

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 (SSAP 25) "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policy.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment (see Note 3).

3. PRIOR PERIOD ADJUSTMENT

The financial effect of the adoption of the new and revised accounting policies described in Note 2 is summarized below:

	Dividend payables <i>Rmb'000</i>	Retained profits <i>Rmb'000</i>
Balance at 1st January 2000		
As originally stated	20,216	90,246
Derecognition of liability for final dividend for 2000	(20,216)	20,216
	<hr/>	<hr/>
As restated	<hr/> — <hr/>	<hr/> 110,462 <hr/>

4. SEGMENT INFORMATION

The Group's turnover and gross profit from operations for the six months ended 30th June, 2001 and 2000, analysed by business segments and by geographical segments, are as follows:

Business segments

2001	Main thermal power equipment <i>Rmb'000</i>	Main hydro power equipment <i>Rmb'000</i>	Engineering services for power stations <i>Rmb'000</i>	Ancillary equipment for power stations <i>Rmb'000</i>	AC/DC motors and other products <i>Rmb'000</i>	Eliminat- ions <i>Rmb'000</i>	Con- solidated <i>Rmb'000</i> <i>(audited)</i>
REVENUE							
External sales	700,490	79,118	243,486	50,475	96,727	-	1,170,296
Inter-segment sales	-	106,629	-	5,344	14,004	(125,977)	-
Total revenue	<u>700,490</u>	<u>185,747</u>	<u>243,486</u>	<u>55,819</u>	<u>110,731</u>	<u>(125,977)</u>	<u>1,170,296</u>
SEGMENT RESULTS	<u>164,774</u>	<u>21,847</u>	<u>27,928</u>	<u>16,090</u>	<u>33,446</u>	<u>-</u>	<u>264,085</u>
Unallocated corporate expenses							<u>167,261</u>
Profit from operations							<u>96,824</u>
2000	Main thermal power equipment <i>Rmb'000</i>	Main hydro power equipment <i>Rmb'000</i>	Engineering services for power stations <i>Rmb'000</i>	Ancillary equipment for power stations <i>Rmb'000</i>	AC/DC motors and other products <i>Rmb'000</i>	Eliminat- ions <i>Rmb'000</i>	Con- solidated <i>Rmb'000</i> <i>(unaudited)</i>
REVENUE							
External sales	637,087	97,354	466,428	17,207	179,997	-	1,398,073
Inter-segment sales	-	7,483	93,626	-	10,394	(111,503)	-
Total revenue	<u>637,087</u>	<u>104,837</u>	<u>560,054</u>	<u>17,207</u>	<u>190,391</u>	<u>(111,503)</u>	<u>1,398,073</u>
SEGMENT RESULTS	<u>182,668</u>	<u>20,889</u>	<u>19,274</u>	<u>3,132</u>	<u>32,900</u>	<u>(4,181)</u>	<u>254,682</u>
Unallocated corporate expenses							<u>169,694</u>
Profit from operations							<u>84,988</u>

Geographical segments

2001	People's Republic of China <i>Rmb'000</i>	Overseas <i>Rmb'000</i>	Eliminations <i>Rmb'000</i>	Consolidated <i>Rmb'000</i> (audited)
REVENUE				
External sales	961,309	208,987	–	1,170,296
Inter-segment sales	125,977	–	(125,977)	–
Total revenue	<u>1,087,286</u>	<u>208,987</u>	<u>(125,977)</u>	<u>1,170,296</u>
SEGMENT RESULTS	<u>234,358</u>	<u>29,727</u>	<u>–</u>	264,085
Unallocated corporate expenses				<u>167,261</u>
Profit from operations				<u>96,824</u>
2000	People's Republic of China <i>Rmb'000</i>	Overseas <i>Rmb'000</i>	Eliminations <i>Rmb'000</i>	Consolidated <i>Rmb'000</i> (unaudited)
REVENUE				
External sales	1,052,477	345,596	–	1,398,073
Inter-segment sales	<u>111,503</u>	<u>–</u>	<u>(111,503)</u>	<u>–</u>
Total revenue	<u>1,163,980</u>	<u>345,596</u>	<u>(111,503)</u>	<u>1,398,073</u>
SEGMENT RESULTS	<u>173,332</u>	<u>85,531</u>	<u>(4,181)</u>	254,682
Unallocated corporate expenses				<u>169,694</u>
Profit from operations				<u>84,988</u>

5. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2001	30.6.2000
	Rmb'000	Rmb'000
	(audited)	(unaudited)
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation	<u>95,675</u>	<u>82,387</u>
Interest income	<u>(32,136)</u>	<u>(32,377)</u>

6. TAXATION

The charge represents the People's Republic of China income tax calculated at 15% of the estimated taxable income for the period.

Pursuant to a document issued by the PRC Ministry of Finance and the State Tax Bureau on 29th March, 1994, taxable income earned by the Group is subject to an income tax rate of 15%.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

7. DIVIDEND

	Six months ended	
	30.6.2001	30.6.2000
	Rmb'000	Rmb'000
	(audited)	(unaudited)
Final dividend for 1999	—	20,216
Final dividend for 2000	<u>44,593</u>	<u>—</u>
	<u>44,593</u>	<u>20,216</u>

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2000: nil)

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the six months period ended 30th June, 2001 of Rmb19,107,000 (six months period ended 30th June, 2000: Rmb10,025,000) and on 1,189,151,000 shares (six months period ended 30th June, 2000: 1,189,151,000 shares) at the period ended 30th June, 2001.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately Rmb141 million mainly on construction in progress and plant and machineries for production process and upgrade its manufacturing capabilities.

10. TRADE DEBTORS

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

The following is an aged analysis of trade debtors at the reporting date:

	30.6.2001 Rmb'000	31.12.2000 <i>Rmb'000</i>
Within 1 year	994,678	827,596
1 to 2 years	420,141	515,229
2 to 3 years	372,955	397,006
Over 3 years	288,066	181,017
	<u>2,075,840</u>	<u>1,920,848</u>

11. TRADE CREDITORS

The following is an aged analysis of trade creditors at the reporting date:

	30.6.2001 Rmb'000	31.12.2000 <i>Rmb'000</i>
Within 1 year	497,090	396,843
1 to 2 years	83,198	131,978
2 to 3 years	30,998	39,485
Over 3 years	46,357	38,761
	<u>657,643</u>	<u>607,067</u>

12. BORROWINGS

During the period, the Group obtained new bank loans in the amount of Rmb1,071,295,000. The loans bear interest at market rates and have fixed terms of repayment. The proceeds were used to finance the acquisition of property, plant and equipment, upgrading the manufacturing capabilities and working capital for various production projects.

13. SHARE CAPITAL

	30.6.2001 & 31.12.2000 <i>Rmb'000</i>
Ordinary shares of Rmb1 each	
Registered	<u>1,189,151</u>
Issued and fully paid	
State shares	720,000
H shares	<u>469,151</u>
	<u>1,189,151</u>

There were no movements in the share capital of the Company for the period/year.

14. SHARE PREMIUM AND RESERVES

	Share premium <i>Rmb'000</i>	Statutory capital reserve <i>Rmb'000</i>	Statutory surplus reserve <i>Rmb'000</i>	Public welfare fund <i>Rmb'000</i>	Retained profits <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2000						
– as originally stated	788,155	709,850	66,851	66,427	90,246	1,721,529
– prior period adjustment (see note 3)	–	–	–	–	20,216	20,216
– as restated	788,155	709,850	66,851	66,427	110,462	1,741,745
Profit for the year	–	–	–	–	39,089	39,089
Transfers	–	–	10,037	9,837	(19,874)	–
Dividend paid	–	–	–	–	(20,216)	(20,216)
At 31st December, 2000	788,155	709,850	76,888	76,264	109,461	1,760,618
Profit for the period					19,107	19,107
Transfers	–	–	5,171	5,164	(10,335)	–
Dividend paid	–	–	–	–	(44,593)	(44,593)
At 30th June, 2001	<u>788,155</u>	<u>709,850</u>	<u>82,059</u>	<u>81,428</u>	<u>73,640</u>	<u>1,735,132</u>

15. CAPITAL COMMITMENTS

	30.6.2001 <i>Rmb'000</i>	31.12.2000 <i>Rmb'000</i>
Capital expenditure for the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>48,256</u>	<u>110,171</u>
Capital expenditure for the acquisition of property, plant and equipment authorized but not provided in the financial statements	<u>317,470</u>	<u>–</u>