

4. Business Review and Prospect

(1) Business review for the reporting period

The principal activities of the Company include hydro turbine generators, steam turbine generators, A.C. and D.C. motors and control equipment.

As at 30 June 2001, in accordance with PRC Accounting Standards, the Company recorded an income from principal operations of RMB177,293,796.43, representing a decrease of 13.52% from the corresponding period of last year; a net loss of RMB70,508,783.73, representing an increase of 487.25% from the corresponding period of last year; loss per share of RMB0.157, increased by RMB0.13 from the corresponding period of last year.

In the first half of the year, the Company built 6 hydro turbine generator sets with generation capacity of 565MW; 4 steam turbine generators with generation capacity of 428MW.

The "Electricity transmission from western China to eastern China" project under the State Western Region Development Strategy and the Implementation of "Tenth Five-year Plan" have provided new opportunities for power generating equipment manufacturers. The Company will fully utilize its geographical advantage to capture market share in terms of technology and quality. Product order had better performance in the first half of the year, with sales order amounting to RMB 460 million, representing 192% of the corresponding period of last year.

(2) Investment

(1) Use of proceeds

In compliance with the purpose stipulated in the Company's prospectus for the issue of A Shares and H Shares, the proceeds of approximately RMB752,548,300 has been applied in four major technological reform projects on improving the production capacity of hydro turbine generator sets. The use of proceeds in the four projects as at 30 June 2001 was as follows:

Projects undertaken in prospectus:

- a. It was planned to invest RMB 670 million in the technological reform project for improving production capacity of hydro generator sets and the actual investment was RMB 202,427,500. In the first half of the year, there was a total investment of RMB 5,979,800. Through the implementation of the technological reform, the production capacity and technology level of hydro and steam turbine generator sets have been enhanced, thus improving its ability to seize market share and its competitiveness. However, in view of the present market situation of generator equipment, the Company is prudent in technological reform.
- b. It was planned to invest RMB 160 million as capital input of the Chinese part in joint venture projects for the production of large hydro turbine generator sets and steam

turbine generators. Due to changes in the market situation for power generating equipment, there has been no real progress in the project. Capital has not been invested in the two projects, of which the cancellation of steam turbine generator joint venture project was approved. On 16 January 2001, the ninth session of the 3rd Board of Directors meeting of the Company resolved to change the use of proceeds of RMB 60 million intended as capital input of the Chinese party for the production of steam turbine generators, which was part of the total investment of RMB160 million intended for joint ventures with foreign partners to produce hydro turbine generator sets and steam turbine generators, as additional working capital of the Company. This resolution was approved at the Extraordinary General Meeting of the Company held on 6 March 2001. The resolution has been implemented.

- c. It was planned to invest RMB 150 million as additional working capital and the actual investment was RMB 150 million. This project was completed.
- d. It was planned to invest RMB 75 million as repayment of the loans for technological reform under the Seventh and Eighth Five-year Plans and the actual investment was RMB 88,450,000. The project was completed.

As at 30 June 2001, the balance of unused proceeds amounted to approximately RMB 251,671,800. The Company has deposited the unused proceeds with banks in the PRC.

- (2) The Company made an investment in the form of plant and machinery and cash in the establishment of Dongfang Electrical Machinery Tool and Mould Company Limited on 13 March 2001, in which the Company contributed RMB 14.5 million, representing 99.3% of the total share capital. It is a subsidiary of the Company. The Company made cash contribution in the establishment of Sichuan Deyang Jinshi Real Estate Development Company Limited on 11 May 2001, which has a registered capital of RMB 8 million in which the Company contributed RMB 1 million, representing 12.5% of the total capital of this company. The Company is the second largest shareholder of this company. The Company made cash contribution in the establishment of Sichuan Dongfang Jiaxin Engineering and Construction Company Limited on 31 July 2001, which has a registered capital of RMB 500,000 in which the Company contributed RMB200,000, representing 40% of total share capital of such company. The Company is the second largest shareholder of such company.

- (3) Financial status of the Company: (Unit: RMB)

Item	30 June 2001 RMB	31 December 2000 RMB	Change (%)
Total assets	2,507,833,044.98	2,397,273,428.69	4.61
Accounts receivable	654,654,095.17	706,860,211.24	(7.39)
Inventories	279,274,251.40	240,870,347.95	15.94
Long-term investments	784,388.06	621,516.15	26.21
Fixed assets	335,099,783.66	350,575,457.77	(4.41)

Long-term liabilities	373,305,338.32	392,985,684.32	(5.01)
Shareholders' funds	1,076,571,801.53	1,147,065,239.26	(6.15)

Item	Six months ended		Change (%)
	30 June	30 June	
	2001 RMB	2000 RMB	
Profit from principal operation	26,864,668.67	40,008,429.91	(32.85)
Net profit	(70,508,783.73)	(12,006,531.13)	(487.25)

Reasons for the change:

- (1) Total assets: total assets increased by RMB 110,559,616.29 or 4.61% at the end of the reporting period from the end of last year.
 - A. Decrease of account receivable by RMB 52, 206,116.07 due to decrease of sales revenue.
 - B. Increase in short-term investment by RMB 79,297,342.00 due to trusted asset investment management.
 - C. Increase in inventories by RMB 38,403,903.45 due to increase in storage of raw materials.
 - D. Increase in prepayment by RMB 56,931,815.32 due to increase in advance payments to suppliers.
- (2) Liabilities: Liabilities increased by RMB 180,975,394.01 at the end of the reporting period from the end of last year.
 - A. Increase in short-term loan by RMB 135 million due to increase in bank loan owing to insufficient working capital.
 - B. Increase in receipt in advance by RMB 38,864,462.01 due to increase in order and receipt of deposit for contracts.
 - C. Decrease of long-term liabilities by RMB 19,680,346.00 due to the repayment of technology renovation loan.
- (3) Shareholders' funds: shareholders' funds decreased by RMB 70,493,437.73 at the end of the reporting period from the end of last year, mainly due to decrease in profit from principal operations.
- (4) Profit from principal operations: profit from principal operations decreased by RMB 13,143,761.24 for the reporting period from the corresponding period of last year, mainly due to insufficient product orders for the previous few years. It led to a

substantial decrease of products sold during the period when compared with the corresponding period of last year.

(5) Net profit: net profit recorded RMB -70,508,783.73 at the end of the reporting period due to decrease in profit from principal operations.

(4) Plan for the second half of the year

This year is the most difficult year for the Company to fulfil the tasks of reform, production and operations. With the annual operating targets in mind, the Company will grasp the opportunities of the "Electricity transmission from western China to eastern China" project under the State Western Region Development Strategy and the Implementation of the "Tenth Five-year Plan" to strengthen sales and marketing, keep track of overseas markets and domestic focused projects, expand market and seek more orders. The production of the Company will be very tense in the second half of the year and next year. In view of many manufacturing contracts in progress, high technology requirement and very tight manufacturing cycle, the Company will strengthen production organisation and co-ordination to further enhance the co-ordination of the supplementation of various sections of project contracts, to reinforce foundation work and to enhance the co-ordination and connection of each sections so as to meet the market demand for advanced technology and a short period of delivery, so as to well prepare and to lay a solid foundation for the imminent peak season for power generating equipment.