

Notes to the Financial Statements

For the year ended 31 December 2000

(Prepared under Accounting Principles Generally Accepted in Hong Kong)

1. GENERAL INFORMATION OF THE COMPANY

The Company was established on 28 December 1993 in Deyang, Sichuan, the People's Republic of China (the "PRC") as a joint stock limited company. With effect from the same date, the Company assumed the business of manufacture and selling of generators, electric motors and their respective auxiliary parts together with the relevant assets and liabilities from Dongfang Electrical Machinery Works ("DFEW"). On 19 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 were listed on The Stock Exchange of Hong Kong Limited on 6 June 1994. On 4 July 1995, with the approval of the relevant authorities including the Securities Regulatory Commission of the PRC, the Company issued 60,000,000 domestic listed Renminbi ordinary shares (the "A Shares") in the PRC. The A Shares were then listed on the Shanghai Securities Exchange on 10 October 1995.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

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 their estimated residual value, using the straight-line method, at the following annual rates:

| Land under medium term lease in the PRC | Over the term of the lease |
|---|----------------------------|
| Buildings | 3 - 4% |
| Plant and machinery | 11% |
| Furniture, fixtures and equipment | 16% |
| Motor vehicles | 16% |

Construction in progress

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including interest expenses, attributable to such projects. Costs on completed construction work are transferred to the appropriate category of property, plant and equipment. No depreciation is provided on construction in progress until the construction is completed and the relevant assets have been put into commercial use.

Interest in associate

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in financial and operating policy decisions of the investee.

The results and assets and liabilities of associate are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in associates are stated at cost, as reduced by any decline in the value of the associates that is other than temporary.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Construction contracts

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

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

When it is probable that total contract 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 an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade debtors.

Revenue recognition

a. 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 construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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

b. Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

c. Price compensation

The amount of price compensation which the Group is entitled to receive for increases in the costs of production can be ascertained with reasonable certainty only after negotiation with customers and approved by the relevant government department. Accordingly, price compensation is recognised as income only upon receipt of approval documents from the government and the eventual collectability is ascertainable.

d. Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

e. Service income

Service income is recognised when the services are provided.

f. Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and included in the costs of inventories upon commercial operation of the project, and are recognised as an expense at the same time as the other costs of such inventories.

Pension cost

The pension cost, which represents the amount payable in accordance with the regulations promulgated by the local Municipal Government, is charged to the income statement as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

3. TURNOVER

Turnover which is stated net of value added tax and other sales tax and returns, represents amounts invoiced to customers, except in respect of construction contracts where turnover represents the value of work done during the year, including amounts not yet invoiced.

An analysis of turnover for the year is as follows:

| | 2000 RMB'000 | 1999 RMB'000 |
|---|-------------------------------|-----------------|
| Revenue in respect of construction contracts | 395,088 | 391,496 |
| Sales of goods | 188,511 | 347,151 |
| Rendering of repair, maintenance and other services | 56,079 | 11,473 |
| | 639,678 | 750,120 |

Included in turnover is price compensation income amounting to RMB7,282,000 (1999: RMB4,115,000).

An analysis of turnover and contribution to operation by products is as follows:

| | Turnover | | Contribution to operating profit | |
|------------------------------|----------|---------|----------------------------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Hydro turbine generator sets | 395,088 | 391,496 | 89,878 | 69,590 |
| Steam turbine generators | 171,502 | 312,995 | 67,250 | 158,707 |
| A.C. and D.C. motors | 17,009 | 34,156 | (3,409) | (668) |
| Others | 56,079 | 11,473 | (1,027) | (20,095) |
| | 639,678 | 750,120 | 152,692 | 207,534 |

An analysis of turnover by geographical area is as follows:

| | 2000 | 1999 |
|--------|---------|---------|
| | RMB'000 | RMB'000 |
| PRC | 616,410 | 712,939 |
| Iran | 267 | 37,181 |
| France | 23,001 | - |
| | 639,678 | 750,120 |

Note: All the turnover of the Group originated in the PRC. The geographical analysis of turnover is based on the destinations of shipment of products.

4. OTHER REVENUE

| | 2000 | 1999 |
|--|---------|---------|
| | RMB'000 | RMB'000 |
| Interest income | 18,435 | 16,717 |
| Tax refunds on export sales | 24,150 | 6,721 |
| Net realised gain on disposal of investment securities | 7,613 | - |
| Other income | 4,175 | 8,043 |
| | 54,373 | 31,481 |

5. ADMINISTRATIVE EXPENSES

In accordance with the State's housing reform policy and local government regulations, the Group transferred the titles of certain staff dormitories to employees at nil consideration. The aggregate carrying value of such staff dormitories amounting to RMB15,535,000 has been included in administrative expenses for the year (note 6).

Included in administrative expenses for 1999 was an amount of RMB64,751,000 in respect of provision for doubtful debts.

6. PROFIT (LOSS) FROM OPERATIONS

| | 2000 RMB'000 | 1999 RMB'000 |
|---|-----------------|-----------------|
| Profit (loss) from operations has been arrived at after charging: | | |
| Auditors' remuneration | | |
| - H Shares auditors | 1,080 | 1,500 |
| - A Shares auditors | 270 | 300 |
| | 1,350 | 1,800 |
| Depreciation of property, plant and equipment | 44,288 | 46,424 |
| Loss on disposal of property, plant and equipment other than staff dormitories | 314 | 154 |
| Research and development cost | 2,825 | 2,959 |
| Staff costs (including directors' and supervisors' emoluments) | 162,360 | 166,420 |
| Loss on disposal of staff dormitories (note 5) | 15,535 | - |
| Total staff costs | 177,895 | 166,420 |

7. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (NOTE A)

| | 2000 RMB'000 | 1999 RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Directors | | |
| Fees | - | - |
| Gross salaries | | |
| - executive directors | 152 | 192 |
| - non-executive directors | 49 | 71 |
| - independent non-executive directors | - | - |
| | 201 | 263 |
| Bonuses | | |
| - executive directors | 16 | 86 |
| - non-executive directors | 5 | 32 |
| - independent non-executive directors | 14 | 14 |
| | 35 | 132 |
| Pension contributions (note c) | | |
| - executive directors | 44 | 68 |
| - non-executive directors | 16 | 26 |
| - independent non-executive directors | - | - |
| | 60 | 94 |
| Total emoluments to directors | 296 | 489 |
| Supervisors | | |
| Fees | - | - |
| Gross salaries | 66 | 64 |
| Bonuses | 6 | 15 |
| Pension contributions | 19 | 20 |
| Total emoluments to supervisors | 91 | 99 |

Notes:

- a. The directors' and supervisors' emoluments were fixed according to the service contracts and increased at the discretion of the board of directors on a yearly basis not exceeding the range stipulated in the service contracts. The five highest paid individuals of the Company during the year were all directors.

Notes:

- b. As disclosed above, the aggregate amount of emoluments paid to independent non-executive directors during the year amounted to RMB14,000 (1999: RMB14,000).
- c. Pension contributions were paid in accordance with the regulations promulgated by the local Municipal Government.

8. FINANCE COSTS

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| Interest on bank loans and other loans | | |
| - wholly repayable within five years | 23,268 | 26,577 |
| - not wholly repayable within five years | 7,754 | 9,823 |
| | 31,022 | 36,400 |
| Less: amount capitalised in construction in progress | (2,663) | (9,324) |
| | 28,359 | 27,076 |

9. TAXATION

| | 2000 RMB'000 | 1999 RMB'000 |
|-------------------------------|-----------------|-----------------|
| PRC income tax (charge)credit | | |
| Current year | (1,010) | (1,288) |
| Over-provision in prior years | 473 | 9,388 |
| | (537) | 8,100 |

Provision for PRC income tax has been made at the appropriate tax rate on the estimated assessable profit for the year. According to the document issued by the PRC State Tax Bureau on 23 February 1994, the tax rate applicable to the Company is 15% (1999: 15%). No deferred taxation has been accounted for during the year as there were no material timing differences (1999: Nil).

10. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of RMB21,541,000 (1999: RMB36,658,000), a net loss of RMB18,391,000 (1999: RMB36,658,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of loss per share is based on the net loss for the year of RMB21,541,000 (1999: RMB36,658,000) and on 450,000,000 (1999: 450,000,000) shares in issue throughout the year.

12. PROPERTY, PLANT AND EQUIPMENT

| | Land under medium term lease in PRC RMB'000 | Buildings RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|--|----------------------|--------------------------------------|--|------------------------------|------------------|
| THE GROUP | | | | | | |
| COST | | | | | | |
| At 1 January 2000 | 35,626 | 267,256 | 352,304 | 64,821 | 6,044 | 726,051 |
| Additions | - | 897 | 188 | 1,233 | 287 | 2,605 |
| Transfer from construction in progress | - | 12,844 | 19,222 | 2,574 | - | 34,640 |
| Transfer of staff dormitories | - | (16,432) | - | - | - | (16,432) |
| Disposals | - | (180) | (3,556) | (1,035) | - | (4,771) |
| At 31 December 2000 | 35,626 | 264,385 | 368,158 | 67,593 | 6,331 | 742,093 |
| DEPRECIATION | | | | | | |
| At 1 January 2000 | 4,275 | 79,005 | 198,188 | 34,650 | 4,523 | 320,641 |
| Charge for the year | 653 | 8,353 | 26,408 | 8,020 | 854 | 44,288 |
| Written back on transfer of staff dormitories | - | (897) | - | - | - | (897) |
| Written back on disposals | - | (100) | (2,276) | (997) | - | (3,373) |
| At 31 December 2000 | 4,928 | 86,361 | 222,320 | 41,673 | 5,377 | 360,659 |
| NET BOOK VALUE | | | | | | |
| At 31 December 2000 | 30,698 | 178,024 | 145,838 | 25,920 | 954 | 381,434 |
| At 31 December 1999 | 31,351 | 188,251 | 154,116 | 30,171 | 1,521 | 405,410 |
| THE COMPANY | | | | | | |
| COST | | | | | | |
| At 1 January 2000 | 35,626 | 267,256 | 352,304 | 64,821 | 6,044 | 726,051 |
| Additions | - | 897 | 132 | 328 | - | 1,357 |
| Transfer from construction in progress | - | 12,844 | 19,222 | 2,574 | - | 34,640 |
| Transfer of staff dormitories | - | (16,432) | - | - | - | (16,432) |
| Transfer to subsidiaries | - | - | (38,443) | - | - | (38,443) |
| Disposals | - | (180) | (1,103) | (1,035) | - | (2,318) |
| At 31 December 2000 | 35,626 | 264,385 | 332,112 | 66,688 | 6,044 | 704,855 |

| | Land under medium term lease in PRC RMB'000 | Buildings RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|--|----------------------|--------------------------------------|--|------------------------------|------------------|
| DEPRECIATION | | | | | | |
| At 1 January 2000 | 4,275 | 79,005 | 198,188 | 34,650 | 4,523 | 320,641 |
| Charge for the year | 653 | 8,353 | 25,509 | 7,920 | 854 | 43,289 |
| Written back on transfer of staff dormitories | - | (897) | - | - | - | (897) |
| Transfer to subsidiaries | - | - | (26,666) | - | - | (26,666) |
| Written back on disposals | - | (100) | (953) | (897) | - | (1,950) |
| At 31 December 2000 | 4,928 | 86,361 | 196,078 | 41,673 | 5,377 | 334,417 |
| NET BOOK VALUE | | | | | | |
| At 31 December 2000 | 30,698 | 178,024 | 136,034 | 25,015 | 667 | 370,438 |
| At 31 December 1999 | 31,351 | 188,251 | 154,116 | 30,171 | 1,521 | 405,410 |

13. CONSTRUCTION IN PROGRESS

| | 2000 RMB'000 | 1999 RMB'000 |
|---|-----------------|-----------------|
| THE GROUP | | |
| At 1 January 2000 | 49,481 | 34,450 |
| Additions | 29,892 | 37,605 |
| Capitalisation of interest expenses | 2,663 | 9,324 |
| | 82,036 | 81,379 |
| Transfer to property, plant and equipment | (34,640) | (31,898) |
| At 31 December 2000 | 47,396 | 49,481 |
| Construction in progress comprises: | | |
| Buildings | 887 | 4,713 |
| Plant, machinery and equipment | 46,509 | 44,768 |
| | 47,396 | 49,481 |
| THE COMPANY | | |
| At 1 January 2000 | 49,481 | 34,450 |
| Additions | 29,173 | 37,605 |
| Capitalisation of interest expenses | 2,663 | 9,324 |
| | 81,317 | 81,379 |
| Transfer to property, plant and equipment | (34,640) | (31,898) |

| | | |
|-------------------------------------|--------|--------|
| At 31 December 2000 | 46,677 | 49,481 |
| Construction in progress comprises: | | |
| Buildings | 887 | 4,713 |
| Plant, machinery and equipment | 45,790 | 44,768 |
| | 46,677 | 49,481 |

Included in construction in progress of the Group and the Company is net interest capitalised of approximately RMB15,066,000 (1999: RMB14,282,000).

14. INTERESTS IN SUBSIDIARIES

| | 2000 RMB'000 | 1999 RMB'000 |
|--------------------------|-----------------|-----------------|
| Unlisted shares, at cost | 33,910 | - |

Particulars of the Company's subsidiaries at 31 December 2000 are as follows:

| Name of subsidiary | Registered capital RMB'000 | Percentage interest held | Principal activities |
|---|-------------------------------|--------------------------|--|
| Dongfang Large and Medium Electrical Machinery Company Limited | 25,000 | 98% | Manufacturing and sales of AC & DC generators |
| Dongfang Control Equipment Company Limited | 13,000 | 96.15% | Manufacturing and sales of control equipment |

Both of the subsidiaries are directly held by the Company and are established and operated in the PRC.

15. INTEREST IN AN ASSOCIATE

| | THE GROUP | | THE COMPANY | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2000 RMB'000 | 1999 RMB'000 | 2000 RMB'000 | 1999 RMB'000 |
| Unlisted shares, at cost | - | - | 490 | 490 |
| Share of net assets | - | 490 | - | - |
| Loan to associate | - | 12,000 | - | 12,000 |
| | - | 12,490 | 490 | 12,490 |

Particulars of the Group's and the Company's associate at 31 December 2000 are as follows:

| Name of associate | Place of registration and operation | Percentage interest held | Principal activities |
|--|-------------------------------------|--------------------------|--------------------------------|
| Leshan City Dongle Heavy Piece Handling Company ("Dongle") | Leshan City Sichuan, the PRC | 49% | Transportation and warehousing |

The financial statements of Dongle were not audited by Messrs. Deloitte Touche Tohmatsu.

16. INVESTMENTS IN SECURITIES

| THE GROUP AND THE COMPANY | Held to maturity securities | | Investment securities | | Other investments | | Total | |
|---|--------------------------------|-----------------|-----------------------|-----------------|-------------------|-----------------|-----------------|-----------------|
| | 2000 RMB'000 | 1999 RMB'000 | 2000 RMB'000 | 1999 RMB'000 | 2000 RMB'000 | 1999 RMB'000 | 2000 RMB'000 | 1999 RMB'000 |
| Equity securities: | | | | | | | | |
| Listed | - | - | - | - | 703 | - | 703 | - |
| Unlisted | - | - | 537 | 537 | - | - | 537 | 537 |
| | - | - | 537 | 537 | 703 | - | 1,240 | 537 |
| Debt securities: | | | | | | | | |
| Listed | - | - | - | - | - | 10,000 | - | 10,000 |
| Unlisted | - | 670 | - | - | - | - | - | 670 |
| | - | 670 | - | - | - | 10,000 | - | 10,670 |
| Total: | | | | | | | | |
| Listed in the PRC | - | - | - | - | 703 | 10,000 | 703 | 10,000 |
| Unlisted | - | 670 | 537 | 537 | - | - | 537 | 1,207 |
| | - | 670 | 537 | 537 | 703 | 10,000 | 1,240 | 11,207 |
| Market value of listed securities | - | - | - | - | 911 | 10,140 | 911 | 10,140 |
| Carrying amount analysed for reporting purposes as: | | | | | | | | |
| Current | - | 670 | - | - | 703 | 10,000 | 703 | 10,670 |
| Non-current | - | - | 537 | 537 | - | - | 537 | 537 |
| | - | 670 | 537 | 537 | 703 | 10,000 | 1,240 | 11,207 |

17. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| THE GROUP AND THE COMPANY | | |
| Contracts in progress at the balance sheet date: | | |
| Contract costs incurred to date | 242,928 | 230,429 |
| Recognised profits less recognised losses | 37,503 | 22,025 |
| | 280,431 | 252,454 |
| Progress payments | (441,612) | (395,848) |
| | (161,181) | (143,394) |
| Analysed for reporting purposes as: | | |
| Amounts due from contract customers | 92,277 | 75,065 |
| Amounts due to contract customers | (253,458) | (218,459) |
| | (161,181) | (143,394) |

18. INVENTORIES

| | 2000 RMB'000 | 1999 RMB'000 |
|-----------------------------|-----------------|-----------------|
| THE GROUP | | |
| Raw materials | 110,727 | 155,727 |
| Work in progress | 88,790 | 97,883 |
| Finished goods | 34,907 | 25,664 |
| Spare parts and consumables | 6,446 | 6,847 |
| | 240,870 | 286,121 |
| THE COMPANY | | |
| Raw materials | 103,190 | 155,727 |
| Work in progress | 79,543 | 97,883 |
| Finished goods | 29,849 | 25,664 |
| Spare parts and consumables | 6,431 | 6,847 |
| | 219,013 | 286,121 |

Included in the inventories of the Group and the Company are raw materials amounted to RMB48,032,000 (1999: nil) and finished goods of RMB17,752,000 (1999: RMB18,352,000) which are carried at net realisable value.

19. TRADE DEBTORS

The directors considered that the normal credit term of the Group ranges from one to two years. The aged analysis of trade debtors of the Group is stated as follows:

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| Within one year | 391,023 | 445,434 |
| More than one year, but not exceeding two years | 155,774 | 129,813 |
| More than two years, but not exceeding three years | 86,281 | 121,127 |
| More than three years | 140,128 | 89,935 |
| | 773,206 | 786,309 |
| Less: Provision for doubtful debts | (58,937) | (46,555) |
| | 714,269 | 739,754 |

Included in the gross amount of trade debtors above are retention moneies receivable amounted to RMB247,317,000 (1999: RMB229,119,000).

20. TRADE CREDITORS

The aged analysis of trade creditors of the Group is stated as follows:

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| Within one year | 84,449 | 67,149 |
| More than one year, but not exceeding two years | 7,832 | 9,644 |
| More than two years, but not exceeding three years | 1,904 | 1,100 |
| More than three years | 1,334 | 1,452 |
| | 95,519 | 79,345 |

21. TAXES PAYABLE

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| THE GROUP | | |
| Value added tax | 209,475 | 201,691 |
| Sales tax | 1,947 | 2,656 |
| City development and education levy | 21,269 | 20,634 |
| PRC income tax | 537 | 1,681 |
| Property tax, land-use fees and other levies | 2,533 | 1,917 |
| | 235,761 | 228,579 |
| THE COMPANY | | |
| Value added tax | 211,161 | 201,691 |
| Sales tax | 1,941 | 2,656 |
| City development and education levy | 21,268 | 20,634 |
| PRC income tax | 537 | 1,681 |
| Property tax, land-use fees and other levies | 2,533 | 1,917 |
| | 237,440 | 228,579 |

22. SHARE CAPITAL

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| Registered capital | | |
| 280,000,000 domestic shares (A Shares) of par value of RMB1.00 each | 280,000 | 280,000 |
| 170,000,000 overseas listed foreign investment shares (H Shares) of par value of RMB1.00 each | 170,000 | 170,000 |
| | 450,000 | 450,000 |
| Issued and paid up capital | | |
| Domestic shares (A Shares) | | |
| 220,000,000 Promoter Legal Person Shares (A Shares) of par value of RMB1.00 each | 220,000 | 220,000 |
| 60,000,000 domestic listed Renminbi ordinary shares (A Shares) of par value of RMB1.00 each | 60,000 | 60,000 |
| | 280,000 | 280,000 |
| Overseas listed foreign investment shares (H Shares) | | |
| 170,000,000 overseas listed foreign investment shares (H Shares) of par value of RMB1.00 each (note) | 170,000 | 170,000 |
| | 450,000 | 450,000 |

Note:

Overseas listed foreign investment shares (H Shares) rank pari passu in all respects with domestic listed Renminbi ordinary shares (A Shares) and non-circulating Promoter Legal Person Shares (A Shares), in particular will rank in full for all dividends or other distributions hereafter declared, paid or made on the shares.

23. RESERVES

| | (a) Capital reserve RMB'000 | (c) Statutory surplus reserve RMB'000 | (d) Statutory public welfare fund RMB'000 | (e) General surplus reserve RMB'000 | (f) Retained earnings RMB'000 | Total RMB'000 |
|-----------------------|--------------------------------------|---|---|---|--|------------------|
| THE GROUP | | | | | | |
| At 1 January 1999 | 636,003 | 34,127 | 13,730 | 15,535 | 54,805 | 754,200 |
| Donations received | 58 | — | — | — | — | 58 |
| Net loss for the year | — | — | — | — | (36,658) | (36,658) |
| Appropriations | — | (4,533) | (2,266) | — | 6,799 | — |
| At 31 December 1999 | 636,061 | 29,594 | 11,464 | 15,535 | 24,946 | 717,600 |
| Net loss for the year | — | — | — | — | (21,541) | (21,541) |
| Appropriations | — | (2,002) | (1,001) | — | 3,003 | — |
| Transfer | — | — | 15,535 | (15,535) | — | — |
| At 31 December 2000 | 636,061 | 27,592 | 25,998 | — | 6,408 | 696,059 |
| THE COMPANY | | | | | | |
| At 1 January 1999 | 636,003 | 34,127 | 13,730 | 15,535 | 54,805 | 754,200 |
| Donations received | 58 | — | — | — | — | 58 |
| Net loss for the year | — | — | — | — | (36,658) | (36,658) |
| Appropriations | — | (4,533) | (2,266) | — | 6,799 | — |
| At 31 December 1999 | 636,061 | 29,594 | 11,464 | 15,535 | 24,946 | 717,600 |
| Net loss for the year | — | — | — | — | (18,391) | (18,391) |
| Appropriations | — | (2,002) | (1,001) | — | 3,003 | — |
| Transfer | — | — | 15,535 | (15,535) | — | — |
| At 31 December 2000 | 636,061 | 27,592 | 25,998 | — | 9,558 | 699,209 |

a. Capital reserve

Pursuant to the PRC Company Law and Articles of Association of the Company, capital reserve includes share premiums, any surplus amount arising from revaluation of assets of the Company, gifts and donations received and other sums in accordance with the relevant regulations. Capital reserve shall only be used for capitalisation into share capital.

b. Basis of appropriations to reserves

Pursuant to the directive issued by the Ministry of Finance of the PRC on 24 August 1995, Cai Hui Zi (1995) No.31, in respect of profit appropriations for overseas listed PRC companies, the transfers to statutory surplus reserve and statutory public welfare fund should be based on the net profit in the financial statements prepared under PRC Accounting Standards.

c. Statutory surplus reserve

The Company's Articles of Association requires the appropriation of 10% of its profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

The directors propose the transfer to statutory surplus reserve for the year to be based on 10% of the Company's profit after taxation of RMB3,259,000 (1999: RMB6,212,000) as shown in the financial statements prepared under PRC Accounting Standards.

In addition, the financial statements prepared under PRC Accounting Standards included certain prior year adjustments. Accordingly, the Company is required to reverse the previous years' appropriations to statutory surplus reserve to retained earnings to the extent of RMB2,327,000 (1999: RMB5,154,000). This amount has been included in current year's appropriation.

d. Statutory public welfare fund

Pursuant to the PRC Company Law, the Company shall make allocation from its profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation.

The directors propose the transfer to statutory public welfare fund for the year to be based on 5% of the Company's profit after taxation of RMB3,259,000 (1999: RMB6,212,000) as shown in the financial statements prepared under PRC Accounting Standards.

In addition, the financial statements prepared under PRC Accounting Standards included certain prior year adjustments. Accordingly, the Company is required to reverse the previous years' appropriations to statutory public welfare fund to retained earnings to the extent of RMB1,164,000 (1999: RMB 2,576,000). This amount has been included in current year's appropriation.

e. General surplus reserve

Pursuant to the directive issued by the Ministry of Finance of the PRC on 3 March 1995, Cai Hui Zi (1995) No.14, in respect of accounting treatment of reserve fund for housing, when the statutory public welfare fund is utilised, an amount equal to the lower of cost of the assets and the balance of the statutory public welfare fund should be transferred from the statutory public welfare fund to the general surplus reserve. The general surplus reserve is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the statutory public welfare fund is to be reversed.

As disclosed in note 5 to the financial statements, staff dormitories with an aggregate net book value of RMB15,535,000 were disposed to employees. Accordingly, a sum of RMB15,535,000 was transferred from the general surplus reserve back to the statutory public welfare fund.

f. Retained earnings

In accordance with the PRC Company Law and the directive issued by the Ministry of Finance of the PRC as mentioned in note (b) above in respect of profit appropriations for overseas listed PRC companies, the reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under PRC Accounting Standards and that determined under HKGAAP after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

In the opinion of the directors, the reserve available for distribution to the shareholders at 31 December 2000 was RMB9,558,000 (1999: RMB24,946,000).

24. BANK LOANS AND OTHER LOANS

| | Bank loans | Other loans | 2000 Total | 1999 Total |
|---|------------|-------------|---------------|---------------|
| THE GROUP AND THE COMPANY | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total outstanding balances are repayable as follows: | | | | |
| Within one year | 223,453 | 1,036 | 224,489 | 126,418 |
| More than one year, but not exceeding two years | 240,000 | — | 240,000 | 70,000 |
| More than two years, but not exceeding five years | — | — | - | 250,000 |
| More than five years | — | 139,000 | 139,000 | 124,000 |
| | 463,453 | 140,036 | 603,489 | 570,418 |
| Less: amounts due within one year shown under current liabilities | (223,453) | (1,036) | (224,489) | (126,418) |
| Amounts due after one year | 240,000 | 139,000 | 379,000 | 444,000 |

All the bank loans outstanding at 31 December 2000 and 31 December 1999 were unsecured.

Other loans include loans from China Dongfang Electric Corporation ("DFEC"), the holding company of DFEW, amounting to RMB139,000,000 (1999: RMB124,000,000). Other loans were unsecured and bearing interest at prevailing market lending rates.

25. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2000 RMB'000 | 1999 RMB'000 |
|--|-----------------|-----------------|
| Loss before taxation | (21,075) | (44,758) |
| Share of results of an associate | 490 | - |
| Interest income | (18,435) | (16,717) |
| Interest expenses | 28,359 | 27,076 |
| Depreciation | 44,288 | 46,424 |
| (Reverse of) provision for doubtful debts | (825) | 64,751 |
| Investment income | (7,613) | - |
| Loss on disposal of staff dormitories | 15,535 | - |
| Loss on disposal of property, plant and equipment other than staff dormitories | 314 | 195 |
| (Increase) decrease in amounts due from customers for contract work | (17,212) | 136,267 |

| | | |
|---|----------|-----------|
| Decrease in inventories | 45,251 | 41,362 |
| Decrease (increase) in trade debtors | 26,310 | (181,175) |
| Increase in other debtors, deposits and prepayments | (15,074) | (56,172) |
| Increase in amounts due to customers for contract work | 34,999 | 52,707 |
| Decrease in sales deposits received in advance | (28) | (119,387) |
| Increase in trade creditors | 16,174 | 28,293 |
| Increase (decrease) in other creditors and accrued expenses | 10,964 | (6,839) |
| Increase in sales related and other taxes payable | 8,326 | 48,665 |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 150,748 | 20,692 |

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Bank loans and other loans RMB'000 | Minority interests RMB'000 |
|---|--|----------------------------------|
| Balance at 1 January 1999 | 583,418 | — |
| New bank loans and other loans raised | 178,130 | — |
| Repayment of bank loans and other loans | (191,130) | — |
| Balance at 31 December 1999 | 570,418 | — |
| New bank loans and other loans raised | 233,981 | — |
| Repayment of bank loans and other loans | (200,910) | — |
| Capital contribution by minority shareholders | - | 1,000 |
| Minority interests' share of loss in subsidiaries | — | (71) |
| Balance at 31 December 2000 | 603,489 | 929 |

27. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related companies:

| | 2000 RMB'000 | 1999 RMB'000 |
|---|-----------------|-----------------|
| Transactions with DFEC: | | |
| Expenses | | |
| - Interest paid or payable | 7,754 | 7,772 |
| Income | | |
| - Sales | 12,641 | 39,613 |
| Loans from DFEC included in bank loans and other loans | 139,000 | 124,000 |
| Amounts due by DFEC included in trade debtors | 67,202 | 73,330 |

Transactions with DFEW:

Expenses

| | | |
|--|--------|--------|
| - Environmental hygiene and staff welfare expenditure (including hospitals, schools and kindergartens, staff canteens and maintenance of staff quarters) | 56,479 | 56,278 |
| - Packing fee | 16,990 | 20,442 |
| - Transportation fee | 3,317 | 3,225 |
| - Interest paid or payable | - | 1,525 |
| Income | | |
| - Water, electricity and gas supplied | 2,818 | 3,915 |
| - Proceeds on sales of raw materials | 3,800 | 4,689 |
| - Others | 89 | 1,054 |

| | | |
|--|--------|--------|
| Amounts due by DFEW included in trade debtors | 15,950 | 11,237 |
|--|--------|--------|

| | | |
|---|--------|--------|
| Guarantees given to bank in respect of banking facilities utilised by DFEW | 32,160 | 32,160 |
|---|--------|--------|

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

28. RETIREMENT PLAN

In accordance with the regulations promulgated by the local Municipal Government, the Group had to pay a sum determined at a fixed percentage of the basic wages and salaries of the Group's existing staff to the local Municipal Government, which will manage the retirement plan on the Group's behalf. Total expenses paid to the local Municipal Government for the year amounted to RMB17,514,000 (1999: RMB21,727,000). In addition, the Group also incurred RMB8,609,000 (1999: RMB8,256,000) for medical and other expenses of the retired staff. Except for the above, the Group has no other obligations or commitments in respect of retirement benefits.

29. CONTINGENT LIABILITIES

| | 2000 RMB'000 | 1999 RMB'000 |
|---|-----------------|-----------------|
| Guarantees given to bank in respect of banking facilities utilised by DFEW | 32,160 | 32,160 |

The guarantees were released subsequent to the balance sheet date.

30. CAPITAL COMMITMENTS

- (a) At 31 December 2000, the Group and the Company had the following commitments in respect of acquisition of property, plant and equipment not provided for in the financial statements:

| | Buildings RMB'000 | Plant and machinery RMB'000 | 2000 Total RMB'000 | 1999 Total RMB'000 |
|-----------------------------------|----------------------|-----------------------------------|--------------------------|--------------------------|
| THE GROUP AND THE COMPANY | | | | |
| Authorised and contracted for | 789 | 21,338 | 22,127 | 21,929 |
| Authorised but not contracted for | 350 | 36,110 | 36,460 | 38,051 |
| | 1,139 | 57,448 | 58,587 | 59,980 |

- (b) Contract finalisation for hydro turbine generator joint venture project with G.E. of Canada, Voert-Alpine and Elin of Austria are still underway. The total investment is approximately US\$37,770,000 and the registered capital is US\$30,000,000. The Company will invest 45% of the registered capital. Up to 31 December 2000, the Company has not yet injected funds into the joint venture project.

The proposed steam turbine generator joint venture project with Siemens Aktien Gesellschaft of Germany as disclosed in last year's financial statements was terminated during the year.

31. DIFFERENCES ON NET (LOSS) PROFIT FOR THE YEAR AND NET ASSETS BETWEEN HKGAAP AND PRC ACCOUNTING STANDARDS

| | Net asset value | | Net profit (loss) for the year | |
|---|-----------------|-----------------|-----------------------------------|-----------------|
| | 2000 RMB'000 | 1999 RMB'000 | 2000 RMB'000 | 1999 RMB'000 |
| As reported under PRC Accounting Standards | 1,147,065 | 1,166,159 | 2,310 | 6,212 |
| Adjustments made to conform with HKGAAP: | | | | |
| Loss on disposal of staff dormitories | - | — | (15,966) | — |
| Interest income included in capital reserve | - | — | (620) | — |
| Provision for doubtful debts | - | — | - | (52,454) |
| Over-provision of PRC income tax in prior years | - | — | 473 | 9,388 |
| Difference in interest capitalised | - | — | (3,005) | — |
| Write-off of prepayments | - | — | (4,158) | — |
| Difference in valuation of net assets contributed by DFEW to the Company | 951 | 951 | - | — |
| Unrealised gain on transfers of plant and machinery within the Group | (1,710) | — | - | — |
| Others | (247) | 490 | (575) | 196 |
| As reported under HKGAAP | 1,146,059 | 1,167,600 | (21,541) | (36,658) |