

## 7. FINANCIAL STATEMENT (Unaudited)

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

#### Balance Sheet

At 30th June 2006

	Notes	Group	Company		
		30/06/2006 RMB	01/01/2006 RMB	30/06/2006 RMB	01/01/2006 RMB
ASSETS					
CURRENT ASSETS:					
Bank balance and cash	1	3,296,972,432.24	4,027,493,299.29	3,223,782,367.78	3,921,304,333.42
Notes receivable		10,572,279.00	18,629,152.00	8,641,995.00	6,261,000.00
Accounts receivable	2	1,015,128,750.41	852,384,702.76	1,072,210,739.89	859,771,253.97
Other receivables	3	59,138,697.36	39,532,097.00	76,852,222.03	54,370,131.68
Prepayments		817,191,996.48	713,701,300.91	800,154,457.53	726,597,377.37
Inventories	5	2,702,164,947.08	2,053,892,146.91	2,542,054,302.42	1,896,280,386.37
Including: Amounts due from customers for contract work		378,051,499.37	259,868,982.06	378,051,499.37	236,222,120.06
Deferred Expenses		2,290,427.36	190,983.43	2,290,427.36	—
Total current assets		7,903,459,529.93	7,705,823,682.30	7,725,986,512.01	7,464,584,482.81
LONG-TERM INVESTMENTS:					
Long-term equity investments		15,646,724.54	7,069,804.12	108,860,470.75	93,727,056.12
Including: Equity investment difference		(727,912.11)	(804,832.53)	—	—
Total long-term investments		15,646,724.54	7,069,804.12	108,860,470.75	93,727,056.12
FIXED-ASSETS:					
Fixed assets-cost		1,229,653,465.45	1,225,255,745.96	1,195,506,611.38	1,155,876,066.27
Less: Accumulated depreciation		671,683,075.78	655,060,709.86	649,438,729.62	607,355,429.77
Fixed assets-net		557,970,389.67	570,195,036.10	546,067,881.76	548,520,636.50
Less: Impairment		1,160,754.10	1,160,754.10	1,160,754.10	1,160,754.10
Fixed assets-net book value		556,809,635.57	569,034,282.00	544,907,127.66	547,359,882.40
Materials held for construction of fixed assets		47,045,675.17	31,087,864.99	48,700,345.17	32,776,101.99
Construction in progress		181,205,362.36	120,565,260.60	178,217,108.61	118,857,476.82
Total fixed assets		785,060,673.10	720,687,407.59	771,824,581.44	698,993,461.21
INTANGIBLE ASSETS AND OTHER ASSETS:					
Intangible assets		28,155,685.98	28,502,581.86	28,141,486.86	28,480,845.48
Total intangible assets and other assets		28,155,685.98	28,502,581.86	28,141,486.86	28,480,845.48
TOTAL ASSETS		8,732,322,613.55	8,462,083,475.87	8,634,813,051.06	8,285,785,845.62

**Balance Sheet (Continued)**  
At 30th June 2006

	Notes	Group		Company	
		30/06/2006	01/01/2006	30/06/2006	01/01/2006
		RMB	RMB	RMB	RMB
<b>LIABILITIES AND OWNERS' EQUITY:</b>					
<b>CURRENT LIABILITIES:</b>					
Short-term loans		10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00
Notes payable		244,565,699.11	237,320,706.67	244,565,699.11	237,320,706.67
Accounts payable		435,560,479.10	450,197,991.13	380,892,492.71	434,054,884.91
Advances form customers		5,386,084,480.46	5,462,233,395.22	5,367,656,130.16	5,331,147,247.13
Including: Amounts due to customers					
for contract work		1,859,376,135.12	1,835,448,146.77	1,859,376,135.12	1,713,874,808.68
Salaries and wages payable		143,204,628.02	96,080,879.22	136,057,172.86	88,156,510.85
Employee benefits payable		23,410,729.66	25,068,810.87	19,646,862.62	19,841,315.58
Dividend payable	6	225,000,000.00	—	225,000,000.00	—
Taxes payable		(2,128,718.87)	126,270,414.76	937,094.41	111,584,575.69
Other fees payable		18,477,015.70	546,156.17	18,470,306.97	513,170.80
Other payables		72,423,500.27	60,976,263.91	68,478,208.20	54,129,572.31
Accrued expenses		56,994,231.38	33,410,088.63	39,171,384.01	27,182,493.80
Provisions		7,484,475.06	318,508.00	7,484,475.06	318,508.00
Total current liabilities		6,621,076,519.89	6,502,423,214.58	6,518,359,826.11	6,314,248,985.74
<b>LONG-TERM LIABILITIES:</b>					
Long-term loans		685,252.84	685,252.84	685,252.84	685,252.84
Specific accounts payables		100,881,939.79	124,290,003.62	97,986,554.79	123,750,618.62
Total long-term liabilities		101,567,192.63	124,975,256.46	98,671,807.63	124,435,871.46
<b>TOTAL LIABILITIES</b>		<b>6,722,643,712.52</b>	<b>6,627,398,471.04</b>	<b>6,617,031,633.74</b>	<b>6,438,684,857.20</b>
MINORITY INTERESTS		1,466,937.60	1,274,298.89	—	—
<b>OWNERS' EQUITY:</b>					
Paid-in capital		450,000,000.00	450,000,000.00	450,000,000.00	450,000,000.00
Capital reserve	7	778,338,881.56	753,283,467.94	778,338,881.56	753,283,467.94
Surplus reserves	8	151,239,144.70	151,239,144.70	150,223,984.04	150,223,984.04
Unappropriated profits	9	628,633,937.17	478,888,093.30	639,218,551.72	493,593,536.44
TOTAL OWNERS' EQUITY		2,008,211,963.43	1,833,410,705.94	2,017,781,417.32	1,847,100,988.42
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>8,732,322,613.55</b>	<b>8,462,083,475.87</b>	<b>8,634,813,051.06</b>	<b>8,285,785,845.62</b>

## STATEMENT OF INCOME AND PROFIT APPROPRIATION

AT 30th June 2006

	Notes	Group		Company	
		Six months ended	Six months ended	Six months ended	Six months ended
		30/06/2006	30/06/2005	30/06/2006	30/06/2005
		RMB	RMB	RMB	RMB
1. Revenue	10	2,012,965,574.87	1,176,354,054.58	2,005,127,166.67	1,126,170,399.48
Less: Cost of sales	10	1,439,890,323.05	775,242,240.49	1,467,047,085.90	761,848,121.82
Sales tax		1,188,472.57	3,892,509.65	—	3,569,222.48
2. Gross profit		571,886,779.25	397,219,304.44	538,080,080.77	360,753,055.18
Add: Other operating profit		26,448,626.51	20,745,074.64	29,450,938.63	19,052,384.61
Less: Operating expenses		12,665,598.63	7,460,991.91	10,928,766.95	5,847,180.35
General and administrative expenses		176,191,375.19	120,059,246.12	151,770,145.97	98,800,879.55
Finance costs		(29,101,401.38)	(14,700,225.99)	(29,352,120.78)	(14,263,436.32)
3. Profit from operation		438,579,833.32	305,144,367.04	434,184,227.26	289,420,816.21
Add: Investment income		76,920.42	1,189,263.25	2,239,821.88	17,676,509.21
Subsidy income		830,000.00	—	—	—
None operating income		3,942,287.78	390,528.65	1,773,968.00	248,060.00
Less: None operating expenses		1,299,625.45	1,525,813.08	1,299,267.66	1,534,714.94
4. Profit before tax		442,129,416.07	305,198,345.86	436,898,749.48	305,810,670.48
Less: Income tax		67,362,514.62	42,255,352.71	66,273,734.20	39,983,229.10
Minority interest		21,057.58	272,161.98	—	—
5. Net profit		374,745,843.87	262,670,831.17	370,625,015.28	265,827,441.38
Add: Retain earnings beginning of period (accumulative loss)		478,888,093.30	85,095,528.05	493,593,536.44	94,462,780.79
6. Distributable profits		853,633,937.17	347,766,359.22	864,218,551.72	360,290,222.17
Less: Statutory surplus reserve fund		—	—	—	—
Statutory welfare reserve fund		—	—	—	—
7. Profit available for distribution to shareholders		853,633,937.17	347,766,359.22	864,218,551.72	360,290,222.17
Less: Common shares dividend		225,000,000.00	54,000,000.00	225,000,000.00	54,000,000.00
8. Retained earnings, end of period		628,633,937.17	293,766,359.22	639,218,551.72	306,290,222.17

## STATEMENT OF CASH FLOW

AT 30th June 2006

	Group		Company	
	Six months ended	Six months ended	Six months ended	Six months ended
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
Notes	RMB	RMB	RMB	RMB
<b>1. Cash Flow from Operating Activities:</b>				
Cash received from sales of goods or rendering services	1,872,481,627.08	2,011,843,601.25	1,883,001,061.69	1,974,483,406.11
Refunds	253,792.27	—	253,792.27	—
Refunds of taxes	830,000.00	—	—	—
Other cash received relating to operating activities	46,871,658.44	58,189,371.26	42,069,674.44	55,108,894.76
Sub-total of cash inflows	1,920,437,077.79	2,070,032,972.51	1,925,324,528.40	2,029,592,300.87
Cash paid for goods and services	2,132,109,549.84	1,257,140,623.02	2,153,550,180.46	1,257,192,823.34
Cash paid to and on behalf of employees	192,119,016.50	192,805,052.78	177,846,630.23	172,621,429.73
Tax payments	164,642,218.88	157,287,539.32	138,161,665.60	150,594,929.87
Cash paid relating to other operating activities	64,874,400.87	57,873,023.02	58,881,444.66	66,077,027.10
Sub-total of cash outflows	2,553,745,186.09	1,665,106,238.14	2,528,439,920.95	1,646,486,210.04
Net Cash Flow from Operating Activities	(633,308,108.30)	404,926,734.37	(603,115,392.55)	383,106,090.83
<b>2. Cash Flow from Investing Activities:</b>				
Cash received from disposal of investment	—	147,140,092.72	—	147,140,092.72
Cash received from return on investment	—	3,208,656.46	—	2,877,207.71
Net cash receipts from disposal of fixed assets, intangible assets and other long term assets	1,915,320.00	14,120.00	1,915,320.00	—
Net cash receipts relating to other investing activities	966,942,439.02	321,012,826.96	966,942,439.02	321,012,826.96
Sub-total of cash inflows	968,857,759.02	471,375,696.14	968,857,759.02	471,030,127.39
Cash paid to acquire fixes assets intangible assets and other long-term assets	98,693,216.24	80,267,804.23	96,620,520.24	78,364,842.23
Cash paid to acquire investments	8,500,000.00	147,070,017.13	8,500,000.00	147,070,017.13
Cash payments relating to other investing activities	362,648,948.80	1,875,000,000.00	362,648,948.80	1,875,000,000.00
Sub-total of cash outflows	469,842,165.04	2,102,337,821.36	467,769,469.04	2,100,434,859.36
Net cash flows from investing activities	499,015,593.98	(1,630,962,125.22)	501,088,289.98	(1,629,404,731.97)

## STATEMENT OF CASH FLOW (Continued)

AT 30th June 2006

	Group		Company	
	Six months ended	Six months ended	Six months ended	Six months ended
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
Notes	RMB	RMB	RMB	RMB
<b>3. Cash flow from Financing Activities:</b>				
Cash received from borrowing	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00
Sub total of cash inflow	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00
Repayments of borrowings	10,000,000.00	20,000,000.00	10,000,000.00	20,000,000.00
Dividends paid, profit distributed or interest paid	184,905.00	55,325,481.90	184,905.00	53,226,270.04
Sub-total of cash outflows	10,184,905.00	75,325,481.90	10,184,905.00	73,226,270.04
Net cash flows from financing activities	(184,905.00)	(65,325,481.90)	(184,905.00)	(63,226,270.04)
<b>4. Effect of Foreign Exchange rate</b>				
Changes on Cash and Cash Equivalents	(177,152.43)	999.46	(177,152.43)	999.46
<b>5. Net Increase (decrease)</b>				
in cash and Cash Equivalents	(134,654,571.75)	(1,291,359,873.29)	(102,389,160.00)	(1,309,523,911.72)

## STATEMENT OF CASH FLOW (Continued)

### Supplementary Information

AT 30th June 2006

	Group		Company	
	Six months ended 30/06/2006	Six months ended 30/06/2005	Six months ended 30/06/2006	Six months ended 30/06/2005
Notes	RMB	RMB	RMB	RMB
1. Reconciliation of net profit to cash flow				
from operating activities:				
Net Profit	374,745,843.87	262,670,831.17	370,625,015.28	265,827,441.38
Add: Minority interest	21,057.58	272,161.98	—	—
Impairment losses on assets	6,269,373.47	(18,750,898.01)	10,018,894.53	(15,521,560.32)
Depreciation of fixed assets	49,534,498.75	35,938,993.65	47,937,395.53	33,386,189.24
Amortization for intangible assets	735,102.60	821,552.04	727,565.34	814,014.78
Decrease (increase) in deferred expenses	(2,099,443.93)	291,058.71	(2,290,427.36)	—
Increase(decrease) in accrued expenses	23,584,142.75	38,792,521.80	11,988,890.21	17,853,120.71
Decrease in provision	7,165,967.06	(3,777,208.75)	7,165,967.06	(3,777,208.75)
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	(343,409.55)	893,335.95	(343,767.34)	982,748.70
Financial expenses	(35,570,330.78)	(17,714,978.45)	(35,570,330.78)	(17,906,340.20)
Losses (gains) arising from Investments	(76,920.42)	(17,676,441.20)	(2,239,821.88)	(17,676,441.20)
Decrease (Increase) in inventory	(647,835,473.07)	(359,860,131.61)	(645,773,916.05)	(318,656,837.25)
Decrease (Increase) in receivables under operating activities	(264,192,418.97)	(250,092,241.26)	(320,579,793.78)	(302,502,635.93)
Increase (Decrease) in payables under operating activities	(137,096,804.50)	739,074,280.36	(40,044,016.90)	760,156,809.56
Others	(8,149,293.16)	(5,956,102.01)	(4,737,046.41)	(19,873,209.89)
Net Cash Flow from Operating activities	<u>(633,308,108.30)</u>	<u>404,926,734.37</u>	<u>(603,115,392.55)</u>	<u>383,106,090.83</u>
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 period	1,781,575,521.40	1,375,967,824.53	1,724,249,823.46	1,285,919,558.45
Less: Cash at the beginning of the period	1,916,230,093.15	2,667,327,697.82	1,826,638,983.46	2,595,443,470.17
Net Increase (decrease) in Cash and Cash Equivalents	<u>(134,654,571.75)</u>	<u>(1,291,359,873.29)</u>	<u>(102,389,160.00)</u>	<u>(1,309,523,911.72)</u>

## NOTES TO THE FINANCIAL STATEMENT

At 30 June 2006

### 1. CASH AT BANKS AND IN HAND

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

Item	30/06/2006			01/01/2006		
	Original Currency	Ex. Rate	Amount in RMB	Original Currency	Ex. Rate	Amount in RMB
Cash on Hand						
RMB	45,910.73	—	45,910.73	24,030.77	—	24,030.77
Cash in Bank						
RMB	3,130,117,430.85	—	3,130,117,430.85 <sup>note 1</sup>	3,855,277,031.09	—	3,855,277,031.09
USD	1,745,967.26	7.9956	13,960,055.82	2,222,820.77	8.0702	17,938,608.18
HKD	—	—	—	—	—	—
Other Cash Equivalents						
RMB	152,849,034.84		152,849,034.84 <sup>note 2</sup>	154,253,629.25	—	154,253,629.25
			<u>3,296,972,432.24</u>			<u>4,027,493,299.29</u>

*note 1: Including amount RMB76,412,301.31 saving deposit and RMB190,000,000.00 fixed deposit due in 3 months in Finance Company of Dongfang Group.*

*note 2: Mainly are security deposits for banker's acceptances, tenders and contracts.*

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

	30/06/2006 RMB	01/01/2006 RMB
Cash and Bank Deposit	3,296,972,432.24	4,027,493,299.29
Less: Term deposits with a fixed term longer than 3 months	(1,362,547,876.00)	(1,957,009,576.89)
Other restricted amount	(152,849,034.84)	(154,253,629.25)
	<u>1,781,575,521.40</u>	<u>1,916,230,093.15</u>

## 2. ACCOUNTS RECEIVABLES

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

	30/06/2006				01/01/2006			
			Bad debt				Bad debt	
	Amount	Ratio	provision	Net amount	Amount	Ratio	provision	Net amount
	RMB	%	RMB	RMB	RMB	%	RMB	RMB
Within 1 year	771,420,108.30	68.22	39,397,059.63 <sup>note 1</sup>	732,023,048.67	606,238,439.66	63.10	31,004,986.26	575,233,453.40
1 to 2 years	222,792,503.83	19.70	24,074,187.25	198,718,316.58	196,047,944.71	20.41	19,604,794.48	176,443,150.23
2 to 3 years	69,848,189.59	6.18	14,283,255.74	55,564,933.85	87,031,322.17	9.06	17,406,264.43	69,625,057.74
3 to 4 years	33,423,763.56	2.96	13,369,505.42 <sup>note 2</sup>	20,054,258.14	37,386,994.60	3.89	14,954,797.84	22,432,196.76
4 to 5 years	14,161,456.63	1.25	7,080,728.32 <sup>note 2</sup>	7,080,728.31	14,975,439.54	1.56	7,632,719.77	7,342,719.77
Over 5 years	19,166,528.63	1.69	17,479,063.77 <sup>note 2</sup>	1,687,464.86	19,026,528.63	1.98	17,718,403.77	1,308,124.86
	<u>1,130,812,550.54</u>	<u>100.00</u>	<u>115,683,800.13</u>	<u>1,015,128,750.41</u>	<u>960,706,669.31</u>	<u>100.00</u>	<u>108,321,966.55</u>	<u>852,384,702.76</u>

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

note 2: For receivables over 3 years, the bad debt provision ratio is high as the possibility of collection is low.

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

Top Five Largest Accounts Receivable RMB	Percentage of the Total Account Receivable %
292,778,868.52	25.89%



### 3. OTHER ACCOUNT RECEIVABLES

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

	30/06/2006				01/01/2006			
			Bad debt				Bad debt	
	Amount	Ratio	provision	Net amount	Amount	Ratio	provision	Net amount
	RMB	%	RMB	RMB	RMB	%	RMB	RMB
Within 1 year	41,299,702.94	34.82	85,565.69 <sup>note 1</sup>	41,214,137.25	36,972,475.36	37.11	885,486.67	36,086,988.69
1 - 2 years	18,635,878.03	15.71	1,863,587.80	16,772,290.23	590,218.26	0.59	59,021.83	531,196.43
2 - 3 years	386,000.00	0.33	77,200.00 <sup>note 2</sup>	308,800.00	450,000.00	0.45	90,000.00	360,000.00
3 - 4 years	—	—	—	—	2,750,000.00	2.76	1,100,000.00	1,650,000.00
4 - 5 years	—	—	—	—	—	—	—	—
Over 5 years	58,273,901.57	49.14	57,430,431.69	843,469.88	58,881,321.57	59.09	57,977,409.69	903,911.88
	<u>118,595,482.54</u>	<u>100.00</u>	<u>59,456,785.18</u>	<u>59,138,697.36</u>	<u>99,644,015.19</u>	<u>100.00</u>	<u>60,111,918.19</u>	<u>39,532,097.00</u>

note 1: 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 RMB39,561,494.29.

note 2: For receivables over 3 years, 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:

Balances of top five largest other accounts receivables of the Group (RMB)	Percentage to total other account receivables %
94,553,809.76	79.73%

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

	30/06/2006	01/01/2006	Year of Receivable Inception
	<i>RMB</i>	<i>RMB</i>	
The interest of fix deposit	<b>39,561,494.29</b>	19,262,742.11	2006
Chongqing Xinglongda Real Estate Development Co. Ltd.	<b>36,000,000.00<sup>note</sup></b>	36,000,000.00	1999
Dongle Heavy Piece Handling Company	<b>8,434,698.80</b>	9,039,118.80	1999
Chengdu Dayang Property Company	<b>7,030,000.00</b>	7,030,000.00	1996
Sichuan Mianzhu Tiankang Medical Equipment Co. Ltd.	<b>3,527,616.67</b>	3,527,616.67	1999

*note: The receivable of RMB36,000,000.00 from Chongqing Xinglongda Real Estate Development Co. Ltd. ("Xinglongda Co.") is more than 7 years, all of which has been put into bad debt provision.*

#### 4. PROVISION FOR BAD DEBT

	Account Receivables	Other Account Receivables	Total Receivables
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
01/01/2006	108,321,966.55	60,111,918.19	168,433,884.74
Additions	7,361,833.58	444,866.99	7,806,700.57
Reversals	—	1,100,000.00	1,100,000.00
Other transfer out	—	—	—
30/06/2006	<b>115,683,800.13</b>	<b>59,456,785.18</b>	<b>175,140,585.31</b>

## 5. INVENTORIES AND PROVISION FOR DECLINE OF INVENTORIES

	30/06/2006			01/01/2006		
	Amount	Provision for decline in value of inventories	Net amount	Amount	Provision for decline in value of inventories	Net Amount
	RMB	RMB	RMB	RMB	RMB	RMB
Raw materials	1,093,926,459.32	20,254.06	1,093,906,205.26	888,793,710.33	20,254.06	888,773,456.27
Work-in-progress	933,143,374.93	1,325,535.07	931,817,839.86	535,741,447.67	1,337,098.36	534,404,349.31
Finished goods	288,390,185.26	1,076,776.36	287,313,408.90	362,578,845.44	1,502,540.17	361,076,305.27
Amount due from customers for contract work included in inventories	378,051,499.37	—	378,051,449.37	259,868,982.06	—	259,868,982.06
Low-value consumables	5,795,316.24	—	5,795,316.24	5,978,622.29	—	5,978,622.29
Materials on consignment for further processing	5,280,677.45	—	5,280,677.45	3,790,431.71	—	3,790,431.71
Materials in transits	—	—	—	—	—	—
	<u>2,704,587,512.57</u>	<u>2,422,565.49</u>	<u>2,702,164,947.08</u>	<u>2,056,752,039.50</u>	<u>2,859,892.59</u>	<u>2,053,892,146.91</u>

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

	01/01/2006	Additions	Reversals	Other transfer out	30/06/2006
	RMB	RMB	RMB	RMB	RMB
Provision for decline in value					
Raw materials	20,254.06	—	—	—	20,254.06
Work-in-progress	1,337,098.36	—	—	11,563.29	1,325,535.07
Finished goods	1,502,540.17	—	—	425,763.81	1,076,776.36
Sub	2,859,892.59	—	—	437,327.10	2,422,565.49
Provision for expected loss on construction contract <sup>note</sup>	318,508.00	7,165,967.06	—	—	7,484,475.06
Total	<u>3,178,400.59</u>	<u>7,165,967.06</u>	<u>—</u>	<u>437,327.10</u>	<u>9,907,040.55</u>

*note: In some construction contracts, the expected total cost exceeded the expected total revenue. The company has recognized the difference as expected losses in the period.*

## 6. DIVIDEND PAYABLE

	30/06/2006	01/01/2006
	RMB	RMB
DFEC	101,900,000.00	—
Ordinary shareholder (A Shares)	38,100,000.00	—
Ordinary shareholder (H Shares)	85,000,000.00	—
	<u>225,000,000.00</u>	<u>—</u>

## 7. Capital Reserves

At 30 June 2006

	01/01/2006	Additions	Reversals	30/06/2006
	RMB	RMB	RMB	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	1,710,733.37	—	—	1,710,733.37
Other capital reserves	228,701,447.20	25,055,413.62 <sup>note</sup>	—	253,756,860.82
	<u>753,283,467.94</u>	<u>25,055,413.62</u>	<u>—</u>	<u>778,338,881.56</u>

*note: The Company and its subsidiaries capitalized the Demolish & renovation fund for San-xian enterprise amount RMB23,510,137.45 into fixed assets, of which DFEM Control Equipment Manufactory Co. Ltd, the subsidiary, Capitalized RMB4,459,333.31 into fixed assets, and transferred the Specific Payables to Capital Reserve.*

## 8. Surplus Reserves

At 30 June 2006

	01/01/2006 RMB	Increase RMB	Decrease RMB	30/06/2006 RMB
Statutory surplus reserve	92,692,248.73	58,546,895.97	—	151,239,144.70
Statutory public welfare fund	58,546,895.97	—	58,546,895.97	—
	<u>151,239,144.70</u>	<u>58,546,895.97</u>	<u>58,546,895.97</u>	<u>151,239,144.70</u>

## 9. Retained earnings

	Six months ended 30/06/2006 RMB	Six months ended 30/06/2005 RMB
At 1 January (accumulated loss)	<b>478,888,093.30</b>	85,095,528.05
Add: Net profit for the year	<b>374,745,843.87</b>	262,670,831.17
Less: Statutory surplus reserve	—	—
Statutory public welfare fund	—	—
Profit available for distribution	<b>853,633,937.17</b>	347,766,359.22
Less: Dividend distribute declared during the year	<b>225,000,000.00</b>	54,000,000.00
At 30 June	<b><u>628,633,937.17</u></b>	<u>293,766,359.22</u>

### Cash dividend approved at the general meeting

The Board proposed to all shareholders a cash dividend of RMB5 per share for every ten shares for 2005 based on a total of 450,000,000 issued shares in 2006 per value per share was RMB1.00 per share. The proposed dividend has approved by the 2005 shareholder's meeting.

## 10. Revenue

	Six months ended		Six months ended	
	30/06/2006		30/06/2005	
	Revenue	Cost of Sales	Revenue	Cost of Sales
	RMB	RMB	RMB	RMB
Revenue from sale of goods	1,132,666,702.91	693,496,564.47	657,896,982.05	326,355,377.92
Revenue from rendering services	13,540,374.02	3,148,740.94	40,373,433.07	20,538,278.52
Construction contract revenue	866,758,497.94	743,245,017.64	478,083,639.46	428,348,584.05
	<u>2,012,965,574.87</u>	<u>1,439,890,323.05</u>	<u>1,176,354,054.58</u>	<u>775,242,240.49</u>

Revenue from sales to top five customers of the Group amount to RMB552,723,251.18, the ratio over total revenue is 27.45%.

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

	01/01/2006 - 30/06/2006		01/01/2005 - 30/06/2005	
	Revenue	Cost of Sales	Revenue	Cost of Sales
	RMB	RMB	RMB	RMB
Revenue from sales of power generating equipment	1,953,424,361.35	1,391,571,228.69	1,071,963,491.13	701,392,979.68
Revenue from rendering services and technology improvement	59,541,213.52	48,319,094.36	104,390,563.45	73,849,260.81
	<u>2,012,965,574.87</u>	<u>1,439,890,323.05</u>	<u>1,176,354,054.58</u>	<u>775,242,240.49</u>

## 11. Approval of Financial Statement

The financial statements of the Company and the Parent was approved by the Board of the Company on 22 August 2006

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

2006.1.1 - 6.30

Details of exceptional items in profit and loss statement:

	Consolidated	
	30/06/2006	30/06/2005
	RMB	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	4,613,359.86	27,432,851.35
	<b>4,613,359.86</b>	<b>27,432,851.35</b>
Percentage to consolidated net profit	1.23%	10.44%

## Details of return on net assets and return per share are as follows for the accounting

2006.1.1-6.30

	Return on net asset (%)				Return on per share (RMB / share)			
	Fully diluted		Weighted average		Fully diluted		Weighted average	
	2006.6.30	2005.6.30	2006.6.30	2005.6.30	2006.6.30	2005.6.30	2006.6.30	2005.6.30
Profit from principal operations	28.48	26.55	28.51	28.35	1.271	0.883	1.271	0.883
Operating profit	21.84	20.39	21.86	21.78	0.975	0.678	0.975	0.678
Net profit	18.66	17.55	18.68	18.75	0.833	0.584	0.833	0.584
Profit exclude extraordinary gain or loss	18.43	15.72	18.45	16.79	0.823	0.523	0.823	0.523

## Details of provision for impairments of assets of the Company for the accounting

2006.1.1 - 6.30

		Reverse this period				Total	30/06/2006
		Increase	Reverse	Other			
		this period	this period	transfer out			
		RMB	RMB	RMB	RMB	RMB	RMB
1.	Provision for bad-debt	168,433,884.74	7,806,700.57	—	—	1,100,000.00	175,140,585.31
	Including: Accounts receivable	108,321,966.55	7,361,833.58	—	—	—	115,683,800.13
	Other receivable	60,111,918.19	444,866.99	—	—	1,100,000.00	59,456,785.18
2.	Provision for decline in value						
	of current investment	—	—	—	—	—	—
	Including: equity investment	—	—	—	—	—	—
3.	Provision for decline in value						
	of inventories	2,859,892.59	—	—	—	437,327.10	2,422,565.49
	Including: Raw material	20,254.06	—	—	—	—	20,254.06
	Work in process	1,337,098.36	—	—	—	11,563.29	1,325,535.07
	Finished goods	1,502,540.17	—	—	—	425,763.81	1,076,776.36
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	318,508.00	7,165,967.06	—	—	—	7,484,475.06



## Details of unusual changes of the Company

At 30 June 2006

Items	2006.6.30/ 2006.1.1 - 6.30 RMB	2005.12.31/ 2005.1.1 - 6.30 RMB	Percentage of Changes (%)
Bank balance and cash	3,296,972,432.24	4,027,493,299.29	(18.14)
Notes receivable	10,572,279.00	18,629,152.00	(43.25)
Inventories	2,702,164,947.08	2,053,892,146.91	31.56
Taxes Payable	(2,128,718.87)	126,270,414.76	(101.69)
Long-term equity investments	15,646,724.54	7,069,804.12	121.32
Revenue	2,012,965,574.87	1,176,354,054.58	71.12
Costs of sales	1,439,890,323.05	775,242,240.49	85.73
Other operating profit	26,448,253.23	20,745,074.64	27.49
Finance costs	(29,101,401.38)	(14,700,225.99)	(97.97)

- A. Decrease of bank balance and cash mainly because the Company signed more sales contracts and received more deposit this year;
- B. Decrease of notes receivable mainly because the increased in endorsement of bills for external payments during the period;
- C. Increase of inventories mainly because the Company increased the reserves of raw materials and work-in-progress to meet long-term production needs;
- D. Decrease of taxes payable mainly because the raw material purchase increased this year;
- E. Increase of long-term equity investments mainly because this year the Company invested more on Areva Dong Fang Reactor Coolant Pumps.
- F. Increase of revenue mainly because the sales volume increased significantly this year;
- G. Increase of cost of sales mainly because this year the business expanded significantly;
- H. Increase of other operating profit mainly because this year the Company received more income from sale of scraps;
- I. Decrease of finance costs mainly because this year the Company received more interest income from fixed deposit.

**Reconciliation for financial statements prepared in accordance with Accounting Principles Generally Accepted in Hong Kong GAAP and PRC Accounting Standards for the accounting**

		Net Assets	Net profit
		30/06/2006	01/01/2006 - 30/06/2006
	Notes	RMB	RMB
In accordance with Hong Kong GAAP		1,856,001,745.64	382,152,053.63
Adjustments:			
— Capital Reserve	1	152,940,627.26	—
— Non-operating income	1	—	(7,506,258.46)
Including: Accounting difference in fixed assets arising from transfer-in from demolish & renovation fund for San-xian enterprise	1	—	(7,506,258.46)
Accounting difference in unpaid accounts payable	1	—	—
— Investment income	2	(727,912.11)	76,920.42
— Others		(2,497.36)	(23,128.28)
Net increase / (decrease)		152,210,217.79	(7,406,209.76)
In accordance with PRC Accounting Standards		<u>2,008,211,963.43</u>	<u>374,745,843.87</u>

## **1. Capital reserve**

In accordance with the Accounting Standards for Enterprises and Accounting Systems for Enterprises and the other supplementary rules of the PRC, the Company utilised the specific fund granted to “Three-tier Enterprises” for removal and renovation amounted to RMB167,118,100.11. Among which, the fixed asset realized in 2004, 2005 and the first half of 2006 were RMB55,148,530.42, RMB88,459,432.24 and RMB23,510,137.45 respectively. The specific fund for environmental protection to build up fixed assets in 2004 amounted to RMB200,000.00. The specific fund for technology to build up fixed assets in 2005 and the first half of 2006 were RMB824,572.62 and RMB1,324,522.57 respectively and RMB169,467,195.30 in aggregation. The specific fund was transferred from Specific Payables to Capital Reserve account. In accordance with HK GAAP, the specific fund granted to “Three-tier Enterprise” for removal and renovation, the specific fund for environmental protection and technology were transferred to “Deferred income” account. The deferred income accounted for in the income statement over the expected useful life of the fixed assets acquired were RMB16,264,837.09, RMB55,305.04 and RMB57,869.86 respectively, totalling RMB16,378,011.99. Among which, amounts accounted for profit and loss of current year were RMB7,453,491.36, RMB11,538.46 and RMB41,228.64, totalling RMB7,506,258.46. The closing balance of capital reserve was decreased to RMB153,089,183.31 accordingly.

## **2. Investment income**

For the difference of RMB1,706,758.87 of the Company's equity investment in its subsidiaries, it was recognized in the income statement when it incurred on a one-off basis in accordance with the HK GAAP. It was recognized as difference in equity investment and amortised on a ten-year basis in accordance with the PRC GAAP. Net assets of the Company for the period was increased by RMB76,920.42 accordingly.

## (2) THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HK GAAP (Unaudited)

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		For the six months ended	
		30.6.2006	30.6.2005
	NOTES	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	4	2,012,966	1,176,354
Cost of sales		(1,448,244)	(775,358)
Gross profit		564,722	400,996
Other income		74,311	44,176
Selling and distribution costs		(12,668)	(7,461)
Administrative expenses		(176,581)	(129,246)
Finance costs	5	(225)	(700)
Profit before taxation	6	449,559	307,765
Income tax expense	7	(67,363)	(42,255)
Profit for the period		382,196	265,510
Attributable to:			
Equity holders of the parent		382,152	265,238
Minority interests		44	272
		382,196	265,510
Dividend	8	—	—
Basic earnings per share	9	RMB0.849	RMB0.589

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

	NOTES	30.6.2006 RMB'000 (Unaudited)	31.12.2005 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	785,061	720,688
Prepaid lease payments		26,007	26,363
Intangible assets		1,436	1,427
Interests in a jointly controlled entity		14,875	6,375
Available-for-sale investments		1,499	1,499
		<b>828,878</b>	<b>756,352</b>
<b>CURRENT ASSETS</b>			
Inventories		2,316,630	1,794,023
Prepaid lease payments within one year		713	713
Amount due from customers			
for contract works		378,051	259,869
Debtors, deposits and prepayments	11	1,903,479	1,623,534
Amount due from an associate		843	904
Deposits in non-banking			
financial institution		276,412	35,800
Pledged bank deposits		152,849	154,254
Bank deposits with maturity			
over three months		1,362,548	1,957,009
Bank balances and cash		1,505,163	1,880,430
		<b>7,896,688</b>	<b>7,706,536</b>

## CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2006

	NOTES	30.6.2006 RMB'000 (Unaudited)	31.12.2005 RMB'000 (Audited)
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	4,543,942	4,655,361
Dividend payables		225,000	—
Amount due to customers for contract works		1,859,376	1,835,767
Tax liabilities		76,842	126,270
Bank and other borrowings (unsecured)		10,000	10,000
		<u>6,715,160</u>	<u>6,627,398</u>
<b>NET CURRENT ASSETS</b>		<u>1,181,528</u>	<u>1,079,138</u>
<b>TOTAL ASSETS LESS</b>			
<b>CURRENT LIABILITIES</b>		<u>2,010,406</u>	<u>1,835,490</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	450,000	450,000
Reserves		1,406,001	1,248,457
Equity attributable to equity holders of the parent		1,856,001	1,698,457
Minority interests		1,316	1,272
<b>TOTAL EQUITY</b>		<u>1,857,317</u>	<u>1,699,729</u>
<b>NON-CURRENT LIABILITY</b>			
Deferred income		153,089	135,761
		<u>2,010,406</u>	<u>1,835,490</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the parent									
	Statutory								Minority interests	Total
	Share capital	Capital reserve	Statutory surplus reserve	public welfare fund	Dividend reserve	Retained profits	Total			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2006	450,000	636,061	92,692	58,547	225,000	236,157	1,698,457	1,272	1,699,729	
Profit for the period	—	—	—	—	—	382,152	382,152	44	382,196	
Capital contribution	—	392	—	—	—	—	392	—	392	
2005 final dividend approved	—	—	—	—	(225,000)	—	(225,000)	—	(225,000)	
At 30 June 2006	450,000	636,453	92,692	58,547	—	618,309	1,856,001	1,316	1,857,317	
At 1 January 2005, as previously reported	450,000	636,061	39,182	31,793	54,000	6,723	1,217,759	146	1,217,905	
Effect of adoption of HKAS 1	—	—	—	—	—	—	—	882	882	
At 1 January 2005, as restated	450,000	636,061	39,182	31,793	54,000	6,723	1,217,759	1,028	1,218,787	
Profit for the period	—	—	—	—	—	265,238	265,238	272	265,510	
2004 final dividend paid	—	—	—	—	(54,000)	—	(54,000)	—	(54,000)	
At 30 June 2005	450,000	636,061	39,182	31,793	—	271,961	1,428,997	1,300	1,430,297	

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	For the six months ended	
	30.6.2006	30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
NOTES	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(633,485)	420,323
Net cash from (used in) investing activities	499,014	(1,646,628)
Net cash used in financing activities	(184)	(65,055)
Net decrease in cash and cash equivalents	(134,655)	(1,291,360)
Cash and cash equivalents at beginning of the period	1,916,230	2,667,328
Cash and cash equivalents at end of the period	1,781,575	1,375,968
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	1,505,163	1,340,556
Deposits in non-banking financial institution	276,412	35,412
	1,781,575	1,375,968



## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*FOR THE SIX MONTHS ENDED 30 JUNE 2006*

### **1. GENERAL**

The Company is a joint stock limited company established in the People's Republic of China (the "PRC").

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

On 17 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 China Dongfang Electric Corporation ("DFEC"). The aforesaid 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.

On 12 April 2006, the Company announced that DFEC, the controlling shareholder, has made 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 shareholders of domestic listed RMB ordinary shares (the "A Shares") 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 were allocated by DFEC to the A Shares shareholders on 12 April 2006.

The interim results for the six months ended 30 June 2006 are unaudited and have been reviewed by the Group's Audit Committee.

## 2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of the Group's net income, financial position and cash flows for interim periods have been made.

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

At the date of authorisation of these condensed financial statements, the following Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively the "HKFRSs") were in issue but not yet effective:

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: disclosures <sup>1</sup>
HK (IFRIC)-Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies <sup>2</sup>
HK (IFRIC)-Int 8	Scope of IFRS 2 <sup>3</sup>
HK (IFRIC)-Int 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the condensed financial statements of the Group.

### 4. 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.

	<b>For the six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
<hr/>		
Turnover		
Sales of Hydro power generators, steam power generators and AC / DC electrical motors	<b>1,953,424</b>	1,071,963
Provision of repair, upgrade, maintenance and other services	<b>59,542</b>	104,391
	<hr/>	<hr/>
	<b>2,012,966</b>	1,176,354
	<hr/>	<hr/>

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 addition to property, plant and equipment are situated in the PRC. Accordingly, no segmental analysis of business and geographical segments is presented for both periods.

## 5. FINANCE COSTS

	For the six months ended	
	30.6.2006	30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings wholly repayable within five years	225	1,634
Less: amount capitalised in the cost of qualifying assets	—	(934)
	<u>225</u>	<u>700</u>

## 6. PROFIT BEFORE TAXATION

	For the six months ended	
	30.6.2006	30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation has been arrived at after charging and (crediting):		
Allowance for bad and doubtful debts	7,807	8,729
Amortisation of intangible assets	379	465
Depreciation of property, plant and equipment	49,534	41,038
Loss on disposal of an associate	—	43
Amortisation of prepaid lease payments	356	356
(Gain) loss on disposal of property, plant and equipment	(2,512)	2,050
Recovery of allowances for inventories	(437)	(2,349)
Recovery of bad and doubtful debts	(1,100)	(25,131)

## 7. INCOME TAX EXPENSE

	For the six months ended	
	30.6.2006	30.6.2005
	RMB'000	RMB'000

Current tax:

PRC Enterprise Income Tax	<b>67,363</b>	42,255
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The provision of PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate applicable for the period.

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

## 8. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006. No interim dividend was declared for the same period last year.

## 9. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on profit for the period attributable to equity holders of the parent of RMB382,152,053 (six months ended 30 June 2005: RMB265,238,000) and on 450,000,000 shares (six months ended 30 June 2005: 450,000,000 shares) outstanding during the period.

## 10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB152,334,000 (six months ended 30 June 2005: RMB84,448,000) on the acquisition of property, plant and equipment.

# 11. DEBTORS, DEPOSITS AND PREPAYMENTS

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Trade debtors	1,015,129	852,385
Other debtors, deposits and prepayments	888,350	771,149
	<u>1,903,479</u>	<u>1,623,534</u>

The Group offers credit terms generally accepted in the generator manufacturing industry to its customers, which vary on the size of contract, credibility and reputation of the customers. The aged analysis of the trade debtors is as follows:

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Within one year	732,023	575,234
1 - 2 years	198,718	176,443
2 - 3 years	55,565	69,625
Over 3 years	28,823	31,083
	<u>1,015,129</u>	<u>852,385</u>

In the opinion of the directors, the carrying amount of debtors approximates their fair values.

## 12. TRADE AND OTHER PAYABLES

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Trade creditors	435,560	450,198
Advances from customers	3,526,708	3,626,785
Other creditors and accruals	581,674	578,378
	<u>4,543,942</u>	<u>4,655,361</u>

The aged analysis of the trade creditors is as follows:

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Within 1 year	384,369	435,556
1 - 2 years	47,570	12,730
2 - 3 years	2,647	692
More than 3 years	974	1,220
	<u>435,560</u>	<u>450,198</u>

In the opinion of the directors, the carrying amount of trade and other payables approximates their fair values.

### 13. SHARE CAPITAL

	Number of shares	Share capital <i>RMB'000</i>
<hr/>		
Registered, issued and fully, paid:		
Balance at 1 January 2005, 30 June 2005, 31 December 2005		
– State-owned legal person shares of RMB1 each	220,000,000	220,000
– A Shares of RMB1 each	60,000,000	60,000
– H Shares of RMB1 each	170,000,000	170,000
	<hr/>	<hr/>
	450,000,000	450,000
	<hr/>	<hr/>
Decrease during the period		
– State-owned legal person shares ( <i>note</i> )	(16,200,000)	(16,200)
Increase during the period		
– A Shares ( <i>note</i> )	16,200,000	16,200
	<hr/>	<hr/>
	—	—
	<hr/>	<hr/>
Balance at 30 June 2006		
– State-owned legal person shares of RMB1 each	203,800,000	203,800
– A Shares of RMB1 each	76,200,000	76,200
– H Shares of RMB1 each	170,000,000	170,000
	<hr/>	<hr/>
	450,000,000	450,000
	<hr/>	<hr/>



### 13. SHARE CAPITAL *(Continued)*

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, state-owned legal person shares, overseas listed foreign investment shares (the “H Shares”), and A Shares rank pari passu in all respects with each other.

*Note: On 12 April 2006, the Company announced that DFEC, the controlling shareholder, has made a share segregation reform. It is proposed by DFEC that 2.7 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 were allocated by DFEC to the A Shares shareholders on 12 April 2006.*

### 14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group entered into transactions with related companies. Details relating to these related party transactions are as follows:

		For the six months ended	
		30.6.2006	30.6.2005
		RMB'000	RMB'000
<hr/>			
(a)	Transactions with DFEC and its subsidiaries:		
	Expenditure		
	– Interest paid and payable	<u>—</u>	<u>551</u>
	Turnover		
	– Sales of finished goods	<u>215,794</u>	<u>12,110</u>
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#### 14. RELATED PARTY TRANSACTIONS *(Continued)*

	For the six months ended	
	30.6.2006	30.6.2005
	RMB'000	RMB'000
<hr/>		
(b) Transactions with Dongfang Electrical Machinery Works ("DFEW") and its subsidiaries:		
Expenditure		
– Purchase of materials costs	80,886	37,982
– Packaging costs	—	—
– Freight and maintenance expenses	31,694	35,445
– Others	3,145	7,173
	<hr/>	<hr/>
	115,725	80,600
	<hr/>	<hr/>
Turnover		
– Provision of power supply	1,106	3,629
– Proceeds on sales of raw materials and finished goods	20,477	20,321
– Others	1,089	1,534
	<hr/>	<hr/>
	22,672	25,484
	<hr/>	<hr/>
Other		
– Income from disposal of an associate	—	70
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#### 14. RELATED PARTY TRANSACTIONS *(Continued)*

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

Name of related companies	Balances	30.6.2006 RMB'000	31.12.2005 RMB'000
DFEC and its subsidiaries	Trade debtors	<u>131,213</u>	<u>111,105</u>
	Advances from customers	<u>262,803</u>	<u>135,604</u>
DFEC Finance Company (subsidiary of DFEC)	Deposits in non-banking financial institution	<u>276,412</u>	<u>35,800</u>
DFEW and its subsidiaries	Trade debtors	<u>57,161</u>	<u>45,518</u>
	Other debtors, deposits and prepayments	<u>7,193</u>	<u>5,140</u>
	Trade creditors	<u>46,808</u>	<u>40,423</u>
	Other creditors and accruals	<u>19,564</u>	<u>6,300</u>
	Advances from customers	<u>318</u>	<u>203</u>
Dongle Heary Piece Handling Co., Ltd.	Other debtors, deposits and prepayments	<u>8,435</u>	<u>9,039</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related companies.

## 15. CAPITAL COMMITMENTS

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

	30.6.2006 <i>RMB'000</i>	31.12.2005 <i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided in the condensed financial statements	159,203	123,507
– authorised but not contracted for	21,100	—
	<b>180,303</b>	<b>123,507</b>
Commitments for the acquisition of interest in a jointly controlled entity		
– contracted for but not provided in the condensed financial statements	27,625	36,125

# **16. DIFFERENCES BETWEEN HKFRSs AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP**

The condensed consolidated balance sheet of the Group prepared under HKFRSs and that prepared under PRC amounting standards and regulations have the following major differences:

	<b>30.6.2006</b>	31.12.2005
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Equity attributable to equity holders of the parent as per condensed financial statements prepared under HKFRSs	<b>1,856,001</b>	1,698,457
Different accounting treatment in respect of governments subsidy	<b>152,940</b>	135,760
Different accounting treatment in respect of investment income	<b>(729)</b>	(806)
Net assets as per financial statements prepared under PRC accounting standards and regulations	<b><u>2,008,212</u></b>	<u>1,833,411</u>

**16. DIFFERENCES BETWEEN HKFRSs AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP (Continued)**

The condensed consolidated income statement of the Group prepared under HKFRSs and that prepared under PRC accounting standards and regulations have the following major differences:

	<b>For the six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
Profit for the period attributable to equity holders of the parent as per condensed financial statements prepared under HKFRSs	<b>382,152</b>	265,238
Different accounting treatment in respect of depreciation of property, plant and equipment of government subsidy	<b>(7,483)</b>	(2,644)
Different accounting treatment in respect of investment income	<u>77</u>	<u>77</u>
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u><b>374,746</b></u>	<u>262,671</u>

There are differences in other items in the condensed financial statements due to differences in classification between HKFRSs and PRC accounting standards and regulations.