

6. Financial Summary (Unaudited)

(1) FINANCIAL STATEMENTS AND NOTES THERETO PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS

1. Financial Statements

Balance Sheet

ASSETS	Holding Company's figures at the beginning of the period	Consolidated figures at the beginning of the period	Holding Company's figures at the end of the period	Consolidated figures at the end of the period
CURRENT ASSETS				
Cash capital	720,109,955.24	742,883,293.59	702,362,500.90	734,736,926.66
Short term investment	702,658.00	702,658.00	80,000,000.00	80,000,000.00
Bills receivable	17,408,000.00	17,408,000.00	12,400,200.00	12,400,200.00
Dividends receivable				
Interest receivable				
Trade debtors	711,063,502.50	706,860,211.24	665,423,719.23	654,654,095.17
Other receivables	146,986,844.04	147,978,005.40	151,621,507.15	155,516,426.61
Prepayment	72,486,541.19	67,020,297.49	136,999,244.30	123,952,112.81
Inventories	219,012,637.42	240,870,347.95	243,671,631.19	279,274,251.40
Deferred expenses	774,283.77	774,283.77	742,830.36	742,830.36
Current portion of long term liability investment	-	-	-	-
Other current assets	-	-	-	-
Total Current Assets	1,888,544,422.16	1,924,497,097.44	1,993,221,633.13	2,041,276,843.01
LONG TERM INVESTMENT				
Long term equity investment	34,213,720.05	499,636.65	48,253,867.43	662,508.56
Long term debt investment	121,879.50	121,879.50	121,879.50	121,879.50
Total long term investment	34,335,599.55	621,516.15	48,375,746.93	784,388.06
Including: consolidated difference in value				-1,037,128.09
FIXED ASSETS				
Fixed assets, at cost	666,916,634.64	705,865,162.85	654,570,354.62	701,289,578.22
Less: Accumulated depreciation	329,047,376.45	355,289,705.08	337,547,213.03	366,189,794.56
Fixed assets, net	337,869,258.19	350,575,457.77	317,023,141.59	335,099,783.66
Construction materials	29,976,379.32	29,976,379.32	30,013,585.33	30,013,585.33
Construction in progress	57,383,085.32	58,100,306.91	66,619,287.39	67,973,149.81
Total fixed assets	425,228,722.83	438,652,144.00	413,656,014.31	433,086,518.80

INTANGIBLE ASSETS AND

OTHER ASSETS

Intangible assets	30,697,736.43	30,697,736.43	30,282,099.74	30,282,099.74
Long term deferred assets	2,379,934.67	2,379,934.67	2,203,195.37	2,203,195.37
Other long term assets	425,000.00	425,000.00	200,000.00	200,000.00

Total intangible assets and other assets	33,502,671.10	33,502,671.10	32,685,295.11	32,685,295.11
---	---------------	---------------	---------------	---------------

Deferred taxation				
Deferred tax debt balance	-	-	-	-

TOTAL ASSETS	2,381,611,451.64	2,397,273,428.69	2,487,938,689.48	2,507,833,044.98
--------------	------------------	------------------	------------------	------------------

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT LIABILITIES

Short term borrowings	163,130,000.00	163,130,000.00	298,130,000.00	298,130,000.00
Bills receivable	22,178,648.12	22,178,648.12	37,517,537.05	37,517,537.05
Trade creditors	68,067,133.81	73,339,681.71	69,951,579.72	68,467,560.27
Receipts in advance	29,719,720.30	37,645,293.40	59,186,819.91	76,509,755.41
Paid payment of uncompleted projects	161,180,707.23	161,180,707.23	187,610,582.57	187,610,582.57
Wages payable	18,469,631.54	19,411,773.04	21,152,600.95	21,380,143.74
Staff welfare payable	3,203,623.33	4,004,140.73	6,188,322.43	7,521,559.14
Dividends payable				
Taxes payable	237,628,562.07	235,949,183.29	213,710,742.32	211,713,477.27
Other creditors	13,469,165.74	13,469,353.23	12,752,021.02	12,752,208.51
Other payables	27,492,092.95	28,644,666.38	24,841,678.24	30,669,017.55
Accruals	35,183,220.98	35,985,898.23	32,689,213.07	33,323,243.86
Current portion of long term liabilities	61,358,582.00	61,358,582.00	71,358,582.00	71,358,582.00
Other current liabilities	-	-	-	-

Total current liabilities	841,081,088.07	856,297,927.36	1,035,089,679.28	1,056,953,667.37
---------------------------	----------------	----------------	------------------	------------------

LONG TERM LIABILITIES

Long term loans	379,000,000.00	379,000,000.00	359,000,000.00	359,000,000.00
Debentures payable	-	-	-	-
Long term payables	685,252.84	685,252.84	685,252.84	685,252.84
Projects payable	12,830,431.48	13,300,431.48	13,150,085.48	13,620,085.48
Other long term liabilities	-	-	-	-

Total long term liabilities	392,515,684.32	392,985,684.32	372,835,338.32	373,305,338.32
-----------------------------	----------------	----------------	----------------	----------------

Deferred taxation				
Deferred tax credit balance	-	-	-	-

TOTAL LIABILITIES	1,233,596,772.39	1,249,283,611.68	1,407,925,017.60	1,430,259,005.69
-------------------	------------------	------------------	------------------	------------------

Minority interests	-	924,577.75	-	1,002,237.76
--------------------	---	------------	---	--------------

Share capital	450,000,000.00	450,000,000.00	450,000,000.00	450,000,000.00
Capital reserve	606,064,886.07	606,064,886.07	606,080,232.07	606,080,232.07
Surplus reserve	53,589,830.54	53,589,830.54	53,589,830.54	53,589,830.54
Including: statutory public welfare fund	25,997,136.58	25,997,136.57	25,997,136.57	25,997,136.57
Undistributed profit	38,359,926.64	37,410,522.65	-29,656,390.73	-33,098,261.08

Total shareholders' equity	1,148,014,643.25	1,147,065,239.26	1,080,013,671.88	1,076,571,801.53
----------------------------	------------------	------------------	------------------	------------------

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	2,381,611,415.64	2,397,273,428.69	2,487,938,689.48	2,507,833,044.98
--	------------------	------------------	------------------	------------------

Profit and Loss Account

Unit: RMB

	Consolidated figures for the same period of the previous year	Consolidated figures for the reporting period	Consolidated figures for the previous year	Holding company's figures for the previous year	Holding company's figures for the reporting period	Holding company's figures for same period of the previous year
A. Income from principal operations	205,001,068.33	177,293,796.43	644,416,959.20	629,264,729.29	163,139,399.37	204,158,386.26
Less : costs of principal operations	164,335,044.30	150,429,127.76	486,985,881.78	477,633,908.38	140,340,290.37	164,086,894.29
Sales tax and surcharges from principal operations	657,594.12		4,738,884.08	4,738,884.08	-	657,594.12
B. Profit from principal operations	40,008,429.91	26,864,668.67	152,692,193.34	146,891,936.83	22,799,109.00	39,413,897.85
Add: Profit from other operations	1,240,356.87	221,833.38	3,295,240.15	3,501,925.45	-485,480.68	1,240,356.87
Less: Selling expenses	8,961,657.18	12,883,635.41	27,717,458.76	26,175,039.77	11,351,883.81	8,910,435.18
Administrative expenses	67,586,540.72	75,431,731.90	150,731,825.76	142,262,662	68,948,619.75	67,031,190.93
Financial expenses	1,434,955.97	10,112,657.43	7,055,502.95	7,149,951.34	10,211,212.98	1,438,958.24
C. Operating profit	-36,734,367.09	-71,341,522.69	-29,517,354.18	-25,193,790.83	-68,198,088.22	-36,726,329.63
Add: Investment income	390,000.00	939,469.67	8,054,770.02	4,768,853.42	316,745.14	382,271.98
Subsidy income	24,149,839.09		24,149,839.09	24,149,839.09	-	24,149,839.09
Non-operating income	492,018.50	152,790.56	1,284,219.80	1,271,399.29	146,886.97	492,018.50
Less: Non-operating expenses	304,331.07	281,861.26	726,893.63	726,893.63	281,861.26	304,331.07
D. Total profit	-12,006,840.57	-70,531,123.72	3,244,581.10	4,269,407.34	-68,016,317.37	-12,006,531.13
Less: Income tax			1,010,331.26	1,010,331.26		
Profit attributable to minorities	-309.44	-22,339.99	-75,422.25			
E. Net profit	-12,006,531.13	-70,508,783.73	2,309,672.09	3,259,076.08	-68,016,317.37	-12,006,531.13
Add: Retained profits brought forward	35,589,711.97	37,410,522.65	35,589,711.97	35,589,711.97	38,359,926.64	35,589,711.97
F. Distributable profits	23,583,180.84	-33,098,261.08	37,899,384.06	38,848,788.05	-29,656,390.73	23,583,180.84
less: Transfer from statutory						

	surplus reserve			325,907.61	325,907.61		
	Transfer from statutory public welfare fund			162,953.80	162,953.80		
G.	Profit available for distribution to shareholders	23,583,180.84	-33,098,261.08	37,410,522.65	38,359,926.64	-29,656,390.73	23,583,180.84
H.	Undistributed profit	23,583,180.84	-33,098,261.08	37,410,522.65	38,359,926.64	-29,656,390.73	23,583,180.84

Cash Flow Statement

Consolidated Holding Company

Items

1.	Cash flow from operating activities		
	Cash received from sales of goods and service income	371,516,050.66	335,317,791.09
	Tax return refund received	64,696.69	
	Cash received from other operations	52,050,887.80	48,492,024.36
	Cash inflow sub-total	423,631,635.15	383,809,815.45
	Cash paid on purchase of goods and service	270,201,296.79	251,703,764.56
	Cash paid to staff and paid on behalf of staff	67,019,326.05	61,209,011.11
	Income tax paid	29,372,453.05	29,292,400.00
	Cash paid on other operations	90,974,899.97	78,295,052.79
	Cash outflow sub-total	457,567,975.86	420,500,228.46
	Net cash flow from operating activities	-33,936,340.71	-36,690,413.01
2.	Cash flow from investing activities		
	Cash received from investment	16,650,862.67	16,650,862.67
	Cash received from interest gained from debentures		
	Cash proceeds on the disposal of fixed assets, intangible assets and other long term assets		
	Other cash amounts received from investing activities	195,567.35	195,567.35
	Cash inflow sub-total	16,846,430.02	16,846,430.02
	Cash paid on purchase of fixed assets, intangible assets and other long term assets	13,459,588.74	13,352,881.74
	Cash paid on investments	81,200,000.00	88,053,722.11
	Other cash amounts paid on investing activities	15,000,000.00	15,000,000.00
	Cash outflow sub-total	109,659,588.74	116,406,603.85
	Net cash flow from investing activities	-92,813,158.72	-99,560,173.83
3.	Cash flow from financing activities		
	Cash received from investments	100,000.00	
	including: cash received from minority interests	100,000.00	
	Cash received from loans	231,500,000.00	231,500,000.00
	Cash received from other financing activities		
	Cash inflow sub-total	231,600,000.00	231,500,000.00
	Cash paid on repayment of loans	106,500,000.00	106,500,000.00

Cash paid on distribution of dividends, profit or interest	6,496,867.50	6,496,867.50
Other cash amounts paid on financing activities		
Cash outflow sub-total	112,996,867.50	112,996,867.50
Cash flow from financing activities	118,603,132.50	118,503,132.50
4. Effect of changes in exchange rate on cash		
5. Net increase in cash and cash equivalent	-8,146,366.93	-17,747,454.34
Supplemental information		
Reconciliation of operating profit to net cash flow from operating activities		
Net profit	-70,508,783.73	-68,016,317.37
Add: minority interests	-22,339.99	
Provision for or write off of bad debts		
Depreciation of fixed assets	10,900,089.48	20,115,064.20
Amortization for intangible assets	415,636.69	415,636.69
Loss on disposal of fixed assets, intangible assets and other long term assets (less: income)	58,038.68	58,038.68
Loss on disposal of fixed assets		
Finance expenses	15,806,576.08	15,811,254.45
Loss in investment (less: income)	939,469.67	-316,745.14
Deferred tax credit balance (less: debt balance)		
Decrease in inventories (less: increase)	-60,061,143.12	-43,778,674.55
Decrease in accounts receivable (less: increase)	-129,570,471.06	-106,988,690.68
Increase in accounts payable (less: decrease)	198,106,586.59	146,010,020.71
Net cash flow from operating activities	-33,936,340.71	-36,690,413.01
Non cash income and expenses to investing and financing activities		
Repayment of debt by fixed assets		
Repayment of debt by investments		
Fixed assets investments		7,646,277.89
Repayment of debt by inventories		
Net increase in cash and cash equivalent		
Balance at the beginning of the period	742,883,293.59	720,109,955.24
Balance as at the end of the period	734,736,926.66	702,362,500.90
Cash equivalent at the beginning of the period		
Cash equivalent at the end of the period		
Net increases in cash and cash equivalent	-8,146,366.93	-17,747,454.34

2. Notes to the Financial Statements

(1) Accounting System Adopted by the Company

The Company has implemented the "Accounting Standards for Enterprises of the PRC" and "Accounting Policies for Joint Stock Limited Companies" and supplementary rules on accounting procedures for joint stock limited companies listed in Hong Kong issued by Ministry of Finance of the PRC.

(2) Bookkeeping currency

The Company and its subsidiaries maintain their books and records in Renminbi.

(3) Bookkeeping basis and computation principles

Bookkeeping is on accrual basis and all assets are recorded at historical cost.

(4) Difference in equity investment

Difference in equity investment referred to the difference between the initial capital invested in long-term equity and the percentage of interest held in the invested unit.

The term for amortization of the difference in equity investment shall be the same as provided in the contract, if it is provided therein; or not more than 10 years (inclusive), if it is not provided in such contract.

(5) During the reporting period, in addition to those stipulated in the Annual Report 2000, the Company established a subsidiary, namely, Dongfang Tool and Mould Company Limited which have been included in the financial statements.

(6) Effect of the change in accounting policy

In accordance with a document of Cai Kuai Zi [2001] No.17 "Notice Regarding the Distribution of 'Implement of enterprise accounting regulations and rules relating to the transition between relevant policies'" issued by the Ministry of Finance, the Company and its subsidiaries have adopted retroactive adjustment due to the change in accounting policy with respect to the provision for diminution in value of construction in progress and adjusted the beginning balance and the actual balance of the previous year in the 2000 consolidated financial statements.

The change in accounting policies on provision for diminution in value of construction in progress has the following effect on net profit and profit distribution:(Unit: RMB)

Item	before 1999	1999	2000
Increasing (decreasing) effect on consolidated net profit:	(4,157,503.00)	-	-
Increasing (decreasing) effect on distribution of profit			
- transfer to statutory surplus reserve	415,750.30	-	-
- transfer to statutory welfare fund	207,875.15	-	-
Subtotal	623,625.45	-	-
Total	(3,533,877.55)	-	-

(7) Relationships and transactions with related parties

(1) Relationships with related parties

Related parties with controlling relationship

Company name	Registered address	Principal activities	Relationship with the company	Legal representative
DFEW	188 Huanghe Xi Road, Deyang, Sichuan, the PRC	Manufacturing and production of power equipment, industrial and mining equipment and spare parts	Parent company	Si Zefu
Dongfang Control Equipment Machinery Co., Ltd.	Economic and Technological Development Zone, Sheng Hu, Deyang	Control equipment	Subsidiary	Dong Dan
Dongfang Large and Medium Electrical Machinery Co., Ltd.	Economic and Technological Development Zone, Sheng Hu, Deyang	A.C. & D.C.	Subsidiary	Zhang Tiande
Dongfang Electrical Machinery Tool and Mould Company Limited	Economic and Technological Development Zone, Sheng Hu, Deyang	Tool and Mould	Subsidiary	Zhang Tiande

Related parties without controlling relationship

Company name	Relationship with the Company
Le Shan City Dongle Heavy Piece Handing Company	Associated company
China Dongfang Electric Corporation ("DFEC")	Superior administrative organization of DFEW
四川德陽金石房地產開發有限責任公司	Associated Company

(2) Related party transactions

A. In accordance with the agreement entered into between DFEW and the Company, the expenses payable by the Company to DFEW are shown as follows: (Unit: RMB)

Staff quarter management fees	791,550.50
Packing fees	4,365,311.48
Environmental, hygiene, and greenery expenses	1,220,048.00
Catering and provision of health drinks to factory	
Workers for prevention of heat-stroke during production	1,043,729.00
Nursery service for children of employees	1,222,550.50

Staff retirement plan and expenses	1,733,176.91
Transportation and maintenance of vehicles	974,832.36
Professional and technical education for workers	2,350,319.00
Industrial safety devices and office expenses	1,217,233.50
Others	3,159,443.70
Total	18,078,194.95

B. In accordance with the agreement entered into between DFEW and the Company, the expenses payable by DFEW to the Company are shown as follows: (Unit: RMB)

Provision of processed materials	1,531,390.14
Utilities provided by DFEW	1,925,087.56
Others	193,190.46
Total	3,649,668.16

(8) Explanatory notes for major account balances

A. Short-term investments (Unit: RMB)

	30 June 2001	31 December 2000
Investments in stocks	-	702,658.00
Other investment	80,000,000.00	-

B. Ageing analysis of the Group's trade debtors is listed as follows: (Unit: RMB)

Ageing analysis of the Group's trade debtors is listed as follows:

Age	30 June 2001			31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	329,333,574.20	46.81	13,542,831.66	373,657,292.11	49.44	13,542,831.66
1 to 2 years	118,134,366.30	16.79	9,343,852.16	155,730,869.35	20.60	9,343,852.16
2 to 3 years	105,372,060.96	14.98	6,039,684.41	86,281,205.92	11.42	6,039,684.41
Over 3 years	150,751,526.82	21.42	20,011,064.88	140,128,276.97	18.54	20,011,064.88
Total	703,591,528.28	100.00	48,937,433.11	755,797,644.35	100.00	48,937,433.11

The Company's ageing analysis of debtors is listed as follows:

Age	30 June 2001			31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	340,324,424.10	47.63	13,764,057.50	378,081,809.21	49.73	13,764,057.50

1 to 2 years	118,134,366.30	16.53	9,343,852.16	155,730,869.35	20.48	9,343,852.16
2 to 3 years	105,372,060.96	14.75	6,039,684.41	86,281,205.92	11.35	6,039,684.41
Over 3 years	150,751,526.82	21.09	20,011,064.88	140,128,276.97	18.44	20,011,064.88
Total	714,582,378.18	100.00	49,158,658.95	760,222,161.45	100.00	49,158,658.95

C Other debtors (Unit: RMB)

Ageing analysis of the Group's other debtors is listed as follows:

Age	30 June 2001			31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	30,330,786.47	15.94	1,764,476.63	17,803,875.31	9.74	1,764,476.63
1 to 2 years	3,872,289.23	2.03	955,791.61	4,778,958.06	2.62	955,791.61
2 to 3 years	27,582,763.80	14.49	765,217.89	3,826,089.46	2.09	765,217.89
Over 3 years	128,479,715.41	67.54	31,263,642.17	156,318,210.87	85.55	31,263,642.17
Total	190,265,554.91	100.00	34,749,128.30	182,727,133.70	100.00	34,749,128.30

Ageing analysis of the Company's other debtors is listed as follows:

Age	30 June 2001			31 December 2000		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
Within 1 year	26,188,076.68	14.07	1,516,686.29	16,564,923.62	9.13	1,516,686.29
1 to 2 years	3,872,289.23	2.08	955,791.61	4,778,958.06	2.63	955,791.61
2 to 3 years	27,582,763.80	14.82	765,217.89	3,826,089.46	2.11	765,217.89
Over 3 years	128,479,715.41	69.03	31,263,642.18	156,318,210.87	86.13	31,263,642.18
Total	186,122,845.12	100.00	34,501,337.97	181,488,182.01	100.00	34,501,337.97

D Long-term investments (Unit: RMB)

Long-term investments of the Group are listed as follows:

Item	30 June 2001	31 December 2000
Long-term investment in equity	662,508.56	499,636.65
including: Share investments	44,263.24	44,263.24
Other equity investments	618,245.32	455,373.41
Long-term investment in bonds	121,879.50	121,879.50
Total	784,388.06	621,516.15

Long-term investments of the Company are listed as follows:

Long term investments of the Company are listed in detail as follows:

Item	30 June 2001	31 December 2000
Long term investment in equity	48,253,867.43	34,213,720.05
including: Share investments	44,263.24	44,263.24
Other equity investments	48,209,604.19	34,169,456.81
Long term investment in bonds	121,879.50	121,879.50
Total	48,375,746.93	34,335,599.55

The difference between the fair value and the par value of the assets invested in Dongfang Electrical Machinery Tool and Mould Company Limited, a subsidiary of the Company, by the Company in February 2001 was RMB1,082,220.62. According to the provisions of the Accounting System for Enterprises, the difference in equity investment will be amortized in 10 years commencing from 1 February 2001. As at 30 June 2001, the aggregate sum which had been amortised amounted to RMB45,092.53. The balance of the consolidated difference in value of long-term investment which has not been amortized amounted to RMB1,037,128.09.

E. Construction in progress (Unit: RMB)

Name of project	At the beginning of the period		Addition during the period		Transfer during the period		At the end of the period	
	Construction in progress	Resources for project	Construction in progress	Resources for project	Construction in progress	Resources for project	Construction in progress	Resources for project
22 metres digital control machine	11,931,228.75	16,356,116.00	343,258.90	224,811.50			12,274,487.65	16,580,927.50
Surfacing project	2,976,232.71		45,525.76				3,021,758.47	
Three Gorges software	2,881,026.19	435,316.39		-745.28			2,881,026.19	434,571.11
Boring Machine	5,511,839.40	355,500.00		44,668.45			5,511,839.40	400,168.45
600KW steam generator test run station	11,671,795.70		-13,039.00				11,658,756.70	
Other projects	23,128,184.16	12,829,446.93	5,647,075.48	8,763,926.04	147,238.28	4,998,194.66	32,625,281.40	12,597,918.27
Total	58,100,306.91	29,976,379.32	6,022,821.14	9,032,660.71	147,238.28	4,998,194.66	67,973,149.81	30,013,585.33
Including interest capitalised	14,049,604.69	-	202,094.32	725,263.12		372,732.28	14,604,229.85	

F. Profit from other operations: (Unit: RMB)

Item	30 June 2001	30 June 2000
Sales of utilities	-301,146.39	-284,219.49
Rental for housing	-	1,045,221.21
Sales of castings	-2,068,515.60	-547,986.36
Sales of materials	1,882,991.12	1,027,341.51

Others	708,504.25	-
Total	221,833.38	1,240,356.87

G. Long-term deferred expenses: (Unit: RMB)

Item	At the beginning of the period	Addition during the period	Amortised during the period	At the end of the period
Natural gas index licence	185,000.17	0	54,999.96	130,000.21
Royalty	568,022.61	0	72,513.54	495,509.07
Share of housing for Shanghai Office	1,626,911.89	0	49,225.80	1,577,686.09
Total	2,379,934.67	0	176,739.30	2,203,195.37

H. Finance expenses: (Unit: RMB)

Item	30 June 2001	30 June 2000
Interest paid	15,806,576.08	10,038,587.26
Interest received	6,197,847.88	(9,263,314.99)
Loss in currency-exchange	117,530.76	478,730.38
Gain from currency-exchange	69,433.22	19,146.16
Other expenses	455,831.69	200,099.48
Total	10,112,657.43	1,434,955.97

I. During the reporting period, the Company recorded net loss from non-operating activities amounting to RMB129,070.70.

**(2) CONDENSED FINANCIAL STATEMENTS AND NOTES THERETO
PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN HONG KONG**

**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED**
(established in the People's Republic of China with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 25 to 33.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong

Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required for the cash flow statement included in the first interim financial report relating to accounting periods ended on or after 1 July 2000. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30 June 2000 disclosed in the interim financial report has not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Hong Kong, 16 August 2001

CONDENSED CONSOLIDATED INCOME STATEMENT

(prepared under accounting principles generally accepted in Hong Kong)

FOR THE SIX MONTHS ENDED 30 JUNE 2001

	NOTES	(unaudited)	
		Six months ended	
		30.6.2001	30.6.2000
		Rmb'000	Rmb'000
Turnover		177,218	205,001
Cost of sales		(150,354)	(164,993)
Gross profit		26,864	40,008
Other revenue	4	7,413	34,876
Distribution costs		(13,847)	(8,961)

Administrative expenses		(75,167)	(67,891)
Loss from operations	5	(54,737)	(1,968)
Finance costs		(15,839)	(10,039)
Loss before taxation		(70,576)	(12,007)
Taxation	6	-	-
Loss after taxation		(70,576)	(12,007)
Minority interests		22	-
Net loss for the period		(70,554)	(12,007)
Loss per share	8	Rmb0.157	Rmb0.027

There were no recognised gains or losses other than the net loss for the period.

CONDENSED CONSOLIDATED BALANCE SHEET

(prepared under accounting principles generally accepted in Hong Kong)

AT 30 JUNE 2001

	NOTES	(unaudited) 30.6.2001 Rmb'000	(audited) 31.12.2000 Rmb'000
Non-current assets			
Property, plant and equipment		355,601	381,434
Construction in progress		66,844	47,396
Interest in an associate		-	-
Investments in securities		836	537
		423,281	429,367
Current assets			
Amounts due from customers for contract work		45,637	92,277
Inventories		281,182	240,870
Trade debtors	9	670,466	714,269
Other debtors, deposits and prepayments		343,305	269,512
Investments in securities		80,917	703
Amount due from an associate		12,000	12,000
Bank deposits with maturity over three months		397,782	432,378
Other bank balances and cash		306,192	296,393
		2,137,481	2,058,402
Current liabilities			
Amounts due to customers for contract work		233,248	253,458
Sales deposits received in advance		77,009	37,645
Trade creditors	10	82,786	95,519

Other creditors and accrued expenses		142,542	114,909
Taxes payable		211,525	235,761
Bank loans and other loans - due within one year		381,668	224,489
		1,128,778	961,781
Net current assets		1,008,703	1,096,621
		1,431,984	1,525,988
Capital and reserves			
Share capital	11	450,000	450,000
Reserves		625,505	696,059
		1,075,505	1,146,059
Minority interests		995	929
Non-current liabilities			
Bank loans and other loans - due after one year		355,484	379,000
		1,431,984	1,525,988

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
(prepared under accounting principles generally accepted in Hong Kong)
FOR THE SIX MONTHS ENDED 30 JUNE 2001

	(unaudited)
	1.1.2001
	to
	30.6.2001
	Rmb'000
Net cash outflow from operating activities	(54,610)
Net cash outflow from returns on investments and servicing of finance	(9,695)
Net cash outflow from investing activities	(59,647)
Net cash outflow before financing	(123,952)
Net cash inflow from financing	133,751
Net increase in cash and cash equivalents	9,799
Cash and cash equivalents at 1 January	296,393

Cash and cash equivalents at 30 June

306,192

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(prepared under accounting principles generally accepted in Hong Kong)
FOR THE SIX MONTHS ENDED 30 JUNE 2001

1. BASIS OF PRESENTATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that, in this first year of implementation of the Standard, as permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, no comparative amounts have been presented for the condensed cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2000.

3. SEGMENT INFORMATION

Business segments

The Group's segment revenue and segment results, analysed by operating activity are as follows:

	Hydro turbine generator sets Rmb'000	Steam turbine generator sets Rmb'000	A.C. and D.C. motors Rmb'000	Other	Eliminations	Consolidated Rmb'000
2001				Rmb'000	Rmb'000	
REVENUE						
External sales	114,898	15,162	8,448	39,085	-	177,593
Inter-segment sales	-	-	1,815	-	(1,815)	-
Total revenue	114,898	15,162	10,263	39,085	(1,815)	177,593
SEGMENT RESULT	21,336	2,174	(3,540)	(8,545)	(1,729)	9,696

Net realised gain on disposal of investment securities	894
Interest income	6,144
Interest expenses	(15,839)
Unallocated corporate expenses	(71,471)
Loss before taxation	(70,576)

2000

REVENUE						
External sales	174,588	41,650	6,721	7,269	-	230,228
Inter-segment sales	-	-	-	-	-	-
Total revenue	174,588	41,650	6,721	7,269	-	230,228
SEGMENT RESULT	52,051	15,457	(1,136)	(10,098)	-	56,274

Net realised gain on disposal of investment securities	390
Interest income	9,259
Interest expenses	(10,039)
Unallocated corporate expenses	(67,891)
Loss before taxation	(12,007)

Geographical segments

During the current and the prior interim reporting period, substantially all of the Group's revenue is derived from the People's Republic of China (the "PRC") and revenue derived from outside the PRC is insignificant.

4. OTHER REVENUE

	Six months ended	
	30.6.2001	30.6.2000
	Rmb'000	Rmb'000
Interest income	6,144	9,259
Tax refunds on export sales	-	24,150
Net realised gain on disposal of investment securities	894	390
Other income	375	1,077
	7,413	34,876

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging depreciation on property, plant and equipment amounting to Rmb20,115,064 (2000: Rmb21,365,973).

6. TAXATION

No provision for PRC income tax has been made for the period as the Group has no assessable profits for the period (2000: Nil).

7. APPROPRIATIONS

No transfer has been made to the statutory surplus reserve or the statutory public welfare fund during the period (2000: Nil).

8. LOSS PER SHARE

The calculation of loss per share for the period is based on the net loss for the period of Rmb70,554,000 (2000: Rmb12,007,000) and on the 450,000,000 shares (2000: 450,000,000 shares) in issue during the period.

9. TRADE DEBTORS

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

	30.6.2001	31.12.2000
	Rmb'000	Rmb'000
Within one year	342,059	391,023
More than one year, but not exceeding two years	128,817	155,774
More than two years, but not exceeding three years	105,464	86,281
More than three years	153,353	140,128
	729,693	773,206
Less: Provision for doubtful debts	(59,227)	(58,937)
	670,466	714,269

Included in the gross amount of trade debtors above are retention monies receivable amounting to Rmb236,912,000 (31.12.2000: Rmb247,317,000).

10. TRADE CREDITORS

30.6.2001	31.12.2000
Rmb'000	Rmb'000

The aged analysis of trade creditors is as follows:

Within one year	63,139	84,449
More than one year, but not exceeding two years	12,257	7,832
More than two years, but not exceeding three years	6,630	1,904
More than three years	760	1,334
	82,786	95,519

11. SHARE CAPITAL

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

12. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	30.6.2001	31.12.2000
	Rmb'000	Rmb'000
Transactions with China Dongfang Electric Corporation (the holding company of Dongfang Electrical Machinery Works):		
Expenses		
- Interest paid or payable	4,326	3,867
Income		
- Sales	727	5,803
Transactions with Dongfang Electrical Machinery Works (the controlling shareholder of the Company):		
Expenses		
- Environmental hygiene and staff welfare expenditure (including hospitals, schools and kindergartens, staff canteens and maintenance of staff quarters)	12,738	18,661
- Packing fee	4,365	11,093
- Transportation fee	975	2,374
Income		
- Water, electricity and gas supplied	1,926	5,034
- Proceeds on sales of raw materials	1,531	6,848
- Others	193	459

13. CAPITAL COMMITMENTS

- (a) At 30 June 2001, the Group had the following commitments in respect of acquisition of property, plant and equipment not provided for in the financial statements:

	30.6.2001 Rmb'000	31.12.2000 Rmb'000
Authorised and contracted for	7,056	22,127
Authorised but not contracted for	50,944	36,460
	58,000	58,587

- (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 30 June 2001, the Company has not yet injected funds into the joint venture project.

14. THE EFFECT ON THE CONDENSED FINANCIAL STATEMENTS ARISING FROM THE DIFFERENCES BETWEEN PRC ACCOUNTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS

	Net asset value		Net loss for the six months ended	
	30.6.2001 Rmb'000	31.12.2000 Rmb'000	30.6.2001 Rmb'000	31.12.2000 Rmb'000
As reported under PRC Accounting Standards	1,076,572	1,147,065	70,509	12,007
Adjustments made to conform with HKGAAP:				
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)	(1,710)	-	-
Others	(308)	(247)	45	-
As reported under Hong Kong accounting standards	1,075,505	1,146,059	70,554	12,007