

2. None of the directors, supervisors and senior management or their respective associates was granted by the Company or its subsidiaries any right to acquire or sell shares or debentures of the Company or had exercised any such right as at 30 June 2005.
3. Save for those set out in the register required to be maintained by directors and supervisors under Section 352 of the SFO, during the reporting period, the Company did not engage in any arrangement which would enable the directors or supervisors of the Company or their respective associates to acquire any interest in any shares or debentures of the Company, nor did the directors or supervisors had any interest which was required to be recorded in the register under Section 352 of the SFO.

(2) New appointment or dismissal of directors, supervisors and senior management of the Company

During the reporting period, there was no new appointment or dismissal of directors, supervisors and senior management staff in the Company

5. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Discussion and analysis of the overall operations during the reporting period

During the first half of 2005, in line with the operation guidelines for 2005, the Company surmounted the difficulties of the undersupply of raw materials, on-streaming of major products and peak delivery of products. Being able to pay attention to production details, improving paces and efficiency, the Company accomplished all production and operation targets set for the first half of 2005. Production volume and sales revenue hit a new high as compared with the same period in previous years.

(2) Operating status of the Company during the reporting period

1. Scope of principal operations of the Company and its operating status

(1) Principal operations of the Company and its operating status

The Company is one of the leading electric power-generating equipment manufacturers in the PRC. The principal operations of the Company include hydro turbine generators, steam turbine generators, A.C. and D.C. electrical motors and controlling devices.

The Company recorded sales revenue of RMB1,176,000,000 for the reporting period. It produced a total of 15 sets of hydro turbine generators, 19 steam turbine generators and 33 AC/DC motors with electrical power generation capacity of 1,414.5MW, 5,910MW and 118.26MW respectively. In addition, 110 sets of ancillary machinery were produced.

On marketing front, the Company received RMB2,400,000,000 of new orders during the first half year. A remarkable progress was seen in the nuclear power sector. The Company entered into main equipment supply contracts for conventional islands and nuclear island of Ling Ao Phase II Nuclear Power Project, which was the first time for a domestic electric power-generating equipment manufacturer to undertake the supply of 1,000MW nuclear generators as a major contractor. This order was of historical significance for domestic electric power-generating equipment manufacturers. Meanwhile, the Company sub-contracted part of the nuclear coolant pump equipment for nuclear island, representing a significant breakthrough of the Company in production of equipment for nuclear islands, indicating that the Company has stepped into the nuclear power equipment manufacturing sector. In the hydro-electric market, a batch of hydro-electric contracts were signed including a basket of orders for Xiao Wan 3 x 700MW hydro turbine generator project, Jing Hong 5 x 350MW generator project, Man Wan Phase II 1 x 300MW hydro turbine generating unit project, which played an active role in consolidation and expansion of the Company's hydro-electric market share for its long term development.

- (2) Business or product representing 10% or above (inclusive of 10%) in income or profit of Principal operations during the reporting period

Unit: RMB'000

			Increase/ decrease in income from principal operations as compared with the same period last year (%)	Increase/ decrease in cost of principal operations as compared with the same period last year (%)	Increase/ decrease in gross profit ratio as compared with the same period last year (%)
	Income from principal operations	Cost of principal operations	Gross profit ratio (%)		
By business					
Machinery manufacturing	1,176,354	775,242	34.10	31.97	32.99 Decreased by 0.5 percentage points
Including: connected transactions	16,750	12,453	25.65	—	— —
By product					
Electric power - generating equipment	1,071,963	701,393	34.57	28.34	28.17 Increased by 0.09 percentage points
Technological renovation, provision of services and others	104,391	73,849	29.26	85.96	106.96 Decreased by 7.17 percentage points
Including: connected transactions	16,750	12,453	25.65	—	— —

Pricing principles of connected transactions: Base on Market price

(3) Principal operations by geographical region

Unit: RMB'000

By region	Income from principal operations	Increase/decrease in income from principal operations as compared with the same period last year (%)
The PRC	1,176,354	31.97

(4) Reasons and analysis for material changes in profit composition as compared with last year

Unit: RMB'000

Item	Amount		Percentage in total profit (%)		Increase/ decrease (percentage points)
	Jan-Jun 2005	2004	Jan-Jun 2005	2004	
Profit from principal operations	397,219	729,262	130.15	225.16	(95.01)
Profit from other operations	20,745	24,955	6.80	7.70	(0.90)
Period expenses	116,597	446,149	38.20	137.75	(99.55)
Investment income	1,189	(373)	0.39	(0.12)	0.51
Subsidy income	0	14	0	0.004	(0.004)
Net non-operating income	(1,135)	1,971	(0.37)	0.61	(0.98)
Total profit	305,198	323,892	—	—	—

- (i) Percentage of profit from principal operations in total profit for the reporting period decreased by 95.01% as compared with that for 2004, which was mainly due to the considerable decrease in the amount of expenses as compared with total profit during the reporting period;

- (ii) Percentage of period expenses in total profit for the reporting period decreased by 99.55% as compared with that for 2004, which was mainly due to the considerable decrease in period expenses and financial expenses which represents only 25.34% of that of the last reporting period.

(5) Operation and Results of Substantially Controlled Companies and Investee Companies

Unit: RMB'000

Name	Nature of business	Principal operations	Registered capital	Total	
				assets	Net profit
DFEM Control Equipment Company Limited	Manufacturing	Design, manufacture and sale of control equipment in relation to generators and A.C and D.C. motors	13,000	149,922	3,104
DFEM Power Equipment Company Limited	Manufacturing	Design, manufacture and sale of Large and medium A.C. and D.C. motors and small hydro-ower motors	42,754.34	301,231	12,159
DFEM Tooling and Moulding Company Limited	Manufacturing	Design, manufacture and sale of industrial tool and knife tool; process and sale of ordinary machinery and machinery accessories	14,600	26,663	936
DFEM Equipment Engineering Company Limited	Manufacturing	Overhaul of electrical machinery, technological transformation; installation and test run of complete set of electrical machinery; design, manufacture and sale of complete set of electrical machinery control system; environmental protection equipment; design, manufacture, Installation and sale of special equipment etc.; manufacture and sale of machinery spare parts and general spare parts; technical consultancy and service for electrical machinery	13,500	19,381	574

2. Problems and difficulties in operation and their solutions

With its production value and volume reaching another historic new high in the first half of 2005, the Company still faced the major and difficult problem of how to ensure delivery as scheduled despite its heavy production task. To address such heavy production task, the Company mainly took the following initiatives:

- (1) Reinforce technological preparations to ensure on-streaming of contracted projects as scheduled. By reasonable plans and careful arrangement, product designing and technical preparations were accomplished on time by technology and management departments, laying a foundation for smooth running of subsequent workflows. The procurement department took effective measures to overcome various difficulties such as resource shortage, apparent supply-demand divergence and inadequate procurement days for certain raw materials, pushing delivery of materials to meet production needs.
- (2) Selectively strengthen process control to ensure manufacturing of products. Focusing on key projects including left bank turbine rotor of Three-Gorge Project, seating ring of Long Tan Project and engine generators, the Company attached importance to correctness and significance of production schedule and dispatching instructions. With great efforts in management throughout production process, on-streaming of key projects were ensured as scheduled.
- (3) Put emphasis on balance in production capacity and full use of “bottlenecked” resources. By centralised dispatching of productive resources, the Company significantly improved production capacity of key production lines and stations. Meanwhile, the Company actively sought product outsourcing and subcontracting, thus alleviating the pressure on internal processes.

- (4) The Company continued to promote its economic accountability mechanism based on major benchmarks including labour use and selected products. A trial method on workflow contracting was promoted in certain positions, which further encouraged the staff morale especially the workers' enthusiasms.

Through the efforts of all staff members, the Company accomplished its targets set for the first half of 2005 despite the great difficulty in production, undersupply of major raw materials, the tight production schedule and great difficulties in technological preparations.

(3) Investment of the Company

1. Use of proceeds

During the reporting period, the Company did not raise any fund, nor was there any of last proceeds used in the period.

2. Projects financed by non-raised funds

During the reporting period, the Company completed effective investment amounting to RMB81,372,200, mainly including RMB16,893,100 in technical renovation for expansion of hydro-electricity generation capacity, RMB35,668,400 in special rebate under the three-tier taxation preferential policy and a total of RMB28,810,700 in other technical renovation projects.

(4) Warning and explanation for prediction of the possibility of accumulated net profit turning into losses from beginning of the year to the end of next reporting period or significant changes as compared with the same period last year

Because of several factors including a growth in sales volume, the Company anticipated an increase of over 200% in net profit for January to September 2005 as compared to the corresponding period last year in accordance with PRC Accounting Standard. Concrete data will be disclosed in detail in the 3rd Quarterly Report of 2005.

(5) Financial status and capital structure of the Company (prepared in accordance with HK GAAP)

1. Financial status

As at 30 June 2005, the Company's current assets amounted to RMB6,604,470,000 (31 December 2004: RMB5,676,329,000), including cash and bank balance (inclusive of bank deposits with maturity over three months) of RMB3,372,445,000, pledged bank deposits (premium of guarantee letter) of RMB215,994,000, trade receivables of RMB740,366,000 and inventories of RMB1,286,650,000. The increase in cash and bank balance, trade receivables and inventories as compared with the end of 2004 was due to the Company's receipt of deposits from sales contracts and instalments from product manufacturing contracts as well as the increase in production and sales volumes owing to the favourable electric power-generating equipment market.

As at 30 June 2005, the Company's current liabilities amounted to RMB5,817,913,000 (31 December 2004: RMB5,076,256,000), including trade payables of RMB223,563,000 and receipts in advance (inclusive of the amount due to customers for contract works) of RMB5,050,163,000. The increase of RMB741,657,000 in current liabilities over that for 2004 was principally due to the increase in amount due to customers for contract products. It is estimated that the Company will have sufficient solvency to maintain its operations.

2. Capital structure

As at 30 June 2005, the gearing ratio of the Company increased to 411.91% (30 June 2004: 373.18%), which was mainly attributable to the increase in receipts in advance, reflecting the favourable market demands for the Company's products. The debt to equity ratio was 2.10% (30 June 2004: 8.99%), mainly due to the contraction in the Company's loans. At present, the Company maintains a strong solvency and financing ability.

(6) Employees

As at 30 June 2005, the number of employees of the Company totalled 7,138. The Company adopted a remuneration system linked with performance and paid the employees in accordance with their work performances.

(7) Outlook for the second half year

During the second half year, production schedule of the Company's electric power generating equipment is relatively centralised. The production volume will continue to rise. To fulfil the heavy tasks in the year, the Company focuses on the followings:

1. each relevant entity will put more efforts in research and analysis on current and future tasks to improve their production capabilities. On the basis of sound coordination and communications, our production team will strive to improve the resource utilisation efficiency, make elaborate preparations in production and technology, and continue to strengthen the design, technique optimisation and improvement, thus meeting the high-speed and fast-pace production needs.
2. the Company will keep a close watch on market changes and strengthen the analysis and investigation on the raw material market to ensure that ordering, delivery and reserve of major raw materials for production will be properly made.
3. the Company will exercise strict control on workflows in light of the guideline of "Quality First", building up Dongdian brand with stable quality.