.61	—	139,286,983.68
	607,787,161.81	56,081,267.61	—	663,868,429.42

Note: The Company capitalized the Demolish & renovation fund for San-xian enterprise amount RMB88,459,432.24 into fixed assets, and transferred the Specific Payables to Capital Reserve.

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

28. SURPLUS RESERVES

Year 2005	1/1/2005 RMB	Current year's appropriations RMB	Transferred out RMB	31/12/2005 RMB
Statutory surplus reserve	39,182,831.76	53,509,416.97	—	92,692,248.73
Statutory public welfare fund	31,792,187.48	26,754,708.49	—	58,546,895.97
	70,975,019.24	80,264,125.46	—	151,239,144.70

Year 2004	1/1/2004 RMB	Current year's appropriations RMB	Transferred out RMB	31/12/2004 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

The Statutory surplus reserve can be used to offset accumulated losses or increase capital. The Statutory public welfare fund can be used in staff welfare.

29. RETAINED EARNINGS

Year 2004	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
At 1 January	85,095,528.05	(162,632,995.71)
Add: Net profit for the year	528,056,690.71	264,720,639.62
Less: Statutory surplus reserve	53,509,416.97	11,328,089.24
Statutory public welfare fund	26,754,708.49	5,664,026.62
Profit available for distribution	532,888,093.30	85,095,528.05
Less: Dividend distribute declared during the year	54,000,000.00	—
At 31 December	478,888,093.30	85,095,528.05
Including: Profit distributions declared after the balance sheet date.	225,000,000.00	54,000,000.00

(1) Appropriation of Statutory surplus reserve

Pursuant to the relevant regulations, the board meeting approved to make appropriations to the Statutory surplus reserve at 10% of the net profit for the year. Appropriation of statutory surplus reserve cease when accumulated amount to 50% over share capital.

(2) Appropriation of Statutory public welfare fund

Pursuant to the relevant regulations, the board meeting approved to make appropriations to the Statutory surplus reserve at 5% of the net profit for the year.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

29. RETAINED EARNINGS *(continued)*

(3) Cash dividend approved by General Meeting this year

RMB1.20 cash dividend is distributed to each ten share for the 450,000,000 shared (RMB1.00 per share) issued up to 2005.

(4) Profit distributions after Balance Sheet date

At a meeting of the directors held, the directors proposed a final dividend of RMB 5 per ordinary ten shares for the year ended 31 December 2005. The proposed dividend is not approved by shareholder's meeting.

30. REVENUE

	Year ended 31/12/2005		Year ended 31/12/2004	
	Revenue RMB	Cost of Sales RMB	Revenue RMB	Cost of Sales RMB
Revenue from sale of goods	1,566,681,273.68	885,746,393.09	1,231,977,978.71	679,495,635.64
Revenue from rendering services	145,454,211.93	107,793,825.12	126,265,414.09	83,844,947.02
Construction contract revenue	1,335,722,515.56	1,101,061,754.70	693,117,062.19	546,072,691.86
	3,047,858,001.17	2,094,601,972.91	2,051,360,454.99	1,309,413,274.52

Revenue from sales to top five customers of the Group amount to RMB668,663,288.32. A ratio over total revenue is 21.94%.

Revenue and Cost of Sales presented by product lines and labor service type are as follows:

	Year ended 31/12/2005		Year ended 31/12/2004	
	Revenue RMB	Cost of Sales RMB	Revenue RMB	Cost of Sales RMB
Revenue from sales of Power generating equipment	2,902,403,789.24	1,986,808,147.79	1,925,095,040.90	1,225,568,327.50
Revenue from rendering Services and technology improvement	145,454,211.93	107,793,825.12	126,265,414.09	83,844,947.02
	3,047,858,001.17	2,094,601,972.91	2,051,360,454.99	1,309,413,274.52

Since over 95% of total revenues is from sales of power generating equipment and no significant difference is noted in risk and rewards of sales in different area, it is not necessary to disclose the segmental information.

31. SALES TAX

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Urban development tax	3,189,873.27	7,991,819.68
Education surcharge	1,825,996.24	4,534,381.68
Business tax	116,734.61	159,377.32
	5,132,604.12	12,685,578.68

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

32. OTHER OPERATING PROFIT

	Other operating income		Other operation expenses		Other operating profit	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	31/12/2005	31/12/2004	31/12/2005	31/12/2004	31/12/2005	31/12/2004
	RMB	RMB	RMB	RMB	RMB	RMB
Material and semi-manufactures	88,400,877.99	48,491,495.24	30,826,131.11	19,189,222.07	57,574,746.88	29,302,273.17
Energy	10,866,167.68	8,644,603.52	11,927,758.07	14,911,220.93	(1,061,590.39)	(6,266,617.41)
Others	9,958,664.06	37,913,100.83	2,632,567.32	35,994,125.97	7,326,096.74	1,918,974.86
	109,225,709.73	95,049,199.59	45,386,456.50	70,094,568.97	63,839,253.23	24,954,630.62

33. FINANCE COSTS

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Interest expenses	1,271,816.63	5,323,341.62
Less: Interest income	47,036,374.30	22,146,186.17
Exchange losses	17,579,661.74	229,848.42
Less: Exchange gains	6,928,367.97	51,979.69
Others	4,495,262.39	3,483,853.71
	(30,618,001.51)	(13,161,122.11)

34. INVESTMENT INCOME

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Amortization of long-term equity investment differences	153,840.84	(375,616.05)
Share of investee's profit recognized under equity method	—	(58,337.60)
Gain (loss) on disposal of long-term equity investment	(43,005.17)	—
Other investment gain	1,155,348.00	61,450.00
	1,266,183.67	(372,503.65)

There is no major restriction on remittance of investment income.

35. SUBSIDY INCOME

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Others	100,000.00	14,000.00

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

36. CASH RECEIVED FROM OTHER ACTIVITIES RELATED TO OTHER OPERATING

Item	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Received Deposit	122,799,371.98	60,843,692.32
Interest income	15,107,768.16	16,104,306.31
Sales fund returned	25,806,296.17	11,537,699.69
Bid Warranty	27,709,254.24	10,883,187.15
Others	8,444,466.15	18,057,658.28
	199,867,156.70	117,426,543.75

37. CASH RECEIVED FROM OTHER ACTIVITIES RELATED TO OTHER OPERATING

Item	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Bid Warranty Paid	135,761,499.70	84,736,091.66
Bid warranty returned	39,134,251.48	10,077,266.95
Others	45,904,194.99	52,394,227.45
	220,799,946.17	147,207,586.06

38. CASH RECEIVED FROM OTHER INVESTMENT ACTIVITIES

Item	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Reverse back of Current position of Fixed deposit and interest	1,672,723,446.86	342,544,175.37

39. CASH PAID FOR OTHER INVESTMENT ACTIVITIES

Item	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Payment of fixed deposit	3,126,060,111.76	599,907,110.69

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

40. NET PROFIT EXCLUDING EXCEPTIONAL ITEMS

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Net profit	528,056,690.71	264,720,639.62
Less: Loss on exceptional items	(1,712,534.54)	16,365,205.63
Including: Losses (gains) on disposal of long term investment, fixed assets, construction in progress, intangible assets and other long-term assets	(997,203.65)	(2,790,630.41)
Non-operating income	128,072.90	5,802,693.89
Non-operating expenses	(1,242,337.39)	(990,734.43)
Subsidiary income	100,000.00	14,000.00
Reverse of previously recognized provision for impairment	471,895.31	14,555,966.08
Effects of Minority interests	(1,600.36)	—
Effects of Corporate Income Taxes	(171,361.35)	(226,089.50)
	529,769,225.25	248,355,433.99

41. RELATED NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY

(1) Accounts receivable

The aging analysis of accounts receivable is as follows:

	Year ended 31/12/2005				Year ended 31/12/2004			
	Amount RMB	Ratio %	Bad debt provision RMB	Net Amount RMB	Amount RMB	Ratio %	Bad debt provision RMB	Net Amount RMB
Within 1 year	623,853,091.35	64.67	31,994,520.51	591,858,570.84	475,783,648.77	60.94	23,789,182.44	451,994,466.33
1-2 years	196,044,736.45	20.32	19,604,473.65	176,440,262.80	173,007,808.70	22.16	17,300,780.87	155,707,027.83
2-3 years	80,469,712.17	8.34	16,093,942.43	64,375,769.74	73,367,959.40	9.40	14,673,591.88	58,694,367.52
3-4 years	31,593,269.15	3.28	12,637,307.66	18,955,961.49	29,953,687.59	3.84	11,981,475.04	17,972,212.55
4-5 years	13,665,128.48	1.42	6,832,564.24	6,832,564.24	4,641,523.80	0.59	2,320,761.90	2,320,761.90
Over 5 years	19,026,528.63	1.97	17,718,403.77	1,308,124.86	23,960,314.79	3.07	22,560,307.28	1,400,007.51
	964,652,466.23	100.00	104,881,212.26	859,771,253.97	780,714,943.05	100.00	92,626,099.41	688,088,843.64

Top five accounts receivables are as follows:

Total amount of top five debtors RMB	Ratio %
264,759,138.35	27.45

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

41. RELATED NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY (continued)

(2) Other receivables

The aging analysis of other receivables is as follows:

	Year ended 31/12/2005				Year ended 31/12/2004			
	Amount RMB	Ratio %	Bad debt provision RMB	Net Amount RMB	Amount RMB	Ratio %	Bad debt provision RMB	Net Amount RMB
Within 1 year	52,591,459.23	45.63	1,666,435.86	50,925,023.37	12,608,998.76	15.91	416,972.93	12,192,025.83
1-2years	590,218.26	0.51	59,021.83	531,196.43	501,650.00	0.63	50,165.00	451,485.00
2-3years	450,000.00	0.39	90,000.00	360,000.00	3,762,664.00	4.75	752,532.80	3,010,131.20
3-4years	2,750,000.00	2.39	1,100,000.00	1,650,000.00	—	—	—	—
4-5 years	—	—	—	—	183,864.00	0.23	91,932.00	91,932.00
Over5years	58,881,321.57	51.08	57,977,409.69	903,911.88	62,188,910.62	78.48	59,139,092.38	3,049,818.24
	115,262,999.06	100.00	60,892,867.38	54,370,131.68	79,246,087.38	100.00	60,450,695.11	18,795,392.27

Top five other receivables are as follows:

Total amount of top five other debtors RMB	Ratio %
74,859,477.58	64.95

(3) Provision for bad debts

	Accounts receivable RMB	Other receivables RMB	Total RMB
1/1/2005	92,626,099.41	60,450,695.11	153,076,794.52
Additions	12,255,112.85	442,172.27	12,697,285.12
Reversals	—	—	—
Other transfer out	—	—	—
31/12/2005	104,881,212.26	60,892,867.38	165,774,079.64

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

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

(4) Long-term equity investments

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Long-term share investments	44,263.24	44,263.24
Investments in subsidiaries	86,657,252.00	64,537,231.12
Investments in joint ventures	6,375,000.00	—
Investments in associated enterprises	—	113,080.76
Other equity investments	1,766,314.66	1,766,314.66
Equity investment difference	(804,832.53)	(958,673.37)
Total	94,037,997.37	65,502,216.41
Less: Provision for loss on long-term equity investments	310,941.25	310,941.25
Long-term equity investments-net	93,727,056.12	65,191,275.16

(a) Movements of the provision for loss on long-term equity investments are as follows:

	Amount RMB
1 January 2005	310,941.25
Additions	—
Reversals	—
Other transfer out	—
31 December 2005	310,941.25

(b) Details of long-term share investment:

Name of investee	Type of share	Number of shares	Share in the registered capital of the investee (%)	Investment amount RMB	Provision for loss RMB	Net amount RMB	Initial cost of investment RMB
Sichuan Sofcra Special Tyaped Fiber Co., Ltd	A share	62,773	0.02	44,263.24	-	44,263.24	44,263.24

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

41. RELATED NOTES TO THE FINANCIAL STATEMENT OF THE HOLDING COMPANY (continued)

(4) Long-term equity investments (continued)

(c) Details of investments in subsidiaries, joint ventures and associated enterprises are as follows:

Invested company	Date of Establish Investment Period	Share in the Registered capital of the Investee (%)	1/1/2005			31/12/2005					
			Initial Cost of Investment RMB	Balance RMB	Provision for Impairment RMB	Increase in Initial Investment RMB	Increase (decrease) in Equity RMB	Cash Dividend Received RMB	Accumulated Equity RMB	Balance RMB	Provision for Impairment RMB
Subsidiaries											
DFEM Control Equipment Co., Ltd	2000.5.18—2010.5.17	96.15	12,500,000.00	14,260,851.38	—	—	368,986.48	1,026,654.23	1,103,183.63	13,603,183.63	—
DFEM Power System Co., Ltd	2000.7.10—2010.7.9	98.83	42,254,340.02	20,412,177.02	—	—	22,889,922.48	—	1,047,759.48	43,302,099.50	—
DFEM Tooling & Moulding Co.,Ltd	2001.3.13—2021.3.12	99.32	14,500,000.00	16,243,213.17	—	—	381,344.58	695,205.48	1,429,352.27	15,929,352.27	—
DFEM Equipment Engineering Co.,Ltd	2001.8.16—2021.8.15	97.04	13,100,000.00	13,620,989.55	—	—	201,627.05	—	722,616.60	13,822,616.60	—
			82,354,340.02	64,537,231.12	—	—	23,841,880.59	1,721,859.71	4,302,911.98	86,657,252.00	—
Joint Ventures											
Areva Dongfang Reactor Coolant Pumps Company	2005.10.28-2055.10.27	50.00	6,375,000.00	—	—	6,375,000.00	—	—	—	6,375,000.00	—
Associated enterprises											
Sichan Jiaxin Quantity Surveyor Company	2001.5	40.00	200,000.00	113,080.76	—	(113,080.76)	—	—	—	—	—
Dongle Heavy Piece Handling Co.	1997.7	49.00	490,000.00	—	—	—	—	—	(490,000.00)	—	—
			690,000.00	113,080.76	—	(113,080.76)	—	—	(490,000.00)	6,375,000.00	—

(d) Other equity investments

Name of investee	Date of establish	1/1/2005				31/12/2005					
		Share in the registered capital	Initial cost of investment	Amount	Provision for loss	Equity increase		Cash Dividend	Accumulated Equity	Amount	Provision for loss
		of the investee				increase	(decrease)				
		(%)	RMB			RMB	RMB				
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 Electric Equipment											
Import and Export Company	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 DFEM Real Estate											
Development Co. Ltd.	2001.4	12.50	1,000,000.00	1,000,000.00	—	—	—	—	—	1,000,000.00	—
			1,766,314.66	1,766,314.66	310,941.25	—	—	—	—	1,766,314.66	310,941.25

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

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

(4) Long-term equity investments *(continued)*

(e) Details of Equity investment difference are as follows:

Name of investee	Initial investment RMB	Amortization term (month)	1/1/2005 RMB	Amortization RMB	31/12/2005 RMB	Remaining terms (month)
DFEM Tooling & Moulding Co., Ltd	(1,082,220.62)	120	(658,350.65)	108,222.12	(550,128.53)	61
DFEM Equipment Engineering Co., Ltd	(624,538.25)	120	(300,322.72)	45,618.72	(254,704.00)	67
	(1,706,758.87)		(958,673.37)	153,840.84	(804,832.53)	

(5) Revenue and Cost of sales

	Year ended 31/12/2005		Year ended 31/12/2004	
	Revenue RMB	Cost of sales RMB	Revenue RMB	Cost of sales RMB
Revenue from sales of goods	1,609,669,634.43	977,647,160.04	1,091,792,096.12	608,654,506.69
Revenue from rendering services	131,217,351.44	96,706,337.35	118,887,361.28	93,372,078.01
Construction contract revenue	1,149,380,942.15	977,827,309.65	728,663,443.52	587,968,033.81
	2,890,267,928.02	2,052,180,807.04	1,939,342,900.92	1,289,994,618.51

Revenue from sales to top five customers of the Company amount to RMB668,663,288.32. A ratio over total revenue is 23.13%.

(6) Investment income

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Amortization of Equity Investment Differences	153,840.84	(375,616.05)
Shares of investee's profit recognized under equity method for Subsidiaries Companies	23,841,305.59	11,988,484.65
Shares of investee's profit recognized under equity method for Associate Companies	—	(58,337.60)
Gain (loss) on disposal of Long-term Equity Investment	(43,005.17)	—
Other investment gain	1,155,348.00	61,450.00
	25,107,489.26	11,615,981.00

There is no major restriction on remittance of investment gains.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

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

(7) Cash and cash equivalents

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Cash and Bank Balances	3,921,304,333.42	3,203,384,745.39
Less: Term deposits with a fixed term longer than 3 months	1,957,009,576.89	491,434,965.13
Other restricted amount	137,655,773.07	116,506,310.09
	1,826,638,983.46	2,595,443,470.17

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

- (a) The following are related parties where a control relationship exists:

Name	Place of registration	Principal business	Relationship	Nature or type of business	Legal representative
DEC (Note)	115 Yihuan Road West 1st part, Chengdu, Sichuan, PRC	Manufacturing and selling equipments for hydropower stations, thermalpower stations and nuclear power stations, contracting complete set of design and technical service of the generating equipment	Holding Company	State Owned	Wang Ji
DFEW(Note)	188 Huanghe West Road Deyang, Sichuan, PRC Motors	Manufacturing and Selling of Power Generating Equipment, AC & DC	Holding Company	State Owned	Zhu Yuan Chao

Note: As disclosed in note 1, the 220,000,000 State-owned Legal person share held by DFEW was transferred to DEC on 30 December 2005.

- (b) For the related parties where a control relationship exists, the registered capital of the related parties and the changes therein are as follows:

Name	1/1/2005 RMB	Addition RMB	Reduction RMB	31/12/2005 RMB
DEC	872,743,000.00	—	—	872,743,000.00
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	42,754,340.02	—	—	42,754,340.02
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

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

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

- (c) For the related parties where a control relationship exists, the proportion of equity interest held by the related parties and changes therein are as follows:

Name	1/1/2005		Addition		Reduction		31/12/2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	RMB	(%)	RMB	(%)	RMB	(%)	RMB	(%)
DEC	—	—	220,000,000.00	48.89	—	—	220,000,000.00	48.89
DFEW	220,000,000.00	48.89	—	—	220,000,000.00	48.89	—	—
DFEM Control Equipment Co., Ltd	12,500,000.00	96.15	—	—	—	—	12,500,000.00	96.15
DFEM Power System Co., Ltd	42,254,344.02	98.83	—	—	—	—	42,254,344.02	98.83
DFEM Tooling & Moulding Co., Ltd	14,500,000.00	99.32	—	—	—	—	14,500,000.00	99.32
DFEM Equipment Engineering Co	13,100,000.00	97.04	—	—	—	—	13,100,000.00	97.04

- (d) Nature of relationship with related parties where a control relationship does not exist:

Name	Relationship with the company
Dongle Heavy Piece Handling Co	Associate company
Sichan Jiaxin Quantity Surveyor Company	Associate company
Areva Dongfang Reactor Coolant Pumps Company	Joint venture
Finance Company of Dongfang Group	Subsidiary company of DEC
SiChuan Dongfang Electrical Engineering United Co., Ltd (Dongfang Electrical Engineering Co., Ltd)	Subsidiary company of DEC
Sichuan Dongfang Electronic auto-control Co. Ltd. (Dongfang Electronic auto-control Co., Ltd)	Subsidiary company of DEC
Dongfang Steam Turbine Works	Subsidiary company of DEC
Sichuan Dongfang Electric Machinery Supplementary Equipment Company (DFEM Supplementary Equipment Company)	Subsidiary company of DFEW
Sichuan Dongfang Electric Machinery General Equipment Company (DFEM General Co., Ltd.)	Subsidiary company of DFEW
Sichuan DFEM Matal Framework Accessory Co., Ltd. (DFEM Matal Framework Accessory Co., Ltd.)	Subsidiary company of DFEW
Sichuan DFEM insulating material Co., Ltd. (DFEM Insulating Material Co., Ltd)	Subsidiary company of DFEW
Sichuan DFEM real estate development Co., Ltd (DFEM real estate Co., Ltd)	Share holder
Sichuan Deyang DFEM Gardening Co., Ltd (DFEM Gardening Co., Ltd)	Subsidiary company of DFEW
Sichuan Dongfang Industrial Development Co., Ltd (Dongfang Industrial Co., Ltd)	Subsidiary company of DEC
Guangdong Dongfang Power Station Set of Equipment Co., Ltd	Subsidiary company of DEC
Deyang Dongfang Mobile Equipment Technology Co., Ltd (Dongfang Mobile Equipment Technology Co., Ltd)	Subsidiary company of DEC
DFEW Technology School machinery and electric process work	Subsidiary company of DEC
Sichuan DFEM Property management Co., Ltd (DFEM property Co., Ltd)	Subsidiary company of DFEW
Directors, General Manager and other Senior management personnel	key management personnel

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions

(a) The details of service expenses owing to DFEW by the Group are as follows:

Items	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Staff accommodation management fees	2,460,864.81	2,626,493.00
Product packing fees	—	16,498,975.48
Environmental, hygiene and greenery expenses	3,368,939.63	2,529,128.00
Refreshment	—	4,361,422.50
Nursery service for children of employees	1,327,500.00	1,327,500.00
Staff retirement plan	2,610,534.67	2,615,299.50
Transportation and repair	63,030,764.72	55,913,284.38
Medicare for staff and family members	—	924,395.00
Rental and land use fees	3,648,401.00	3,435,355.75
Security guard fees	341,796.77	—
Others	[•]	316,042.00
	76,788,801.60	90,547,895.61

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

(b) The details of raw material, fixed assets purchase and labour charges from related parties by the Group are as follows:

Items	Company Name	31/12/2005 RMB	31/12/2004 RMB
Raw material purchase	DFEW	5,211,441.68	790,308.82
	DFEM Matal Framework		
	Accessory Co., Ltd.	25,374,523.34	15,896,557.08
	DFEM Insulating Material Co., Ltd	26,732,430.10	21,482,540.34
	DFEM Supplementary		
Labor charges	Equipment Company	43,124,204.40	37,435,437.94
	DFEM General Co., Ltd.	19,208,467.60	13,910,757.15
	DFEW	5,976,387.44	4,417,587.93
	DFEM Gardening Co., Ltd	3,246,069.83	—
Fixed assets purchase	DFEW	—	1,202,357.06
Removal compensate payment	DFEW	—	535,968.00
		128,873,524.39	95,671,514.32

Transaction prices and payments of raw material purchase, fixed assets purchase and labor charges are incurred according to agreement with related companies.

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(2) Related party transactions *(continued)*

- (c) The details of receivables from DFEW for raw material and finished product sales and labor charges by the Group:

Items	Company Name	31/12/2005 RMB	31/12/2004 RMB
Sales of Raw material and finished goods	DFEW and its subsidiaries	47,562,410.54	28,433,621.07
Sales of Energy	DFEW and its subsidiaries	5,757,256.74	7,220,571.40
Rendering Services	DFEW and its subsidiaries	5,722,841.73	4,193,619.86
	DEC	403,079.34	—
Sales of finished goods	DEC and its subsidiaries	156,864,131.40	8,251,871.80
	Guangdong Dongfang Power Station Set of Equipment Co., Ltd	17,769,555.56	—
	Dongfang Electrical Engineering Co., Ltd	11,399,862.97	—
	Dongfang Steam Turbine Works	1,662,393.16	—
		247,141,531.44	48,099,684.13

Transaction prices and receivables of raw material and finished goods sales and labor services are incurred according to agreement with related parties.

- (d) The Company has repaid loans from Finance Company of Dongfang Group amount to RMB 10,000,000.00 (monthly interest rate is 0.3825%) and interest cost amount to RMB 333,202.50.
- (e) The Company saved RMB 25,800,041.47 saving deposit and three months Fixed deposit amount to RMB 10,000,000.00 (Annual interest rate is 2.07%) in the Finance Company of Dongfang Group as at 31 December 2005. Interest income for such savings amount to RMB1,118,387.70.
- (f) During this year, the Company has fully repaid the loan amounted to RMB 10,000,000.00 from China Development Bank designated by DEC, loan period from December 1997 to November 2005 and interest cost amounted to RMB 564,200.00.
- (g) Transfer of Equity
- Equity of Sichan Jiabin Quantity Surveyor Company held by the Company was sold to DFEW for RMB70,075.59 during this year.
- (h) Emoluments for key management personnel

	Year ended 31/12/2005 RMB	Year ended 31/12/2004 RMB
Emoluments for key management personnel	1,724,236.00	813,867.74

Notes to the Financial Information (continued)

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Amounts due to /from related parties

Accounts	Name of the related parties	31/12/2005		31/12/2004	
		Amount RMB	Percentage to the account balance (%)	Amount RMB	Percentage to the account balance (%)
Accounts receivable	DFEM Matal Framework Accessory Co., Ltd.	35,186,993.12	3.66	12,905,400.65	1.58
	Dongfang Electrical Engineering Co., Ltd	20,186,022.73	2.10	12,106,569.13	1.49
	DEC	83,473,140.26	8.68	12,330,248.76	1.51
	DFEM General Co., Ltd.	6,856,644.68	0.71	3,322,496.17	0.41
	Dongfang Steam Turbine Works	4,406,400.00	0.46	1,917,000.00	0.23
	DFEM Supplementary Equipment Company	3,130,448.50	0.33	229,658.55	0.03
	Dongfang Industrial Co., Ltd	1,815,600.00	0.19	—	—
	Dongfang Electronic auto-control Co., Ltd	1,195,070.00	0.12	—	—
	DFEM Insulating Material Co., Ltd	303,843.46	0.03	172,980.07	0.02
	DREW	40,362.12	0.01	—	—
	Dongfang Mobile Equipment Technology Co., Ltd	28,400.00	0.01	—	—
		156,622,924.87	16.30	42,984,353.33	5.27
Prepayments	DFEM Matal Framework Accessory Co., Ltd.	3,068,400.00	0.43	3,654,881.20	0.76
	DFEM real estate Co., Ltd	2,000,000.00	0.28	—	—
		5,068,400.00	0.71	3,654,881.20	0.76
Other receivables	Dongle Heavy Piece Handling Co	9,039,118.80	9.07	10,498,182.40	13.18
	Areva Dongfang Reactor Coolant Pumps Company	359,012.69	0.36	—	—
	DREW	71,560.00	0.07	—	—
		9,469,691.49	9.50	10,498,182.40	13.18
Advances from customers	DEC	96,974,012.63	1.78	190,150,181.77	4.42
	Dongfang Electronic auto-control Co., Ltd	—	—	1,263,200.00	0.02
	DREW	1,611.48	—	—	—
	Dongfang Electrical Engineering Co., Ltd	37,256,605.61	0.68	—	—
	Dongfang Steam Turbine Works	768,000.00	0.01	—	—
	Dongfang Industrial Co., Ltd	605,200.00	0.01	—	—
	DFEM Insulating Material Co., Ltd	201,631.79	—	—	—
		135,807,061.51	2.48	191,413,381.77	4.44
Other payables	DREW	3,103,615.05	5.09	10,214,085.92	15.39
	DFEM property Co., Ltd	39,506.50	0.06	—	—
		3,143,121.55	5.15	10,214,085.92	15.39

Notes to the Financial Information *(continued)*

For the year ended 31 December 2005
(prepared under PRC Accounting Standards)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(3) Amounts due to /from related parties *(continued)*

Accounts	Name of the related parties	31/12/2005		31/12/2004	
		Amount RMB	Percentage to the account balance (%)	Amount RMB	Percentage to the account balance (%)
Accounts payable	DFEM General Co., Ltd.	12,018,895.23	2.67	12,143,227.16	7.00
	DFEM Supplementary Equipment Company	16,826,819.11	3.74	8,507,946.00	4.91
	DFEM Insulating Material Co., Ltd	6,083,730.21	1.35	3,976,844.60	2.29
	DFEM Matal Framework Accessory Co., Ltd.	2,378,310.44	0.53	997,232.25	0.57
	DFEW	2,221,663.00	0.49	111,630.24	0.07
	DFEM property Co., Ltd	882,195.25	0.20	—	—
	DFEW Technology School machinery and electric process work	11,734.39	—	—	—
		40,423,347.63	8.98	25,736,880.25	14.84
Notes payable	DFEM Supplementary Equipment Company	825,000.00	0.35	2,800,000.00	3.55
	DFEM General Co., Ltd.	—	—	300,000.00	0.38
	DFEM Insulating Material Co., Ltd	2,332,077.20	0.98	2,737,867.67	3.47
		3,157,077.20	1.33	5,837,867.67	7.40

43. CONTINGENT ITEMS

There exists no material contingency item necessary for disclosure.

44. CAPITAL COMMITMENTS

Details of the approved capital expenditures within the year as at 31st December 2005 are listed as follows :

	31/12/2005 RMB	31/12/2004 RMB
Capital expenditure contracted for but not provided in the financial statements:		
- Commitment for acquisition of long-term assets	123,506,520.51	124,968,131.08
- Commitment for investments	36,125,000.00	—

Irrepealable Letter of Credit as at 31st December 2005 amounted to RMB 576,165,675.31.

45. SUBSEQUENT EVENTS AFTER THE DATE OF BALANCE SHEET

- (1) According to the resolution of the 3rd meeting of the 5th board of directors, a cash dividend of RMB 225,000,000.00 for the year end of 2005 has been approved as at 20 April 2006.
- (2) China Securities Depository and Clearing Corporation Limited Shanghai Branch issued the Scrip recognition to the transfer of 220,000,000 share of the Company held by DFEW to DEC on 17 February 2006.
- (3) On 12 April 2006, the Board of Directors announced that DEC, the only non-tradable share holder of the Company, intended to exchange some of non-tradable share with tradable A share holders. The exchange arrangement is as follows: every 10 share per tradable A share could exchange for 2.7 non-tradable shares. The total number of share for exchange arrangement is 16,200,000. The non-tradable share held by DEC would become tradable on the first trading date after the implementation of this equity division reform.

46. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been approved by the Board of Directors at 20 April 2006.

Supplement Information

SUPPLEMENT INFORMATION ON DFEM'S CONSOLIDATED PROFIT AND LOSS STATEMENT YEAR 2005

Details of exceptional items in profit and loss statement:

	Consolidated 2005 RMB	2004 RMB
Gains on disposal of department or investment	—	—
Losses on natural Disaster	—	—
Gains increase (decrease) due to change of accounting policy and accounting estimate	—	—
Gains or losses from debt restructuring	—	—
Other exceptional items	(1,712,534.54)	16,365,205.63
	(1,712,534.54)	16,365,205.63
Percentage to consolidated net profit	0.32%	6.18%

DETAILS OF RETURN ON NET ASSETS AND RETURN PER SHARE ARE AS FOLLOWS FOR THE ACCOUNTING YEAR 2005

	Return on net asset (%)				Return on per share (RMB/share)			
	Fully diluted 2005	2004	Weighted average 2005	2004	Fully diluted 2005	2004	Weighted average 2005	2004
Profit from principal								
Operations	51.71	57.42	63.10	67.43	2.107	1.621	2.107	1.621
Operating profit	33.34	25.38	40.69	29.80	1.358	0.716	1.358	0.716
Net profit	28.80	20.85	35.15	24.48	1.173	0.588	1.173	0.588
Profit exclude extraordinary gain or loss	28.90	19.56	35.26	22.96	1.177	0.552	1.177	0.552

DETAILS OF PROVISION FOR IMPAIRMENTS OF ASSETS OF THE COMPANY FOR THE ACCOUNTING YEAR 2005

	1/1/2005 RMB	Increase this period RMB	Reverse this period Reserve this period RMB	Other transfer out RMB	total RMB	31/12/2005 RMB
1. Provision for bad-debt	157,218,090.81	12,072,005.97	471,895.31	384,316.73	856,212.04	168,433,884.74
Including: Accounts receivable	96,634,277.31	12,072,005.97	—	384,316.73	384,316.73	108,321,966.55
Other receivable	60,583,813.50	—	471,895.31	471,895.31	60,111,918.19	
2. Provision for decline in value of current investment	—	—	—	—		
Including: equity investment	—	—	—			
3. Provision for decline in value of inventories	4,801,092.20	655,662.02	—	2,596,861.63	2,596,861.63	2,859,892.59
Including: Raw material	—	20,254.06	—	—	—	20,254.06
Work in process	1,527,392.10	63,533.40	—	253,827.14	253,827.14	1,337,098.36
Finished goods	3,273,700.10	571,874.56	—	2,343,034.49	2,343,034.49	1,502,540.17
4. Impairment of long term investment	310,941.25	—	—	—	—	310,941.25
Including: Long term equity investment	310,941.25	—	—	—	—	310,941.25
5. Impairment of Fixed Assets	1,160,754.10	—	—	—	—	1,160,754.10
Including: Machinery and equipment	1,160,754.10	—	—	—	—	1,160,754.10
6. Provision for Estimated loss	5,471,994.88	—	—	5,153,486.88	5,153,486.88	318,508.00

DETAILS OF UNUSUAL CHANGES OF THE COMPANY FOR THE ACCOUNTING YEAR 2005

	31/12/2005 <i>RMB</i>	31/12/2004 <i>RMB</i>	Percentag of Changes (%)
Bank balance and cash	4,027,493,299.29	3,297,846,004.30	22.10
Accounts receivable	852,384,702.76	718,272,188.40	18.70
Prepayments	713,701,300.91	479,279,571.03	48.90
Inventories	2,053,892,146.91	1,151,167,717.30	78.42
Accounts payable	450,197,991.13	173,453,299.52	159.50
Advances from customers	5,462,233,395.22	4,306,023,784.45	26.85
Revenue	3,047,858,001.17	2,051,360,454.99	48.60
Costs of sales	2,094,601,972.91	1,309,413,274.52	60.00
Other operating profit	63,839,253.23	24,954,630.62	155.80
Income tax	82,213,090.23	59,004,185.85	39.30

- A. Increase of bank balance and cash mainly because the Company signed more sales contracts and received more deposit this year;
- B. Increase of Accounts receivable mainly because the sales for the year increased;
- C. Increase of prepayment mainly because the Company signed more sales contracts, so increased its raw material purchase this year;
- D. Increase of inventories mainly because the Company signed more sales contracts and production increased this year;
- E. Increase of accounts payable mainly because the raw material purchase increased this year;
- F. Increase of receive in advance mainly because this year the Company signed more sales contracts and received more deposit;
- G. Increase of Revenue mainly because the sales volume increased significantly this year;
- H. Increase of cost of sales mainly because this year the business expanded significantly;
- I. Increase of other operating profit mainly because this year the Company received more income from sale of scraps;
- J. Increase of Income tax mainly because this year the company signed more contracts and make profit after deducted the tax loss brought forward.

RECONCILIATION FOR FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG GAAP AND PRC ACCOUNTING STANDARDS FOR THE ACCOUNTING YEAR 2005

	Notes	Net Assets Year ended 31/12/2005 RMB	Net profit Year ended 31/12/2005 RMB
Net assets/net profit as reported in accordance with Hong Kong GAAP		1,698,457,254.07	534,698,375.67
Adjustments:			
– Capital Reserve	1, 2	135,760,781.76	—
– Non-operating income	1, 2	—	(6,795,525.80)
Including: Accounting difference in fixed assets arising from transfer-in from Demolish& renovation fund for San-xian enterprise	1	—	(6,664,492.14)
Accounting difference in unpaid accounts payable	2	—	(131,033.66)
– Investment income	3	(804,832.53)	153,840.84
– Others		(2,497.36)	—
Net increase/(decrease)		134,953,451.87	(6,641,684.96)
Net assets/net profit in accordance with PRC Accounting Standards for Business Enterprises.		1,833,410,705.94	528,056,690.71

1. Capital Reserve

The fixed assets arising from transfer-in from Demolishing & Renovation fund for San-xian Enterprise amount to RMB 143,607,962.66 including RMB 55,148,530.42 of 2004 and RMB 88,459,432.24 of 2005, and that from environmental protection fund and technology fund amounting to RMB 200,000.00 RMB 824,572.62 respectively, totalled RMB 55,348,530.42. In accordance with the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China, the above funds were transferred from Specific Payables to Capital Surplus. While in accordance with HK GAAP, Demolishing & Renovation fund, environmental protection fund and technology fund are recognized as Deferred Income and amortized over the estimated useful life of the fixed assets acquired in the income statement. For the period RMB 2,186,571.72, and RMB 20,689.66 were recognized in the income statement, and accordingly decreased the closing balance of the Company's Capital Surplus to RMB 53,141,269.04

2. Non-operating income

The company transferred the accounts payable amounting to RMB 131,033.66, which is unable to repay, to capital surplus according to the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China. In accordance with the HK GAAP, the accounts payable, which is unable to repay, should be recognized in the income statement in the current period.

3. Investment Income

In accordance with HK GAAP, the difference on equity investment was recognized in the income statement when occurred. In accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China, the difference on equity investment amounting to RMB 958,673.37 was amortized over 10 years, thus increasing the Company's net profit of RMB 153,840.84 for the period.