



## 4. Management Discussion and Analysis

### (1) Analysis of the principal operating results and financial position of the Company

The principal operations of the Company include hydro turbine generators, steam turbine generators, A.C. and D.C. electrical motors and controlling devices.

In the first half of the year, the Company closely focused its works on achieving the directions and targets for 2003 and overcame the difficulties of heavy workload for key equipment, the increase in production of assorted new products, the difficulty in the production requirement for the Three Gorges Project, the short delivery schedule and the increase in prices of raw materials. As a result, the Company smoothly achieved various production and operational targets for the first half of the year. The Company is in positive progress and is striving to complete the overall operational target for the whole year.

In the first half of the year, the Company built 5 hydro turbine generator sets with generation capacity of 626 MW; 11 sets of auxiliary equipment for the Three Gorges Project; 11 steam turbine generators with generation capacity of 2,310 MW and 51 sets of A.C. and D.C. electrical motors with generation capacity of 47.976 MW. Orders received by the Company amounted to approximately RMB 3,100 million.

1. Analysis of revenue from principal operations and cost of principal operations (prepared under PRC Accounting Standards)

	Income from principal operations <i>RMB'000</i>	Percentage of income from principal operations (%)	Costs of principal operations <i>RMB'000</i>	Gross profit margin from principal operations (%)
Electric power generating equipment	386,612	87.58	266,930	30.96
Technology improvement services and others	54,813	12.42	35,976	34.37
Total	<u>441,425</u>	<u>100.00</u>	<u>302,906</u>	31.38

2. Analysis of the Company's principal operating results and financial position (prepared under the PRC Accounting Standards)

Items	<i>Amounts (RMB'000)</i>		
	For the six month ended 30 June 2003	For the six month ended 30 June 2002	Increase/ (Decrease) (%)
Revenue from principal operations	441,425	252,482	74.83
Profit from principal operations	137,528	69,643	97.48
Profit from other operations	3,707	1,406	163.66
Net profit/(loss)	8,128	(29,732)	
Increase/(Decrease) in cash and cash equivalents	146,035	(159,314)	
	As at 30 June 2003	As at 31 December 2002	Increase/ (Decrease) (%)
Total assets	2,929,399	2,764,956	5.95
Shareholders' equity	915,288	907,161	0.90

Analysis:

- (1) An increase in revenue from principal operations was mainly because the Company obtained more orders as a number of new power construction projects commenced construction works consecutively in view of the implementation of the Grand Western Region Development Strategy and the transmission of electricity from the western region to the eastern region. As a result, the production volume increased and the sales of products increased during the reporting period.
- (2) An increase in profits from principal operations was mainly attributable to the significant increase in revenue from principal operations of the Company during the reporting period, especially products with high gross profit margin such as steam turbine generators with generation capacity of 200 MW or more and the Three Gorges Project.



- (3) The Company recorded a profit as compared with the corresponding period in previous year mainly because of significant increase in profit from principal operations and profit from other operations during the reporting period as well as the decrease in financial expenses (a decrease of 26.98% as compared with the corresponding period in previous year).
  - (4) As the payment method for the sales contracts signed by the Company during the reporting period has been changed from “1:8:1” to “1:2:3:3:1”, the recovery of payment by the Company had improved in the first half of the year and there was a significant increase in net cash flow as compared with the corresponding period in the previous year.
  - (5) As at 30 June 2003, the gearing ratio of the Company was 68.72%, approximately the same as the corresponding period in previous year. Borrowings decreased by RMB 92,500,000 from the end of the previous year to RMB 689,600,000, (RMB 175,600,000 of which was short term loans, RMB 320,000,000 of which was due within one year, RMB 194,000,000 of which was long-term loans). The decrease was mainly attributable to the repayment of bank loans.
3. During the reporting period, there was no other business operations of the Company that had a significant impact on the net profit of the Company for the reporting period.
  4. There was no income from the investment of a single company in which the Company had an equity interest that affected more than 10% of the net profit of the Company.
  5. Problems and Difficulties in Operations

The major difficulty encountered by the Company is how to ensure the completion of production target in view of the heavy work load in production. Accordingly, the Company adopted a series of determined and effective measures and strived to overcome the difficulties of the heavy production work load, the increase in production of assorted new products, the difficulty in the production requirement for the Three Gorges Project and the short delivery schedule. On the one hand, the Company strived to make better utilisation of the potentials of internal human resources and equipment, continued to enhance the work of production organisation management, strengthened the coordination of various production procedures, ensured timely supply of raw materials for key components and expedited the adjustment on arrangement for technical skills and various technological renovation projects. On the other hand, the Company strengthened management over the purchase of finished goods and work in progress, appropriately arranged for subcontracting work for various products and strived to create a good environment for completion of production tasks in accordance with the planned schedule.

## **(2) Use of Proceeds**

In accordance with the purpose stipulated in the Company's Prospectus for the issue of A Shares and H Shares, the proceeds of RMB 752,548,000 from A Shares and H Shares listing have to be applied in the four projects which involve the technological renovation for improving the electric power generation capacity of hydro turbine generator sets. The use of proceeds up to 30 June 2003 is as follows:

Projects stipulated in the Company's Prospectus:

- (1) In respect of the technological renovation projects for improving electric power generation capacity of hydro turbine generator sets, the total planned investment was RMB 670,000,000. In the first half of the year, the actual investment amounted to RMB 19,951,000. To date, the cumulative actual investment in this project amounted to RMB 261,303,000. Through the implementation of the technological renovation, the electric power generation capacity and technology level of hydro and steam turbine generator sets of the Company have been enhanced and the competitiveness of the Company has been strengthened.
- (2) In respect of the capital inputs in joint ventures projects with foreign investors for the production of large-scale hydro turbine generator sets and steam turbine generators, the total planned investment was RMB 160,000,000. On 6 March 2001 and 27 May 2002, the Company convened an extraordinary general meeting and an annual general meeting for 2001 respectively, approving the Company to change the use of RMB 160,000,000, which was initially intended to be contributed to the joint venture projects with foreign entities regarding large-scale hydro turbine generators and large-scale steam turbine generators, to the use as working capital due to insufficiency thereto. Currently, the change of use for this proceeds has been put into effect.
- (3) In respect of the additional working capital, the total planned investment was RMB 150,000,000. The actual investment amounted to RMB 150,000,000. The investment had been completed.
- (4) In respect of the repayment of the loans of the Seventh and Eighth Five-Year Plan, the total planned investment was RMB 75,000,000. The actual investment amounted to RMB88,449,000. The investment had been completed.

As at 30 June 2003, the balance of proceeds amounted to approximately RMB 92,796,000. The Company has deposited the balance of proceeds in domestic banks.

**(3) Profit warning for the end of the next reporting period.**

The Company had a net loss of RMB 22,630,000 for the period from January to September 2002 in accordance with the PRC accounting standards. Due to the significant increase in sales of products, it is estimated that the Company will be able to make profit during the period from January to September 2003 as compared with the corresponding period in previous year. Details of the actual data will be disclosed in the third quarterly report for 2003.