东方电气
DONGFANG ELECTRIC

Dongfang Electric Corporation Limited

Annual Report 2007

(H Share Stock Code: 1072)
(A Share Stock Code: 600875)

Global Business Distribution

DEC 东方电气 DONGFANG ELECTRIC

1 **Albernia**
Vau Dejes
Feirze

2 **U.S.A**
Camanche
Brockway
Rio Bravo
Isabella
Dalles
Mini Doka
Camp Far West
Bravo

3 **Canada**
Mamquam

4 **Philippines**
Baligatan

5 **India**
Durgapur
Sahardighi
Amarkantak
BALCO
Nagarjuna
Rajasthan
Anpara
Barmer phase2

6 **Pakistan**
Gudu
Lakhra
Multan
Mangla
khan khwar
Jinnah

7 **Indonesia**
Mojokerto
Serang
Cilacap
Labwan
Rembang
Pacitan
Teluk Naga
Mojukerto
Batam
Mianlan
Wpti

8 **Malaysia**
Kuchin
MUKAH

9 **Turkey**
Adiguzel

10 **Brazil**
UTE Barcarena

11 **Iran**
Arak

12 **Bangladesh**
Chitta Gang
Chitta Gang
Haripur

13 **Yemen**
AL-HISWA

14 **Burma**
zangtu

15 **Belize**
Macal

16 **Syria**
Tishrin

17 **Guatemala**
Cahabon

18 **Georgia**
Kaduli

19 **Ethiopia**
Tekeze

20 **Vietnam**
Srok Phu Mieng
Song Ba Ha
Haiphong

21 **Laos**
Xeset

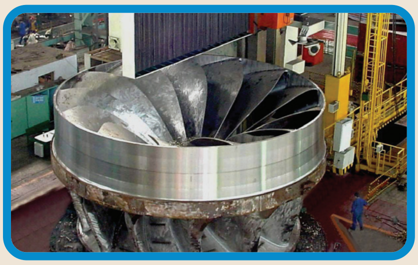
22 **MONGOLIA**
Oyu Tolgoi

23 **Yugoslavia**
Visgrade

Contents

1.	Company Profile	2
2.	Chairman's Statement	4
3.	Major Accounting Data and Indicators	6
4.	Changes in Share Capital and Particulars of Shareholders	12
5.	Directors, Supervisors and Senior Management	18
6.	Corporate Governance Report	27
7.	Brief Introduction of Shareholders' General Meeting	34
8.	Report of the Board	35
9.	Report of Supervisory Committee	48
10.	Significant Events	50
11.	Financial Statements	53
12.	Other Financial Statements	113
13.	Five Years' Financial Summary	119
14.	Documents Available for Inspection	120

Company Profile



Hydro power

Thermal power

Wind power

Nuclear power

Steam power

Dongfang Electric Corporation Limited (the "Company") is one of the super-large-scale enterprises controlled by China Dongfang Electric Corporation (DEC), with its headquarter in the Chengdu City, Sichuan province. The Company now owns core enterprises such as Dongfang Electrical Machinery, Dongfang Steam Turbine, Dongfang Boiler and Dongfang Heavy Duty Machinery. The Company is principally engaged in large-scale power generating equipment, power station project, power station service, manufacture of electric control equipment, environmentally friendly and energy saving equipment. It is one of the largest power generating equipment manufacturing bases in China.

As the country's base for localization of major technical equipment and a national certified corporate technology centre, the Company boasts leading research and development capacity in power equipment manufacturing industry in China. With the self-development, cooperation between production,learning and research, introduction and application of advanced overseas technologies and secondary development, there is a large bulk of major technical equipments and products with independent intellectual property rights. The Company targets at the cutting-edge manufacturing technology of power generating equipment, adjusted its product structure with its foresight and put forth efforts on the improvement of mankind's living environment. Meanwhile, it proactively developed clean energy such as nuclear power generation and wind power generation, form a product structure featuring various types of power generation. Currently, the Company is equipped with the capability of development, design, manufacture, sale and equipment supply of large scale hydro-electric, coal-fired, nuclear and wind power generating equipment and gas turbine, as well as power plant projects.

At present, the Company is capable to manufacture power generating equipments of 30,000MW per year. It has mass production capacity for products such as large thermal generating units of 300MW, 600MW and 1000MW, hydro-electric turbine generating units of 400MW, 550MW and 700MW, nuclear power units of 1000MW, wind power units of 1.5MW, large gas turbine generators and flue gas desulphurization and denitration for boilers in large scale power plants, and large chemical vessels.

Based on its strong human resources and technical force, extensive experience and advanced quality control, the Company is able to provide high quality construction projects to customers at home and abroad.

Looking into the future, the Company is determined to build a leading conglomerate with international competitiveness, dedicate itself to the country and to the benefit of mankind, provide dynamic supports for the sound and rapid growth of China's economy.

1. Company name (in Chinese):	東方電氣股份有限公司
Chinese abbreviation:	東方電氣
Company name (in English):	Dongfang Electric Corporation Limited
2. Legal representative of the Company:	Mr. Si Zefu
3. Secretary of the Board of Directors:	Gong Dan
Representative of securities affairs:	Huang Yong
Telephone:	028-87583666
Fax:	028-87583551
E-mail:	dsb@dongfang.com
Contact address:	No. 333 Shuhan Road, Chengdu City, Sichuan Province, the PRC
4. Registered company address:	18 Xixin Road, High-Tech District (Western District), Chengdu, Sichuan Province, the PRC
Company business address:	No. 333, Shuhan Road, Chengdu City, Sichuan Province, the PRC
Postal code:	610036
Website:	http://www.dongfang.com
E-mail:	dsb@dongfang.com
5. Place of listing of A share:	Shanghai Stock Exchange
Abbreviation of A share of the Company:	Dongfang Elec
Stock code of A share of the Company:	600875
Place of listing of H share:	The Stock Exchange of Hong Kong Limited
Abbreviation of H share of the Company:	Dongfang Elec
Stock code of H share of the Company:	1072
6. Other relevant information	
First registration date:	28 December 1993
First registration address:	Deyang, Sichuan Province, the PRC
Domestic auditor:	Deloitte Touche Tohmatsu CPA Ltd.
International auditor:	Deloitte Touche Tohmatsu

Chairman's Statement

Listing by percussion of gong by Chairman Si Zefu during the listing ceremony of entire assets of principal operations of DEC

To shareholders,

In 2007, the Company attached great importance on international market expansion while assuming most arduous production and operation tasks. The Company endeavored to urge forward listing of entire assets of principal operations as well as market expansion in full swing. The Company improved its R & D capabilities, made vigorous efforts in building its brand, system, human resources and corporate culture. As a result, various goals were successfully achieved and the sound development momentum was maintained. I am pleased to present the annual report of the Company for the year ended 31 December 2007.

In 2007, the Company seized the opportunity of Dongfang Boiler's share reform, completed listing of entire assets of principle operations through private placement and share exchange offer on the platform of Dongfang Electrical. The successful listing provided a more solid foundation for optimizing product structure and organization management system, resource integration, strenghthening competitiveness of the products and raising capital market reputation thus provide a base with significant growth opportunities.

As for production, the Company accomplished output of power-generating equipment of 3,1457.5MW and set a new record. Based on the HKFRS, the Company's turnover amounted to RMB24.1 billion, and profit after taxation amounted to RMB2.41 billion with earnings per share of RMB2.723.

On the market front, the Company fulfilled strategic goals of the year of international expansion in 2007. While consolidating domestic market, the Company explored international market to release excessive production capacity, so as to lay a sound foundation for sustainable development. The company signed new contracts of RMB58 billion in 2007, 13% of which were derived from exports.

The Company made considerable progress in new product development. The Company gradually established its own core technology through digesting imported technology, improving hydro power technology and independent research in steam turbine and boiler.

Looking into the future, the Company is presented by a promising opportunity for rapid and sustainable development. Seizing the opportunities and sparing no efforts, the Company aims to promote the sustainable development of the Company and build itself into a global leading manufacturer of complete power generating sets.

Finally, I wish to express my gratitude to all shareholders for your trust and support through all the years.

Chairman

Si Zefu

Operating power plant in which the thermal power equipment produced by the Company was installed

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OVER THE PAST THREE YEARS

(1) Prepared under the PRC accounting standards

Unit: RMB 0'000

Major accounting data	2007	2006 After adjustment	2006 Before adjustment	Year-on-year increase/ decrease *(%)*	2005 After adjustment	2005 Before adjustment
Operating revenue *(RMB0'000)*	**2,488,677.66**	2,307,726.07	483,070.50	7.84	311,169.72	315,708.37
Total profit *(RMB0'000)*	**248,991.37**	254,495.22	92,478.69	(2.16)	61,007.20	61,055.95
Net profit attributable to shareholders of the listed company *(RMB0'000)*	**198,985.60**	207,051.06	83,019.96	(3.90)	52,861.90	52,805.67
Net profit after non-recurring profit and loss attributable to shareholders of the listed company *(RMB0'000)*	**85,794.76**	83,000.30	82,338.03	3.37	53,033.15	52,976.92
Basic earnings per share *(RMB)*	**2.44**	2.53	1.845	(3.56)	1.175	1.173
Diluted earnings per share *(RMB)*	**2.44**	2.53	1.845	(3.56)	1.175	1.173
Basic earnings per share after non-recurring profit and loss *(RMB)*	**1.68**	1.84	1.830	(8.70)	1.178	1.177
Fully diluted return on net assets *(%)*	**66.16**	38.24	33.01	Increased by 27.92 percentage points	31.59	28.8
Weighted average return on net assets *(%)*	**35.15**	38.30	38.53	Decreased by 3.15 percentage points	35.06	35.15
Fully diluted return on net assets after non-recurring profit and loss *(%)*	**28.53**	15.33	32.74	Increased by 13.20 percentage points	31.69	28.90
Weighted average return on net assets after non-recurring profit and loss *(%)*	**31.79**	41.63	38.21	Decreased by 9.84 percentage point	35.17	35.26
Net cash flow from operating activities *(RMB0'000)*	**(46,188.94)**	(440,856.16)	(28,295.13)	89.52	100,910.34	100,910.34
Net cash flow from operating activities per share *(RMB)*	**(0.57)**	(5.40)	(0.63)	89.44	2.22	2.22

President Wen Shugang (2nd from the left) inspected the work site of the power station in India

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OVER THE PAST THREE YEARS *(continued)*

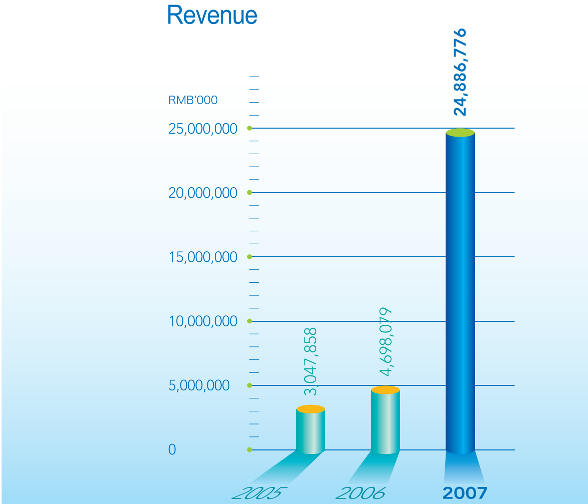
(1) Prepared under the PRC accounting standards *(continued)*

	31 December 2007	31 December 2006 After adjustment	31 December 2006 Before adjustment	Year-on-year increase/ decrease *(%)*	31 December 2005 After adjustment	31 December 2005 Before adjustment
Total assets *(RMB0'000)*	**3,637,839.71**	3,142,977.36	962,981.99	15.75	846,716.29	846,176.50
Owner's equity (Shareholders' equity)	**300,750.70**	541,462.00	251,518.87	(44.46)	167,242.72	183,341.07
Net asset per share attributable to shareholders of the listed company *(RMB)*	**3.68**	6.63	5.59	(44.49)	3.72	4.07

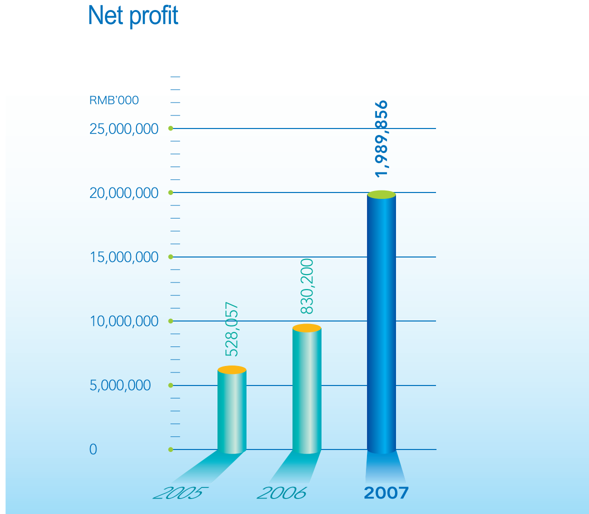
Note: in the above statement, the data before and after adjustment for the year 2005 and data before adjustment for the year 2006 were data for Dongfang Electrical Machinery Company Limited(DFEM); the year-on-year increase/decrease is calculated on the basis of the data after adjustment for the year 2006;

Major Accounting Data and Indicators *(continued)*

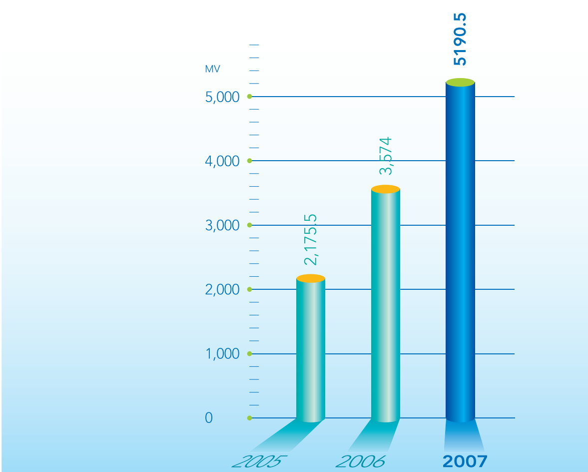
Revenue



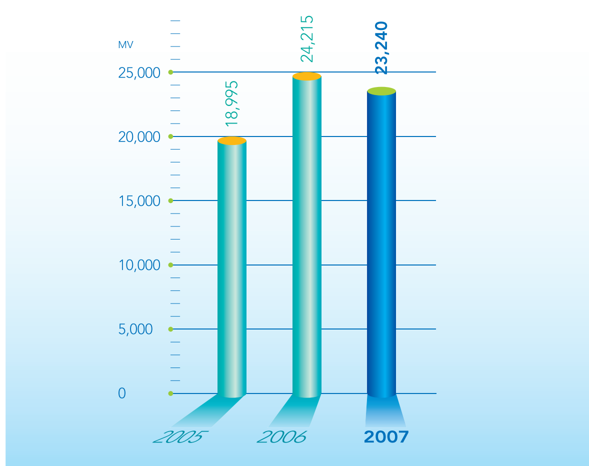
Net profit



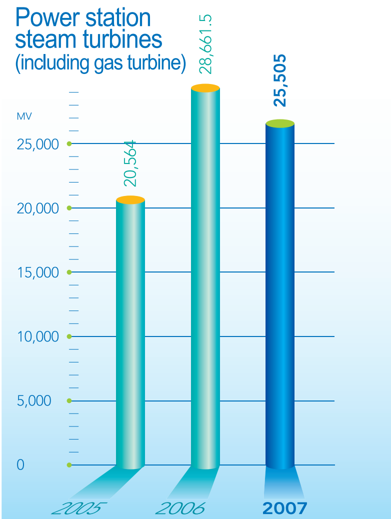
Hydro-electric turbine generator sets



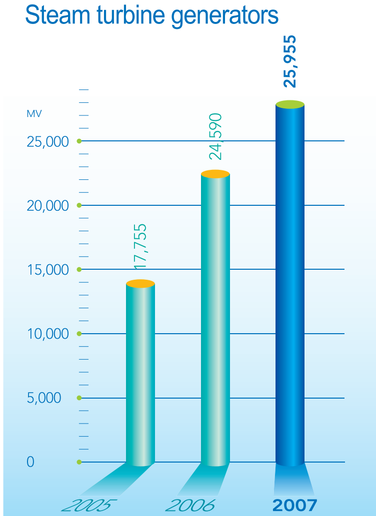
Boilers in power plants



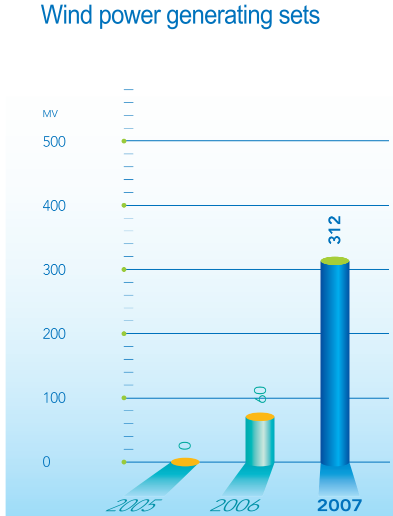
Power station steam turbines (including gas turbine)



Steam turbine generators



Wind power generating sets



I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OVER THE PAST THREE YEARS *(continued)*

(2) Prepared under HKFRS

Unit: RMB 0'000

Item	**2007**	2006 (Restated)	2005
Turnover	**2,409,912.80**	2,243,376.20	304,785.80
Profit for the year	**222,447.52**	226,908.40	53,498.80
Total assets	**3,611,788.10**	3,133,405.60	846,288.80
Shareholders' equity	**253,856.39**	465,642.40	169,845.70
Earnings per share *(RMB)*	**2.723**	2.777	1.188
Net assets per share *(RMB)*	**3.11**	5.70	3.77
Return on net assets *(%)*	**87.63**	48.73	31.48
Ratio of shareholders' equity	**7.03**	14.86	20.07

II. RECONCILIATION FOR HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS) AND PRC ACCOUNTING STANDARDS

Unit: RMB 0'000

	Net profit		**Net assets**	
Item	**2007**	2006	Opening balance	Closing balance
Under the PRC Accounting Standards	**198,985.60**	207,051.06	541,462.00	300,750.70
Under HKFRS	**222,447.52**	226,908.40	465,642.40	253,856.39

The differences mainly represents the impact from asset revaluation, governmental grants and the corresponding deferred tax of Dongfang Turbine Co., Ltd..

Port of Dongfang Heavy Duty Machinery

III. NON-RECURRING PROFIT AND LOSS ITEMS AND THE AMOUNT

Unit: RMB 0'000

Non-recurring profit and loss items	Amount
Profit and loss on disposal of non-current assets	107.22
Government subsidiaries accounted for as current profit and loss (excluding those closely related to the Company's business and enjoyed according to the State's standard quote or quantity)	(4,095.79)
Net profits and losses of the current period of subsidiaries arising for business integration under common control from the beginning of period to the date of merger	(126,924.72)
Other net non-operating income/expenses other than the above items	(713.88)
Other non-recurring profit and loss items	396.68
Total	(131,230.49)

IV. RETURN ON NET ASSETS AND EARNINGS PER SHARE CALCULATED IN ACCORDANCE WITH THE REQUIREMENT OF THE "INFORMATION DISCLOSURE FOR COMPANIES ISSUING LISTED SECURITIES" (NO. 9) OF THE CHINA SECURITIES REGULATORY COMMISSION ("CSRC")

	Return on net assets *(%)*		Earnings per share *(RMB)*	
Profit during reporting period	**Fully diluted**	**Weighted average**	**Basic earning per share**	**Diluted earnings per share**
Net profit attributable to holders of ordinary shares of the Company	66.16	35.15	2.44	2.44
Net profit attributable to holders of ordinary shares of the Company after deducting non-recurring items	28.53	31.79	1.68	1.68

Three Gorge Turbine Running and Delivery

Changes in Share Capital and Particulars of Shareholders

Thermal power at Iran with generating units of the Company installed

I. CHANGES IN SHARE CAPITAL

1. Changes in share capital

Unit: Share

	Before the change		Increaese (+)/decrease (-)		After the change	
	Number	Percentage (%)	Issue of new shares	Others	Number	Percentage (%)
1. State-owned legal person shares subject to trading moratorium	203,800,000	45.29	367,000,000	-22,500,000	548,300,000	67.11
2. Circulating shares not subject to trading moratorium						
1) RMB ordinary shares	76,200,000	16.93		22,500,000	98,700,000	12.08
2) Overseas listed foreign investment shares	170,000,000	37.78			170,000,000	20.81
3. Total number of shares	450,000,000	100	367,000,000		817,000,000	100

2. Changes in shares subject to trading moratorium

Unit: Share

Name of shareholder	Number of shares subject to trading moratorium held as at 1 January 2007	Number of shares released trading moratorium in 2007	Newly added shares subject to trading moratorium in 2007	Number of shares subject to trading moratorium held as at 31 December 2007	Reason for trading moratorium	Date of expiration of trading moratorium
DEC	203,800,000	22,500,000		548,300,000	Undertaking in Share Reform	17 April 2007
			367,000,000		Non-public issue	8 November 2010
Total	203,800,000	22,500,000	367,000,000	548,300,000		

I. CHANGES IN SHARE CAPITAL *(continued)*

3. Issue and Listing of Shares

(1) Issue of shares during last three years

Unit: Share Currency: RMB

Type of shares and its derivative securities	Completion date of issue	Issue price (RMB)	Issue number	Date of listing	Number of shares under listing approval
A Share	7 November, 2007	24.17	367,000,000	8 November, 2010	367,000,000

As approved by the document Zheng Jian Gong Si Zi [2007] No.172 of CSRC, the Company successfully issued 367,000,000 shares of Renminbi ordinary shares to its controlling shareholder DEC at a price of RMB24.17 per share by way of non-public issue on 7 November 2007.

(2) Total number of shares and changes in share capital structure

During the reporting period, the Company successfully issued 367,000,000 shares of Renminbi ordinary shares by way of non-public issue to its largest shareholder, DEC, whose shareholding percentage in the Company thus increased from 45.29% to 69.87%. Upon the issue, the Company's total share capital was 817,000,000 shares.

(3) Existing employee shares

The Company had no employee shares at the end of the reporting period.

Hoisting of turbine rotors

II. SHAREHOLDERS

1. Number of shareholders and shareholding

Total number of shareholders at the end of the reporting period 11,358

Unit: Share

The top ten shareholders of the Company and their respective shareholdings

Name of shareholder	Type of shareholder	Percentage (%)	Total number of shares held	Increase/ decrease in the year	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
China Dongfang Electric Corporation	State-owned shareholder	69.87	570,800,000	367,000,000	548,300,000	Nil
HKSCC Nominees Limited	Overseas investment shareholder	20.70	169,131,399	214,000		Unknown
Industrial and Commercial Bank — Nanfang Component Selective Share-type Securities Investment Fund (中國工商銀行－南方成份精選股票型證券投資基金)	Others	0.57	4,638,454	—		Unknown
Industrial and Commercial Bank — Penghua Youzhi Zhili share-type Securities Investment Fund (LOF) (中國工商銀行－鵬華優質治理股票型證券投資基金)	Others	0.40	3,304,202	—		Unknown
China Construction Bank — First State Cinda Leaders Growth Equity Fund	Others	0.37	3,051,918	—		Unknown
Tongde Securities Investment Fund	Others	0.37	3,037,079	—		Unknown
Bank of Communications — Edged Securities Investment Fund	Others	0.30	2,471,080	(258,985)		Unknown
China Construction Bank — ChinaAMC Advantage Growth Fund	Others	0.27	2,217,110	—		Unknown
Bank of Communications-Putian Return Securities Investment Fund (交通銀行－普天收益證券投資基金)	Others	0.26	2,083,501	—		Unknown
Industrial and Commercial Bank — Nanfang Jiji Peizhi Securities Investment Fund (中國工商銀行－南方積極配置證券投資基金)	Others	0.24	2,000,000	—		Unknown

II. SHAREHOLDERS *(continued)*

1. Number of shareholders and shareholding *(continued)*

The top ten holders of shares subject to trading moratorium and trading moratorium

Unit: Share

		Listing of shares subject to trading moratorium		
Name of holders of shares subject to trading moratorium	**Number of shares held subject to trading moratorium**	**Date on which such shares can be traded on the Shanghai Stock Exchange**	**Increase in number of shares available for trading on the Shanghai Stock Exchange**	**Trading moratorium**
China Dongfang Electric Corporation	548,300,000	17 April 2008	22,500,000	The Company undertakes that it will not trade on the Shanghai Stock Exchange or transfer its non-circulating shares within 12 months from the date of the implementation of the share segregation reform. Upon the expire of the aforesaid undertaking period, the non-circulating shares of the Company will be traded on the Shanghai Stock Exchange, provided that the number of non-circulating shares so traded shall not exceed 5% of the total issued shared capital of the Company for 12 months of trading and not exceed 10% for 24 months of trading respectively, and that the selling price of the shares shall not be lower than 150% of the closing price of A shares on the trading day immediately preceding the date of the announcement of the share segregation reform (namely RMB23.39 per A share). If there is any dividends distribution or allotment of shares and capitalization or allotment of shares and capitation of capital reserve, which results in changes in shares or shareholding structure of the Company, such price will be calculated on an ex-rights basis.
		17 April 2009	158,800,000	
		8 November 2010	367,000,000*	Except for not more than 130,815,000 A shares which would be used as consideration for share exchange offer acquisition of circulating shares not subject to trading moratorium held by holders of Dongfang Boiler by DEC, the remaining shares issued by the Company non-publicly to it can not be transferred within 3 years. Not more than 130,815,000 A shares which would be used as consideration for share exchange offer acquisition of circulating shares not subject to trading moratorium held by holders of Dongfang Boiler by DEC would be listed and traded on the Shanghai Stock Exchange upon expiration of the offer acquisition and transfer registration. The remaining shares under the non-public issue will be listed and traded on the Shanghai Stock Exchange upon expiration of the locking period of 3 years (Expected on 8 November 2010).

* *On 10 March 2008, 129,444,150 out of 367,000,000 A shares which intended to be used as consideration for share exchange offer acquisition of circulating shares not subject to trading moratorium held by holders of Dongfang Boiler were listed and traded on the Shanghai Stock Exchange upon expiration of the offer acquisition and transfer registration.*

II. SHAREHOLDERS *(continued)*

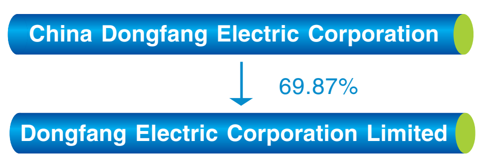
2. Controlling shareholder and the ultimate controller

Controlling shareholder and the ultimate controller:	China Dongfang Electric Corporation
Legal person representative:	Wang Ji
Registered capital:	RMB1,149,915,000
Date of incorporation:	1984
Principal operations or operational activities:	chief contracting and subcontracting for projects of hydro, fire and nuclear electricity station, technological development and technological consultation service for facilities package of electricity station, manufacturing of package of facilities and sales of facilities.

(1) Change of controlling shareholder and the ultimate controller

During the reporting period, there was no change in controlling shareholder and ultimate controller of the Company.

(2) Framework of the relation of property right and controlling between the Company and the controlling shareholder



3. Other legal person shareholders holding 10% or more shares

There was no other legal person shareholder holding 10% or more shares at the end of the reporting period.

II. SHAREHOLDERS *(continued)*

4. **Shares held by HKSCC Nominees Limited are shares held on behalf of its customers. The Company has not received any report of any holders of H Shares holding more than 10% of the total issued share capital of the Company. Particulars of shareholders holding over 5% of the issued H share capital of the Company are as follows:**

Name	Type of shareholder	Number of shares held *(share)*	Percentage of total issued share capital *(%)*	Percentage of total H share issued *(%)*
Fidelity International Limited	H Shares	15,372,000	1.88	9.04
INVESCO Hong Kong Limited (previously known as INVESCO Asia Limited) in its capacity as manager / adviser of various accounts	H Shares	14,182,000	1.74	8.34
Baring Asset Management Limited	H Shares	12,000,000	1.47	7.06
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	10,466,000	1.28	6.16
Government of Singapore Investment Corporation Pte Ltd	H Shares	8,591,573	1.05	5.05

5. **Save as disclosed above, the directors have not been informed of any person (not being a director or principal executive officers of the Company) who holds interest or short positions in the shares or underlying shares of the Company, which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO"), or to be recorded in the register required to be kept pursuant to Section 336 of the SFO.**

6. **Save for the disclosed issue of shares and listing in Raised Proceeds Projects, during the reporting period, the Company, its subsidiaries or jointly-controlled entities did not purchase, sell or redeem any of the shares of the Company.**

7. **There is no provision for pre-emptive rights under the relevant PRC laws and the Company's Articles of Association.**

8. **As at 31 December 2007, the Company had not issued any convertible securities, options, warrants or any other similar rights.**

I. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit: Share

Name	Position	Gender	Age	Beginning date of term	Closing date of term	Number of shares held at the start of the year	Number of shares held at the end of the year	Options held in the Company	Increase/ decrease in shares	Total remuneration received from Company during the reporting period *(RMB'0000, before tax)*	Whether receiving remuneration and allowance from shareholders or other associates
Si Zefu	Chairman	Male	49	27 February 2007	27 December 2008	0	0	0	0	—	Yes
Zhang Xiaolun	Non-Executive Director	Male	43	11 December 2007	27 December 2008	0	0	0	0	—	Yes
Wen Shugang	Executive Director and President	Male	45	11 December 2007	27 December 2008	0	0	0	0	—	Yes
Chen Xinyou	Executive Director and Senior Vice President	Male	46	27 February 2007	27 December 2008	0	0	0	0	46.2	No
Zhang Jilie	Non-Executive Director	Male	44	11 December 2007	27 December 2008	0	0	0	0	—	Yes
Li Hongdong	Non-Executive Director	Male	58	28 December 2005	27 December 2008	1,270	1,270	0	0	45.3	No
Chen Zhangwu	Independent Director	Male	61	28 December 2005	27 December 2008	0	0	0	0	5	No
Xie Songlin	Independent Director	Male	66	28 December 2005	27 December 2008	0	0	0	0	5	No
Zheng Peimin	Independent Director	Male	35	28 December 2005	27 December 2008	0	0	0	0	5	No
Wen Bingyou	Chairman of the Supervisory Committee	Male	53	28 December 2005	27 December 2008	0	0	0	0	—	Yes
Wen Limin	Supervisor	Male	41	11 December 2007	27 December 2008	0	0	0	0	—	Yes
Ma Zongqiong	Supervisor	Female	44	30 October 2007	27 December 2008	0	0	0	0	—	Yes
Han Zhiqiao	Vice President	Male	49	24 October 2007		1,270	1,270	0	0	49.3	No
Wu Huanqi	Vice President	Male	42	24 October 2007		0	0	0	0	46.2	No
Zhang Zhiying	Vice President	Male	47	24 October 2007		0	0	0	0	43.3	No
Gong Dan	Chief Accountant and Secretary to the Board of Directors	Male	45	24 October 2007		1,270	1,270	0	0	43.3	No
Total	/	/	/	/	/			/			/

I. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Profile of Directors, Supervisors and Senior Management:

Executive Directors:

Mr. Si Zefu, aged 49, is currently the chairman of the Company, deputy chairman, deputy secretary of the Party Group and general manager of DEC. Mr. Si graduated from Xi'an University of Technology with a bachelor's degree in Engineering Materials and Heat Treatment and completed his postgraduate study in Management Science and Engineering (MBA) at Tsinghua University. In 1983, he joined Dong Fang Electrical Machinery Workes ("DFEW") and has since held various positions including technician, deputy secretary and secretary of the Committee of Communist Youth League, deputy factory manager and factory manager, and secretary of the General Party Branch of the branch, secretary of the Party Branch and deputy head of the production department. From 1995 to February 1998, Mr. Si has served as deputy factory manager and factory manager, and secretary of the Party Committee of DFEW, deputy general manager, vice chairman, general manager and chairman of the Company. From March 1998 to June 1999, he was the deputy mayor of Deyang city, Sichuan province. From July 1999 to February 2003, he was the general manager, vice chairman, chairman, factory manager, and secretary of the Party Committee of DFEW. Mr. Si was transferred to DEC in February 2003 as vice chairman, vice secretary of the Party Committee and General Manager. He holds the title of senior engineer.

Mr. Wen Shugang, aged 45, is currently serving as an Executive Director and President of the Company. He is a member of Party Committee of DEC, and is concurrently Chairman of Dongfang Steam Turbine Co. Ltd. and Chairman of Dongfang Electrical Machinery Company Limited. Mr. Wen graduated from Xi'an Jiao Tong University specializing in Turbo machinery with a bachelor degree of engineering. He graduated from Xi'an Jiao Tong University with major in Turbo machinery and obtained a master degree of engineering. He joined DEC in 1986 and had been technical head of computing center, Assistant Engineer and Assistant to The General Manager of Sichuan Dongfang Power Equipment Union Company Limited. From July 1992 to April 1996, he had been Deputy General Manager, General Manager, Deputy General Economist of DFEC, and Assistant to the General Manager. From July 1996 to July 2000, he had been a member of Party Committee, Deputy General Manager of DEC. From July 2007 to September 2007, he was Deputy General Manager of DEC. He has been a member of Party Committee and Deputy General Manager of DEC since September, 2007. He holds the title of senior engineer.

Mr. Chen Xinyou, aged 46, is currently an Executive Director, senior deputy president of the Company, and also a deputy general manager of DEC. Mr. Chen graduated from Xi'an Jiaotong University with a bachelor's degree in Turbine Machinery and completed his postgraduate study in business administration at the University of Electronic Science and Technology of China. He joined Dongfang Steam Turbine Works in 1982. Since 1994, Mr. Chen has held various positions in Dongfang Steam Turbine Works including deputy head of the quality assurance department, deputy head and deputy chief designer of the design department, and deputy head and head of the product development department, and assistant to factory manager. Since October 2000, he has served as deputy factory manager and manager of Dongfang Steam Turbine Works, the secretary of the Dongqi Party Committee, chairman of Dongfang Turbines Co., Ltd., and chairman of Dongqi Investment Development Co., Ltd. From October 2001 to October 2003, Mr. Chen received on-the-job training in Bayinguoleng Mongolian Autonomous Prefecture, Xinjiang province, serving as a member of the standing committee and deputy head of the prefecture. He holds the title of senior engineer of the researcher grade.

I. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Profile of Directors, Supervisors and Senior Management: *(continued)*

Non-executive Directors:

Mr. Zhang Xiaolun, aged 43, is currently a Non-executive Director of the Company, a member of Party Committee, a director and Deputy General Manager of DEC, and concurrently a director and Chairman of Dongfang Boiler (Group) Co. Limited. He is also acting as a director and Chairman of Dongfang Electric (Guangzhou) Heavy Duty Machinery Co. Ltd. He graduated from Huazhong Engineering College with a bachelor degree of Engineering, and majored in Electrical Engineering. Mr.Zhang completed his post-graduate study in South Western University of Finance and Economics with a MBA Degree, where he majored in Business and Management. He joined DEC in 1986 and has since held various positions including Office Secretary, Deputy Section Head of Haikou Engineering Department, Deputy Section Head of office, Secretary to the League Party Committee. From July 1992 to July 2000, he had been Deputy Officer of office, Executive Deputy Factory Manager, Factory Manager, Factory Manager and Secretary of the Party Committee, and Assistant to the General Manager of ZhongZhou Steam Turbine Works. From July 2007 to now, he has been a member of Party Committee, a director and Vice General Manager of DEC. He has been also a director, chairman of Dongfang Boiler (Group) Company Limited ,and a director and chairman of Dongfang Electric(Guangzhou)Heavy Duty Machinery Co.Ltd since May 2006. He holds the title of senior engineer.

Mr. Zhang Jilie, aged 44, is currently a Non-executive Director of the Company and Chief Law Consultant of DEC, and the Head of legal affairs department. He is also the Secretary to the Party Committee, General Manager of DEC Investment Management Company Limited. Mr. Zhang graduated from Wuhan Polytechnic University majoring in Business Management with a bachelor degree of engineering. He graduated from Xi'an Jiao Tong University with a MBA degree specializing in Business and Management. From March 1984 to November 2000, he had been Secretary to Factory Office, Deputy Section Head of Planning Department, Section Head of Planning Department, Deputy Officer of administrative office, Officer and Secretary to Party Branch Committee of DFEW, Assistant to the General Manager, Officer of General Manager Office and Secretary to Party Branch Committee, Manufacturing Head of Dongfang Electrical Machinery Company Limited. From November 2000 to January 2007, had been executive Deputy Factory Manager of DFEW, Assistant to General Manager and Section Head of Corporate Management Department of DEC. He concurrently acted as a director, General Manager, Secretary to Party Committee of DEC Investment Management Company Limited. From February 2004 to January 2006, he received on-the-job training in Honghe Prefecture of Yunnan Province, serving as a member of the standing committee and deputy head of the Prefecture. He has been Chief Law Consultant and the head of Legal Affairs Department of DEC , and Secretary to the Party Committee and General Manager of DEC Investment Management Company Limited since January 2007. He holds the title of senior economist.

Mr. Li Hongdong, aged 58, holds the position of Non-executive Director of the Company and the Secretary to the Party Committee and factory manager of DFEW. He graduated from Xian Jiaotong University specialising in welding. Between 1985 and 1988, he was enrolled in the Central Party College where he obtained a distance learning degree in Political Party Management. Between September 1992 and December 1994, he was enrolled in the Sichuan Party College where he obtained a distance learning undergraduate degree in Economics and Management. He joined DFEW in 1969 and was mainly engaged in welding workmanship and corporate management. He had been the Deputy Head and Head of the Organization Department and Deputy Chairman and Chairman of Labour Union of DFEW and Chairman of Supervisory Committee of DFEM. Currently, Mr. Li holds the title of Senior Engineer.

I. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Profile of Directors, Supervisors and Senior Management: *(continued)*

Independent Directors:

Mr. Chen Zhangwu, aged 61, is currently an Independent Director of the Company and a professor in economics of Tsinghua University. He graduated from the Engineering Physics Faculty of Tsinghua University where he specialized in engineering and obtained a master degree in accelerator physics from Engineering Physics Faculty of Tsinghua University. He had been a member to the Party Committee of Engineering Physics Faculty of Tsinghua University, Secretary to the Group Committee, Vice Secretary to the Party Committee of Modern Applied Physics Faculty of Tsinghua University, the Deputy Dean of the Economic Management Faculty and Deputy Secretary to the Party Committee of Tsinghua University.

Mr. Xie Songlin, aged 66, is currently Independent Director of the Company, a member of the 10th National Committee of Chinese People's Political Consultative Conference, a senior consultant of State Power Grid Corporation, and also a senior consultant of the Association of Chief Accountants in China. He graduated from Electricity Generating major of Power Department in Xi'an Jiaotong University. He has been the Head of Electricity Bureau of Yiyang, Hunan Province, Deputy Head of Electricity Department of Hunan Province, Deputy Head of Power Administration Bureau of Central China, Deputy Head of Auditing Bureau of Energy Ministry, Chief Officer of Electricity Department and Administration Officer, Officer of Financial and Economic Department, General Economist, Chief Accountant, a member of Party Branch, and Deputy General Manager of State Power Corporation. He holds the title of Senior Accountant and Senior Economist.

Mr. Zheng Peimin, aged 35, is currently Independent Director of the Company, Chairman of Shanghai Realize Investment Consulting Company Limited, and Independent Director of Lianoning Times Garments I/E Inc., Black Peony (Group) Company Limited and Chengdu B-ray Media Co., Ltd.. He graduated from the School of Economics and Management of Tsinghua University, where he majored in Management Information System and obtained a MBA. He has been a project manager in Trust & Investment Company of the People's Insurance Corporation of China.

Supervisors:

Wen Bingyou, aged 53, is currently Chairman of Supervisory Committee of the Company, a member of Party Branch and Leader of Disciplinary Team of DEC. He graduated from Xi'an Jiaotong University majoring in boiler design and manufacturing. He joined Dongfang Boiler Factory in 1982 and had been Deputy Head of Water-cooled Wall Workshop of Dongfang Boiler Factory, Deputy General Head of Dongfang Boiler Industrial Company, Manufacturing Head and Secretary to Party Branch Committee of Dongfang Boiler (Group) Company Limited from 1982 to August 1997. From August 1997 to February 2006, he had been Vice Chairman of Board of Directors and General Manager of Dongfang Boiler (Group) Company Limited, General Economist of DEC. From December 2006 to January 2008, he had also been Chairman of the Supervisory Committee of Dongfang Steam Turbine Co. Ltd.. He holds the title of Senior Engineer.

I. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Profile of Directors, Supervisors and Senior Management: *(continued)*

Supervisors: *(continued)*

Mr. Wen Limin, aged 41, is currently a Supervisor of the Company. He is also the Chief Accountant and Head of Assets and Finance Department of DEC and a Director of DEC Finance Company. He graduated from North China Electric Power University where he specialized in accounting and obtained a bachelor degree of economics. From July 1990 to September 2005, he had acted as accountant of Finance Section of China Gezhouba (Group) Corporation No.9 Engineering Company Ltd., Accountant of the Finance Dept. subordinated to Three-Gorge Project Commanding Department of China Gezhouba (Group) Corporation, Section Head and Deputy Head of Finance and Asset Department of China Gezhouba Group Company Limited, Deputy Head and Head of Finance and Property Right Management Department China Gezhouba (Group) Corporation. He has been transferred to Finance Department of DEC as Chief Accountant up to present since September 2005. He also served as Head of Assets and Finance Department of DEC and a Director of DEC Finance Company. He holds a title of Senior Accountant and the Certified Public Account Certificate.

Ms. Ma Zongqiong, aged 44, is currently a Supervisor of the Company, the Deputy Head of Work Department of Party Committee of DEC, and concurrently the Part-time Supervisor of the Supervisory Committee for the State-owned Enterprise assigned to DEC by State-owned Assets Supervision and Administration Commission of the State Council on behalf of the State Council. Majored in Political Economics, Ms. Ma graduated from South Western University of Finance and Economics with a bachelor degree in Economics. From July 1985 to November 1996, Ms. Ma successively worked at the Team of Planning and Scheduling of Vane Sub-factory of Dongfang Steam Turbine Works, Economic Research Room of the Factory Office, and then acted as the positions including the Technician and Assistant Economist of Corporate Management Department, Assistant Economist in a school-run factory under DEC, Assistant Economist and Economist of Corporate Management Department, Deputy Section Head and Assistant to Director of the Assets Committee Office; during the period from November 1996 to January 2007, she acted as the Deputy Director of Assets Committee Office of DEC, and Deputy Office Director of the Strategic Development Committee, and concurrently acted as the Director of the Third Board of Directors of Chengdu Shudu Mansion Co., Ltd. (a listed company) and Director of Sichuan Dongfang Kaiqi Electric Company Limited (四川東方凱奇電氣有限責任公司). She has been acting as the Deputy Head of Work Department of Party Committee since January 2007, and concurrently acted as the Part-time Supervisor of the Supervisory Committee for the State-owned Enterprise assigned to DEC by State-owned Assets Supervision and Administration Commission of the State Council on behalf of the State Council in February 2007. She holds the title of economist.

Senior Management:

Mr. Han Zhiqiao, aged 49, is currently a Vice President of the Company. He is also a Director and the General Manager of DFEM under DEC. He graduated from the faculty of Hydroworks of Shaanxi Machinery College and specialized in hydroelectric power-generating equipment. He joined DFEW in 1983 and has long been engaging in product sales and technological service. He had been the Deputy Section Head, Section Head, Deputy Department Head, Assistant to the General Manager of the Sales Service Department from 1983 to December 1999, and had been Executive Director and Deputy General Manager, Deputy General Manager (General Affairs), Vice Chairman and General Manager of DFEM since December 1999. He holds the title of Senior Engineer.

I. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(continued)*

Profile of Directors, Supervisors and Senior Management: *(continued)*

Senior Management: *(continued)*

Mr. Wu Huanqi, aged 42, is currently a Vice President of the Company. He is also a Director and General Manager of Dongfang Boiler (Group) Company Limited, and concurrently a Director and General Manager of Dongfang Electric (Guangzhou) Heavy Machinery Co., Ltd. He graduated from Jiangsu Polytechnic University where he specialized in Machinery Design & Manufacture and obtained a bachelor degree of Engineering. He served as the designer, assistant to head and deputy head of Design Department, head of Product Project Management Department and head of Design Department of Dongfang Boiler Works from July 1988 to June 2001; deputy general manager of Dongfang Boiler (Group) Company Limited from June 2001 to June 2004; he has been a director and the general manager of Dongfang Boiler (Group) Company Limited from since June 2004, and concurrently as a director and the general manager of General Manager of Dongfang Electric (Guangzhou) Heavy Machinery Co., Ltd. since June 2007. He holds the title of senior engineer.

Mr. Zhang Zhiying, aged 47, is currently a Vice President of the Company, a Director and the General Manager of Dongfang Steam Turbine Co. Ltd. Mr. Zhang graduated from Xi'an Jiaotong University with a bachelor's degree of Engineering in Turbine Machinery. From August 1982 to December 1999, he had been Assistant Engineer, Engineer and Team Leader of the main unit team of Design Department, Deputy Head of Service Division, Deputy Head and Senior Engineer of Steam Turbine Office of Design Department, Deputy Head and Deputy Chief Economist of Operation Department of Dongfang Turbine Works; for the period from December 1999 to December 2006, he had been the Chief Economist of Dongfang Turbine Works; he has been a Director and General Manager of Dongfang Steam Turbine Co. Ltd. since December 2006. He holds the title of senior engineer.

Mr. Gong Dan, aged 45, currently acts as Chief Accountant and Secretary to the Board of Directors of the Company. He graduated from Anhui Industrial College specialising in casting. He attended the postgraduate program in the Faculty of Economic Management of Sichuan University where he specialised in modern economic management. He joined DFEW in 1983 and mainly involved in young workers management and organisation of work of departments. He had been Vice Secretary and Secretary to the League Party Committee, Officer of the Young Workers' Office, Head of Organization Department as well as Director, Deputy General Manager and Secretary to the Board of Directors of the Company. He holds the title of Senior Engineer and Senior Accountant.

II. PARTICULARS OF TENURE OF OFFICE IN SHAREHOLDERS

Name	Name of Shareholder Unit	Position held	Whether receiving remuneration or allowance
Si Zefu	China Dongfang Electric Corporation	Vice Chairman, Secretary to Party Committee and General Manager	Yes
Zhang Xiaolun	China Dongfang Electric Corporation	Party Committee member, Director and Deputy General Manager	Yes
Wen Shugang	China Dongfang Electric Corporation	Party Committee member and Deputy General Manager	Yes
Chen Xinyou	China Dongfang Electric Corporation	Deputy General Manager	No
Zhang Jilie	China Dongfang Electric Corporation	Chief Legal Adviser and Head of Legal Affair Department	Yes
Wen Bingyou	China Dongfang Electric Corporation	Party Committee member and leader of Disciplinary Team	Yes
Wen Limin	China Dongfang Electric Corporation	Chief Accountant and Head of Asset and Finance Department	Yes
Ma Zongqiong	China Dongfang Electric Corporation	Deputy Head of Work Department of Party Committee, and the Part-time Supervisor of the Supervisory Committee for the State-owned Enterprise assigned to Dongfang Electric Corporation ("DEC") by State-owned Assets Supervision and Administration Commission of the State Council on behalf of the State Council.	Yes

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The decision-making procedures for the remuneration of Directors, Supervisors and senior management: the salaries of Directors, Supervisors and senior management of the Company are paid based on their positions and the Company's existing remuneration system; their annual bonuses are determined in line with risk, responsibility and interest, according to the Company's annual operating results and strictly followed the assessment procedures, and then submitted to the Board for approval.

IV. MOVEMENT IN THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

The 6th meeting of the fifth Board of Directors was held on 4 January 2007, at which Mr. Zhu Yuanchao's resignation from his position as director and Chairman of the Company due to work requirements (being transferred to DEC) and Mr. Fu Haibo's resignation from his position as director of the Company due to working arrangements were approved. DEC, the controlling shareholder of the Company, nominated Mr. Si Zefu and Mr. Chen Xinyou as director candidates of the Company.

The 1st EGM of the Company was held on 27 February 2007, at which Mr. Si Zefu and Mr. Chen Xinyou were elected as directors of the Company.

The 7th meeting of the fifth Board of Directors was held by the Company on 27 February 2007, at which Mr. Si Zefu was elected as the Chairman of the Company.

IV. MOVEMENT IN THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY *(continued)*

The 17th meeting of the fifth Board of Directors was held on 24 October 2007, at which (1) Mr. Liu Shigang's resignation from his position as director of the Company due to his retirement and Mr. Han Zhiqiao and Mr. Gong Dan's resignation from their positions as director of the Company due to organisation restructure arising from the listing of entire assets of principal operation of DEC were approved. DEC, the controlling shareholder of the Company, nominated Mr. Zhang Xiaolun, Mr Wen Shugang and Mr Zhang Jilie as director candidates of the Company. (2) It also approved Mr. Han Zhiqiao's resignation from his position as General Manager of the Company, Mr. Zhang Tiande, Mr. Gong Dan, Mr. He Jianhua, Mr. Xia Xiaoqiang and Mr. Li Yunjun's resignation from their positions as Deputy General Manager due to organisation restructure arising from the listing of entire assets of principal operations. (3) Mr. Wen Shugang was appointed as President. Mr. Chen Xinyou was appointed as senior Vice President. Mr. Han Zhiqiao, Mr. Wu Huanqi and Mr. Zhang Zhiying were appointed as Vice President and Mr. Gong Dan was appointed as Chief Accountant.

The 9th meeting of the fifth Supervisory Committee was held on 24 October 2007 at which Ms Wang Wanling and Mr. Fang Yunfu's resignation from their positions as supervisor of the Company due to organisation restructure arising from the listing of entire assets of principal operations of DEC were approved the controlling shareholder of the Company, nominated Wen Limin as supervisor candidate of the Company.

The 1st Joint Meeting of Staff Delegation Leaders was held by staff representative on 30 October 2007, at which Ms. Ma Zongqiong was selected as supervisor by the staff.

The 3rd EGM of the Company was held on 11 December 2007, at which Mr. Zhang Xiaolun, Mr. Wen Shugang and Mr. Zhang Jilie were elected as directors of the Company, Mr. Wen Limin was elected as supervisor of the Company.

V. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

At the end of the year or at any time during the year, none of the directors or supervisors was materially interested directly or indirectly in any contract of significance of the Company except the service contract mentioned below.

VI. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SUBSCRIPTION FOR SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangements to enable the directors or supervisors of the Company to obtain benefits by means of the acquisition of shares in or debentures of the Company or any other legal body corporate.

VII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service agreement with the Company. Save as aforementioned, none of the directors or supervisors has a service contract with the Company which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

VIII. EMPLOYEES

As at the end of reporting period, the number of employees on register was 15,981. The number of retired workers was 11,770.

1. Professional structure

Category of professional structure	Headcount
Production employees	9,747
Sales employees	376
Technicians	3,065
Finance employees	266
Administrative employees	1,036

2. Education background

Category of education background	Headcount
Master degree and above	157
Bachlor degree	2,680
Tertiary degree	3,276
Technical middle school and below	8,377

3. Staff Remuneration and Training

(1) Overall remuneration management. "Duel-control" management mode is to take plan (budget) and performance into consideration.

(2) Internal distribution management. We adopt annual salary system for senior managers; basic salary, position salary and performance salary combined distribution mode for technicians; performance salary for managers; target salary for middle level management and core technicians in second-tier enterprises; position salary, performance salary and sales bonus combined distribution mode for sales personnel; position salary, performance salary and project bonus combined distribution mode for engineering technicians. Each distribution mode has its relevant management mechanism and assessment methods.

(3) Staff Training. The Company implemented training courses for all staff, proactively establishing a "learning" enterprise. The Company provided training courses for 82,626 numbers of attendees, representing 35% more than the original plan, continued to improve staff quality.

4. Retirement Benefits Plan and Retirement Benefits

Particulars of the retirement benefits plan and retirement benefits of the Company are set out in Note 38 to the Consolidated Financial Statements prepared under HKFRS.

I. CORPORATE GOVERNANCE

The Company has been strictly complied with the state's Company Law, Securities Law, the Standards for Corporate Governance of Listed Companies, the relevant rules and regulations required by CSRC, the Listing Rules of Shanghai Stock Exchange and Hong Kong Stock Exchange since its incorporation, the Company continued to actively improve its corporate governance to build a modern corporate system and regulate its operations in compliance with relevant regulatory documents regarding corporate governance of listed companies by CSRC.

To improve the corporate governance structure, the Company established four special committees: the Strategic Development Committee, the Audit and Review Committee, the Remuneration and Nomination Committee and Risk Management Committee.

The Company formulated and implemented corporate governance documents, including Articles of Association, Rules of Procedure in Shareholder's General Meeting, Rules of Procedure In Board Meeting , Rules of Procedure In Surpervisory Meeting, Work Rules for the Audit and Review Committee, Work Rules for Independent Directors, Management Method for shareholding in the Company by Directors, Supervisors and senior Management and Changes therein, and Management Method for Raised Proceeds.

Information on the Company's 2007 Special Campaigns for Corporate Governance:

According to the requirements from Notice of Carrying Out Special Campaigns on Strengthening Corporate Governance of Listed Company (Zheng Jian Gong Si Zi [2007] No. 28) issued by CSRC and the requirement for listed companies in Sichuan province to carry out special campaigns on corporate governance by Sichuan Securities Regulatory Commission, the Company established a special team to conduct special activities on corporate governance with the Chairman as the first principal, At the same time, the Company had prudently carried out self-inspection and rectification in accordance with the arrangement and with reference to the Company's actual situation. Sichuan Securities Regulatory Commission carried out an on-site inspection on the Company's special activity of corporation governance and gave its regulatory opinion according to which the Company implemented its rectification.

II. IN 2007, THE COMPANY FULLY COMPLIED WITH CODE ON CORPORATE GOVERNANCE PRACTICES AS SET OUT IN APPENDIX 14 TO THE LISTING RULES.

III. BOARD OF DIRECTORS

The Board consists of nine directors, of which three are independent directors. This is the fifth Board of Directors since the incorporation of the Company. Term of office of the directors will expire on 27 December 2008.

The main duty of the Board of the directors is to exercise its management right authorized by the shareholders' general meeting, in relation to the Company's strategic development, management structure, investment and financing, planning and financial control.

Directors are elected or re-elected at general meeting by accumulative voting method. Director candidate can be nominated by the Board or Supervisory Committee, single or combined shareholders representing over 1% of the issued shares. Directors are appointed for a term of three years and eligible for re-election upon the expiry of the term of office. Independent directors are persons having no connected relationship with the management members and substantial shareholders of the Company. No independent director is allowed to serve more than 2 terms.

III. BOARD OF DIRECTORS *(continued)*

The positions of Chairman and President are assumed by different individuals with distinct duties. Chairman presides over the work of the Board and superintends the implementation of resolutions of the Board while President is responsible for management, operation and organisation of business of the Company, implementation of strategies determined by the Board and daily decision-making with the assistance of the Board and other senior management members.

The Board members have diversified industry backgrounds, with professional knowledge in corporate management, technology development, finance and accounting, human resources and so forth, their biographical details are set out in the "Directors, Supervisors, Senior Management and Employees" section of the annual report.

In the fifth Board of Directors, two directors undertake specific executive managerial duties, representing 2/9 in the total number of directors.

The Board currently comprises three Independent Directors, representing 1/3 of the total members. All Independent Directors of the Company are aware of the power and obligations of directors and independent directors of listed companies. During the reporting period, Independent Directors attended Board meetings in circumspective, responsible, proactive and earnest manner. Utilizing their experiences and specialisation, they contributed effort in improving corporate management and making major decision and producing relevant and objective opinions on major events and connected transactions of the Company, enhancing the scientific development of the Board's decision and procedure thereof and safeguarding interests of the Company and shareholders effectively. All of the three Independent Directors assume positions in special committees under the Board.

Pursuant to the Listing Rules, each of the independent directors has confirmed his independence with the Stock Exchange. Each of the independent directors re-confirmed his independence on 31 December 2007. The Company considered that they were independent.

In 2007, fifteen Board Meetings had been convened with the attendance rate of 100% (including attendance by proxy) to discuss the overall strategy, investment plan, operation and financial performance of the Company. Board Meetings could produce quick and prudent decision through fruitful discussion. Independent Directors of the Company had no objection to the Company's decisions. Details of the attendance of Board Meetings are set out in relevant tables of the section.

In order to keep all directors informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest information in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through secretary to the Board of Directors. In addition, in order to discharge duties or responsibilities or as required by business, Directors and the special committees under the Board are entitled to seek advice from independent experts at the Company's expense.

The Company strictly observed the relevant restrictive stipulations regarding securities transactions by directors issued by domestic and Hong Kong regulatory institutions.

The Company has adopted the Model Code of the Stock Exchange. The Company has made special enquiries to all Directors for preparation of this annual report, and all Directors has confirmed their compliance with the Model Code during the reporting period.

III. BOARD OF DIRECTORS *(continued)*

Auditors and their term of service

During the reporting period, the Company did not change its auditors. Deloitte Touche Tohmatsu CPA Ltd. was appointed as the domestic auditors of the Company, which had provided 3 years of audit service to the Company. Deloitte Touche Tohmatsu was appointed as the international auditors of the Company, which had provided 2 years of audit service to the Company.

The auditing expense for the year 2007 was RMB3.6 million.

The Company did not appoint a qualified accountant to assist the Financial Officer in accordance with Rule 3.24 of the Listing Rules. The Company is actively seeking to appoint an accountant with qualifications as stipulated in Rule 3.24 of the Listing Rules.

Special Committees under Board of Directors

The Board of Directors has established four special committees, each of which has the defined terms of responsibilities to oversee the affairs of the Company's specific aspect.

Strategic Development Committee

The main duties of the Strategic Development Committee are to provide opinions for the Company's strategies and review the proposal for significant investment.

In 2007, the Strategic Development Committee under the fifth Board of Director of the Company comprised Mr. Si Zefu (Chairman), Directors Mr. Zhang Xiaolun, Mr. Wen Shugang, Mr. Chen Xinyou and Independent Director Mr. Xie Songlin.

In 2007, the Strategic Development Committee convened 2 meetings, studied the analytical report of company strategic development, and formulated the medium to long term strategies and goals for the Company.

Risk Management Committee

The main duties of the Risk Management Committee are:

1. to provide risk defence guidance for operation management; review and determine the system and process of risk management control; organise risk monitoring during operation management process; provide solution for existing risks;

2. to review risk control of the Company on a regular basis. The Management shall report to the Committee on risk control;

3. to assess the risks and management status as well as risk management competency and level, and provide suggestions to improve risk management and internal control.

In 2007, Risk Management Committee of the fifth Board comprised Director Si Zefu (Chairmen), Director Zhang Xiaolun, Mr. Wen Shugang, Mr. Chen Xinyou, Director Zhang Jilie and Independent Director Chen Zhangwu.

The Committee was established at the end of 2007 and no meeting was held in 2007.

III. BOARD OF DIRECTORS *(continued)*

Audit and Review Committee

The main duties of the Audit and Review Committee are:

1. to propose the appointment or change of the external auditors,

2. to supervise of the Company's internal audit system and its implementation,

3. to take charge of the communication between the internal audit and the external audit,

4. to audit the Company's financial information and its disclosure,

5. to examine the Company's internal control system.

The Audit and Review Committee of the fifth Board comprises Independent Director Mr. Zheng Peimin (Chairman), Independent Director Mr. Chen Zhangwu, Independent Director Mr. Xie Songlin, Director Mr. Zhang Jilie and Director Mr. Li Hongdong.

During 2007, the Audit and Review Committee convened two meetings, which were presided over by Mr. Zheng Peimin, Chairman of the Audit and Review Committee. Details of the attendance are set out in the relevant table in this section. All matters passed at the meetings are well documented and maintained in accordance with the relevant rules. All the significant matters discussed by the Audit and Review Committee are also reported to the Board.

Work of the Audit and Review Committee during the year mainly include: reviewed the Group's annual and interim results announcement and financial reports; checked the matters relating to the Group's adoption of accounting policies and accounting practices; verified the Company's connected transactions so as to comply with the fair, impartial and open principle and fully protect the minority interests; assisted the Board to make an independent evaluation on the effectiveness of the Group's financial reporting procedures and internal control systems; and provided suggestions about the Company's significant events or to and reminded the management of the relevant risks.

The Audit and Review Committee has reviewed the Company's audited 2007 Annual Results.

Remuneration and Nomination Committee

The main duties of Remuneration and Nomination Committee are:

1. to research selection criteria and procedure of directors and managers and make recommendations;

2. to search qualified candidates for directors and managers extensively;

3. to review the candidates of directors and managers and make recommendations;

4. to research the assessment criteria for directors and managers, carry out assessment and make recommendations;

5. to research and review the policy and proposal for the remuneration of directors and senior management.

III. BOARD OF DIRECTORS *(continued)*

Remuneration and Nomination Committee *(continued)*

The Remuneration and Nomination Committee of the fifth Board comprises Independent Director Mr. Zheng Peimin (Chairman), Independent Director Mr. Chen Zhangwu, Independent Director Mr. Xie Songlin,Director Mr. Si Zefu, Director Mr. Zhang Xiaolun and Director Mr. Wen Shugang.

The Remuneration and Nomination Committee convened 1 meeting in 2007.

Attendance of the Board meetings and meetings of each special committee (times of meetings/ times of attendance in person) are as follows:

Name	The fifth Board	Strategic Development Committee	Risk Management Committee	Audit and Review Committee	Remuneration and Nomination Committee
Directors					
Si Zefu	14/14				
Zhang Xiaolun	1/1				
Wen Shugang	1/1				
Chen Xinyou	14/8				
Zhang Jilie	1/1				
Li Hongdong	15/15	2/2		2/2	
Liu Shigang	14/13				1/1
Zhu Yuanchao	1/1	1/1			
Han Zhiqiao	14/14	2/2			
Gong Dan	14/14	2/2			
Fu Haibo	1/0	1/0			
Independent Directors					
Chen Zhangwu	15/12			2/2	1/1
Xie Songlin	15/11	2/2		2/2	1/1
Zheng Peimin	15/11			2/2	1/1

All directors who failed to attend the meetings in person have appointed other directors to attend and vote at the meetings.

Independent Directors, in person or through proxies, recorded good attendance for Board meetings in 2007, and did not raise objection to proposals of the Board meetings and the meetings other than Board Meetings for the year.

IV. SUPERVISORY COMMITTEE

The Supervisory Committee is the Company's standing supervisory institution. The Supervisory Committee is responsible for supervision over the Board of Directors and its members and senior management members, so as to prevent them from abusing their authorities and violating the interests of shareholders, the Company and its staff. Number of supervisors and the composition of the Supervisory Committee are in compliance with the relevant laws and regulations. In 2007, the Supervisory Committee held five meetings altogether, each of which was attended by all supervisors (in person or their proxies). The Supervisors, on behalf of shareholders monitored the Company's finance and to ensure the directors and senior management have complied with relevant regulations. The members of Supervisory Committee attended all Board meetings and fulfilled their duties in an earnest manner.

Attendance of the meetings of Supervisory Committee (times of attendance in person/ times of meetings)

Name	The fifth Supervisory Committee
Mr. Wen Bingyou	3/5
Ms. Wang Wanling	5/5
Mr. Fang Yunfu	5/5

Ms. Ma Zongqiong and Mr. Wen Limin were elected as the Company's Supervisors on 30 October 2007 and 11 December 2007 respectively. No Supervisory Committee meeting has been held since their appointments.

V. SHAREHOLDERS' GENERAL MEETING

As the highest authority of the Company, the general meeting performs its functions and power in determining the material events of the Company under the laws. The annual shareholders' general meeting or extraordinary shareholders' meeting provides a direct communication channel for the Board and the company shareholders. Hence, the Company regards highly of the shareholders' meetings, Meeting notice is delivered 45 days in advance. All directors and members of senior management are requested to attend. The Company encourages all shareholders to attend the shareholders' meeting and welcome shareholders to express their opinion in the meeting.

VI. INFORMATION DISCLOSURE AND INVESTOR RELATION MANAGEMENT

Secretary to the Board of Directors and representative of securities affairs are responsible for information disclosure and entertaining the shareholders and investors visits. The Company has always been maintaining a good relationship with shareholders. The major communication channels available in the Company include: shareholders' meetings, corporate website, email, fax and telephone, which enable shareholders to express views and exercise rights. In order to further strengthen investor relation management works, the Company formulated "Information Disclosure System" and "Investor Relation Management System", so as to ensure the information disclosed on open, fair and impartial basis and to enhance transparency.

In 2007, the Company held conferences in Hong Kong, Singapore, Europe, Shanghai and the headquarters of the Company to promote the Company's business. The Company has also received hundreds of visits from domestic and overseas investors.

VII. INTERNAL CONTROL AND INTERNAL AUDIT, ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

The Board is responsible for establishment and maintenance of the Company's internal control system for reviewing relevant financial, operating and supervisory control procedures to protect shareholders' interests and the Company's assets. The Board authorises the management to promote the internal control system and review its effectiveness through the Audit and Review Committee.

The Company has set up relevant internal management systems and procedures for corporate governance, operation, construction, finance and administration and personnel. Meanwhile, internal control system was established in respect of corporate strategy, product R&D, finance, investment and financing, market operation, internal audit, production safety, environment protection, human resources and information disclosure to ensure the effective implementation of the management systems. Furthermore, the Board set up specially Risk Management Committee to supervise the implementation of internal control concerning finance and operation to safeguard shareholders' interests and the Company's assets. In addition, the Board authorised the management to promote comprehensive risk management system, establishment of which had been started within the year.

VIII. INDEPENDENCE OF OPERATION, PERSONNEL, ASSETS, ORGANISATION AND FINANCE OF THE COMPANY FROM ITS CONTROLLING SHAREHOLDER

The Company has independent business and operation ability within its registered business scope. Save for Mr. Wen Shugang, President of the Company and Senior Vice President Mr. Chen Xinyou's position as Deputy General Manager of the controlling shareholder DEC, the Company is independent from its controlling shareholder in operation, personnel, assets, organisation and finance.

IX. APPRAISAL AND INCENTIVES FOR SENIOR MANAGEMENT MEMBERS

Appraisal and incentive for senior management members are linked with operating results, production safety and other indicators. A combined remuneration system of basic annual salary and performance annual salary was adopted. As for constraints, the Company established internal audit system to conduct audit supervision to senior management members on regular or non-regular basis.

Brief Introduction of Shareholders' General Meeting

Date	Meetings held
27 Febuary 2007	2007 1st Extraordinary General Meeting
3 July 2007	2006 Annual General Meeting 2007 2nd Extraordinary General Meeting 2007 1st Class Meeting of Domestic Shareholders 2007 1st Class Meeting of H Shareholders
11 December 2007	2007 3rd Extraordinary General Meeting

I. MANAGEMENT DISCUSSION AND ANALYSIS

1. Production and operation of the Company for 2007

Due to the thriving demand of power-generating equipment driven by rapid growing national economy in 2007, the Company endeavored to urge forward listing of entire assets of principal operations as well as market expansion in full swing. The Company improved its R & D capabilities, expanded production capacity by investment in fixed assets, optimizing production layout and increasing outsourcing. Production and operation targets were successfully achieved, thus laid a solid foundation for further development in 2008 and the future.

(1) Successful completion of listing of entire assets of principal operations

In 2007, the Company seized the opportunity of Dongfang Boiler's share reform, completed listing of entire assets of principal operations through private placement and share exchange offer on the platform of Dongfang Electrical. The listing provided a more solid foundation for resource integration, optimizing production structure and organization management system, strengthening competitiveness of products, raising capital market reputation and expanding capital scale and market value thus provide a base with significant growth opportunities.

(2) Production and operation targets achieved

The Company withstood challenges of intensive production and shorter delivery time, overcame production station insufficiency and energy shortage as well as delivery bottleneck, met delivery deadlines by rational organization and improving efficiency.

In 2007, the Company accomplished output of power-generating equipment of 31,457.5 MW and set a new record. Among which, we produced 38 hydro-electric turbine generator sets (5190.5MW), 62 steam turbine generators (25955MW), 208 wind power generating sets (312MW), 56 power station boilers (23240MW) and 66 power station steam turbines(25505MW).

(3) Promising market expansion

The Company fulfilled strategic goals of the Year of International Market Expansion in 2007. While consolidating domestic market, the Company explored international market to release excessive production capacity, so as to lay a sound foundation for sustainable development. The company signed new contracts of RMB58 billion in 2007.

In domestic market, orders of large capacity and high parameter thermal generating units increased remarkably. The Company received order for the entire set of Ningxia Lingwu 1000MW air cooled generating units with the world's largest single unit generating capacity. The automatic 300MW "CFB" boiler project dominated domestic market. The Company received orders for Three-Gorge underground factory 2 x 700MW hydro-electric turbine generator sets, and large scale hydro power generators such as Nuozhadu 650MW generator and Guandi 600MW hydro turbines. The Company signed TG package and supply agreements for main pumps and equipments for Fujian Ningde nuclear power plant1000MW conventional island. The Company's nuclear power related manufacturing had made a stride from single pieces to mass production. The national wind power development provides an excellent opportunity for the Company to promote its wind power projects and has since receieved multiplied orders.

Globally, the Company exported batches of 300MW generator sets. For the first time, the Company exported 600MW boilers, steam turbines, electrical machine sets and environmental protection equipments for desulphurization and denitration. The Company received order for 9 sets 300MW coal-fired generator of the 10,000MW emergency power plant project plan. Supported by those international project contracts, the Company improved its product mix and mass production capacity in various markets and enhanced international presence of its brand.

I. MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

1. Production and operation of the Company for 2007 *(continued)*

(4) Creative capabilities continue to grow

The Company strengthened technology innovations in 2007. Considerable progress was made. The Company gradually established its own core technology through digesting imported technology, improving hydro power technology and independent research in steam turbine and boiler.

The research and development of the new products such as Wuhu 660MW super-critical condensing steam turbine and Shangan and Pucheng 600MW super-critical air-cooled condensing steam turbine and Daba 600MW sub-critical air-cooled condensing steam turbine were completed. The development for 1000MW double-framed steam power generators was completed. The performance design for self-development 600MW super-critical boilers in 5 projects including Hubei E Zhou and Datong Phase III project were completed.

Attaining the internationally advanced level in performance, the consecutive successful commercial operation of 2 of the 4 units of 700MW hydro power generator sets which were designed and manufactured for Three-Gorges Right Bank Power Station with self-developed intellectual property rights is a landmark of the Company's independent development capacity for 700MW and larger hydro power generator sets. The research and development of Three-Gorges underground 700MW evaporative cooling turbine generator set has been carried out. The design of Jinping First Stage 600MW high-head and large-capacity Francis type hydro turbine generator sets was completed independently.

Through the introduction of international technology, the production and manufacturing of F-Class heavy duty gas turbine were smooth, leading to a gradual increase of nationalization. Meanwhile, laboratories were set up and in-depth research were conducted on key parts. The quality of national research and manufacturing of gas turbine were enhanced significantly.

The Company maintained its leading position in nuclear power market. After the completion of Guangdong Ling Ao Phase II Project, it undertook the supply of 6 units of generator sets for Liao Ning Hung Yan He and Fujian Ningde million KW nuclear power conventional island equipment. In the meantime, it undertook the supply of core nuclear island equipment for Ningde and some of core nuclear island equipment for Hung Yan He.

In respect of wind power, in addition to the completion of the development of 1.5MW low temperature generating units, the Company carried out the development of 1MW/2.5MW wind power generating units and made a substantive progress in wind power technology. Direct-drive wind-power units project, the cooperative research and development project with foreign companies, has been duly initiated.

In respect of environmental protection of power station, the Company has the capacity for 300MW, 600MW boiler flue gas denitration and 300MW boiler desulphurization equipment designing and manufacturing and catalysts production. Flue gas denitration equipment for boiler of 600MW super-critical unit, the first unit with largest single unit generating capacity in China, has commenced its operation successfully in Huadian Changsha Power Plant, with environmental protection performance indicators reaching internationally advanced level.

I. MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

2. Opportunities and challenges in operation

Opportunity brought by economic development and implementation of "Go Out" strategy. China attaches importance to the development of equipment manufacturing industry, urges for industry scale expansion, equipment manufacturing industry development and building large scale enterprises with international competitiveness. The government adopted the policy to develop high parameter, large capacity thermal power and hydroelectric generating sets, nuclear power and new energy such as solar power and wind power. Such policy brought unprecedented opportunity for the Company's integrated strategy composed by "thermal, hydro, nuclear, nature gas and wind power".

Meanwhile, more and more power plants were built or upgraded in developing countries and certain developed countries. The Company introduced "Go Out" strategy to continue to expand room for survival and development, which is an effective way to assist the Company adapt to globalisation, improve management and enhance core competitive edge. Through years of substantial development, we boast our ability to compete with first class power generator manufacturers of the world.

Challenges brought by intensive production. Along with domestic market structure adjustments, medium and small ordinary thermal power generator market shrinks dramatically; large scale hydro power and kilo-MW thermal power generator are the dominators of the market in 2008. Higher output, upgraded products, shortage of critical parts and raw materials, more delivery pressure are the essential problems in our production. The Company is to encounter challenges in technology preparation, production organization, energy supply, safety management, quality control, cost management and so on.

More challenges in market exploration. Appreciation of RMB, continuous price hike of critical parts and raw materials and more pressure from contract performance are hindering international market exploration. Stricter macro-control, prudent fiscal and monetary policies and stringent permission for new projects are to demonstrate themselves in domestic market exploration.

3. Plan for the Coming Year

2008 is a year of challenges and opportunities. Listing of entire assets of principal operations rendered a fresh and vast platform for the Company. The Company is to present outstanding results to shareholders and the society with further market expansion, strengthening independent innovation, corporate governance and operation, optimizing resource layout, improving management efficiency and enhancing core competitiveness to establish high ground in product market and capital market respectively.

Production: 2008 will witness high output of the Company all around the year. The Company will spare no effort to ensure production progress, to strengthen convergence of various stages and to strictly implement safety production regulations. Guided by scientific planning, rational arrangement, we will strengthen energy consumption control and environmental protection to save energy and reduce emission. The Company will strengthen quality control over production sites, raw materials procurement and after-sales service, and exercise stricter quality control over key projects and key products to ensure best quality.

I. MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

3. Plan for the Coming Year *(continued)*

Market exploration: to obtain more orders. In thermal power market, we will focus on exploring 600MW and higher power (ultra-) super-critical large capacity, high parameter sets. We will continue to expand market share for 300MW "CFB" sets, and explore market for 600MW and higher power air cooled generating units and w-shape flame boiler. We will follow up progress of subsequent project in hydro power market, and make sufficient preparation for tenders in Xiluodu and other large scale hydro power projects. In nuclear power market, we will focus on obtaining and performing contracts for conventional islands. We will compete for nuclear island and conventional island of other projects to ensure our leading position in this market. In wind power market, we will focus on joint-tender for wind power projects franchise to expand market share. We will further develop new energy and market for environment friendly products in order to foster high quality assets and new growth point.

Independent innovation: on the basis of key projects, we will capture and grasp core technology in power generating equipment businesses. We will speed up heavy duty gas turbine technology digesting and gradually foster independent research ability. We will upgrade large scale hydro power technology, energy saving and clean energy technology to a new level. We will digest the transferred technology of 1000MW nuclear generator sets for domestic production, and develop new energy technology especially for wind power.

Management: we will further improve management and cost control efficiency. To achieve the Company's goal for 2008 and strive for development of itself and the society, the Company will optimize its capital structure, enhance risk management and internal control to curb risk in aspects of operation finance investment and legal.

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS

1. Principal operations by business and product

Unit: RMB0'000

By business or products	Operating Revenue	Operating Cost	Operating profit margin (%)	Increase/ (decrease) of operating revenue as compared to last year (%)	Increase/ (decrease) of operating cost as compared to last year (%)	Increase/ (decrease) of operating profit margin as compared to last year (%)
By business						
Machinery manufacturing	2,409,912.77	1,949,204.29	19.12	7.42	7.86	(1.65)
By product						
Main thermal power equipment	1,961,668.02	1,533,293.14	21.84	5.75	3.91	6.79
Main hydro power equipment	264,836.12	240,717.47	9.11	22.35	32.94	-44.28
Wind power generation sets	55,166.93	50,661.35	8.17	100	100	100
Environmental protection products	53,806.83	57,418.60	(6.71)	338.69	255.23	78.88
Others	74,434.87	67,113.73	9.84	(53.36)	(50.04)	-37.80

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS *(continued)*

2. Principal operations by region

Unit: RMB0'000

Region	Operating revenue	Increase/ (decrease) of operating revenue as compared to last year (%)
The PRC	2,409,912.77	7.42

3. Customers and Suppliers

Operating revenue from the top five customers amounted to RMB3,031,279,800, representing 12.18% of the total operating revenue.

Total purchasing amount from the top five suppliers amounted to RMB2,618,926,000, representing 11.15% of the annual purchasing amount.

4. Analysis on the financial status

(1) Prepared under PRC Accounting Standards

As at 31 December 2007, the Company's assets, liabilities had relatively significant changes as compared with the beginning of the year. Explanations to the items with over 30% of increase or decrease in the balance sheet and income statement are set out below:

Items in the balance sheet

Unit: RMB0'000

Item	Closing balance	Amount for the same period last year	Increase or decrease (%)	Percentage in the total assets (%)
Bank balance and cash	502,027.01	709,785.76	(29.27)	13.80
Notes receivable	75,526.44	45,476.87	66.08	2.08
Accounts receivables	777,608.11	531,171.95	46.39	21.38
Inventories	1,352,587.47	1,007,754.91	34.22	37.18
Long-term equity investment	35,149.97	20,930.31	67.94	0.97
Short-term loan	39,252.80	21,168.00	85.43	1.08
Notes payable	159,148.69	120,584.14	31.98	4.37
Interest payable	2,145.73	—	100.00	0.06
Other payables	134,753.62	79,405.34	69.70	3.70
Non-current liabilities due within one year	48,250.00	700.00	6,792.86	1.33
Long-term payables	184,868.53	68.53	269,662.92	5.08
Accrued liabilities	22,837.79	17,534.04	30.25	0.63
Share capital	81,700.00	45,000.00	81.56	2.25
Capital reserve	—	273,129.41	(100.00)	—

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS *(continued)*

4. Analysis on the financial status *(continued)*

(1) Prepared under PRC Accounting Standards *(continued)*

a. Closing balance of bank balance and cash decreased by 29.27% as compared with opening balance, mainly attributable to the listing of entire assets of principle operations in 2007 during which cash flow was used to acquire equity in Dongfang Turbine and Dongfang Boiler. In addition, it also due to considerable increase in notes received by the Company when collecting trade receivables due to more commercial credit used between enterprises instead of cash transactions under current macro control policies;

b. Closing balance of notes receivable increased by 66.08% as compared with opening balance, mainly attributable to considerable increase in notes received for settlement during 2007 as explained above;

c. Closing balance of accounts receivable increased by 46.39% as compared with opening balance, mainly attributable to increase in revenue of the Company for the year;

d. Closing balance of inventories increased by 34.22% as compared with opening balance, mainly due to the increased reserve of raw materials and semi-finished products to satisfy the need of long-term production as driven by inflow of orders from new energy industry in which the Company put more efforts in exploration;

e. Closing balance of long-term equity investment increased by 67.94% as compared with opening balance, mainly attributable to new investment in DFEC Heavy-duty Machines Company Limited and AREVA-DONG FANG Reactor Coolant Pumps Company;

f. Closing balance of short-term borrowings increased by 85.43% as compared with opening balance, mainly attributable to amounts from discounting notes to financial institutions which was recognized as bank borrowings obtained by pledging notes receivable;

g. Closing balance of notes payable increased by 31.98% as compared with opening balance, mainly attributable to more payments settled by notes;

h. Closing balance of interests payable increased by 100% as compared with opening balance, mainly attributable to provisions made by the Company for interest of the residual consideration of acquisition of 100% equity in Dongfang Steam Turbine and 68.05% equity in Dongfang Boiler in 2007;

i. Closing balance of other payables increased by 69.70% as compared with opening balance, primarily attributable to the consolidation of profit of Dongfang Turbine and Dongfang Boiler in the period from 1 January 2007 to 31 August 2007 attributable to DEC into the other payables account of the Company under the Acquisition Agreement and Supplementary Agreement of Acquisition Agreement as a result of the aforesaid equity acquisition;

j. Closing balance of non-current liabilities due within one year increased 6792.86% as compared with opening balance, mainly attributable to the residual consideration payable within one year for the aforesaid equity acquisition which was classified into this item;

k. Closing balance of long-term payables was increased by 269,662.92% as compared with opening balance, which is mainly composed by residual consideration for the aforesaid equity acquisition;

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS *(continued)*

4. Analysis on the financial status *(continued)*

(1) Prepared under PRC Accounting Standards *(continued)*

l. Closing balance of accrued liabilities increased by 30.25% as compared with opening balance, mainly attributable to increased provisions for quality warranty;

m. Closing balance of share capital increased by 81.56% as compared with opening balance, mainly attributable to the non-public issue of 367 million shares to DEC and payment of cash for the aforesaid equity acquisition. As a result, the registered capital of the Company was changed to RMB817 million;

n. Closing balance of capital reserve decreased by 100% as compared with opening balance, mainly attributable to capital reserve offset during the business integration under common control in accordance with new Accounting Standard.

Items in income statement

Unit: RMB0'000

Item	Closing balance	Amount for the same period last year	Increase/ decrease(%)
Business tax and surcharges	5,824.67	3,948.38	47.52
Sales expense	38,524.67	28,407.36	35.62
Administrative expense	165,912.94	124,358.98	33.41
Finance costs	(4,534.14)	(13,556.53)	66.55
Assets impairment loss	29,310.71	55,274.64	(46.97)
Investment income	(2,400.94)	564.28	(525.49)

a. Business tax and surcharges during the year increased by 47.52% over last year, mainly attributable to the increase in the Company's revenue during the year.

b. Sales expenses during the year increased by 35.62% over last year, mainly attributable to increased provisions for product quality warranty during the year.

c. Administrative expense during the year increased by 33.41% over last year, mainly attributable to expense charged by intermediary institutions such as audit and valuation fees during the process of the listing of entire assets of principal operations, as well as increased research and development expense for more new products.

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS *(continued)*

4. Analysis on the financial status *(continued)*

(1) Prepared under PRC Accounting Standards *(continued)*

d. Finance cost during the year increased by 66.55% over last year, which is mainly attributable to: 1) decreased interest income from time deposits as a result of decreased bank balance and cash, 2) the provision for the interest expense in 2007 of residual consideration for acquisition of 100% Hequity in Dongfang Turbine and 68.05% Hequity in Dongfang Boiler.

e. Asset impairment loss during the year decreased by 46.97% over last year, mainly attributable to RMB150 million of provision for diminution in value of bonds which have repayment risk during the year.

f. Investment income during the year decreased by 525.49% over last year, mainly attributable to significant losses of DFEC Heavy-duty Machines Company Limited, an associate company of the Company, and AREVA - DONGFANG, a joint venture of the Company.

Items in cash flow statement

Unit: RMB0'000

Item	Amount for the period	Amount for the previous period	Increase/ decrease (%)
Net cash flow from operating activities	(46,188.94)	(440,856.16)	89.52
Net cash flow from investing activities	(186,237.60)	(53,421.46)	(248.62)
Net cash flow from financing activities	22,551.95	(29,412.02)	176.68

a. Net cash flow from operating activities increased by 89.52% over last year, mainly due to a noticeable increase in prepayment as a result of increased orders during the year.

b. Net cash flow from investing activities decreased by 248.62% from last year, mainly attributable to cash expense for relevant investment as a result of the acquisition of equity in Dongfang Boiler and Dongfang Turbine.

c. Net cash flow from financing activities increased by 176.68% over last year, mainly attributable to increased commercial bills bearing interests from buyers received by the Company, as well as decreased cash dividends paid by the Company during the year.

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS *(continued)*

4. Analysis on the financial status *(continued)*

(2) Prepared under HKFRS

1. Financial status

As at 31 December 2007, the current assets of the Company amounted to RMB32,506,752,000 (2006: RMB28,319,781,000). Items with relatively significant changes and the reasons are as follows:

i. Cash and bank deposits amounted to RMB5,020,270,000 (2006: RMB7,097,857,000), decreased by 29.27% over 2006, which is primarily attributable to capital outflow for acquiring share equity in Dongfang Turbine and Dongfang Boiler for listing of entire assets of principal operations in 2007;

ii. Trade and other receivables amounted to RMB12,601,410 (2006:RMB9,983,821,000), grew by 26.22% over 2006, which is primarily attributable to increased sales revenue;

iii. Amount due from customer for contract work amounted to RMB1,442,840,000 (2006: RMB835,339,000), representing an increase of 72.73% from last year, which is mainly due to the significant increase in the investment for the Company's hydro power generating products.

iv. Inventories amounted to RMB12,040,057,000 (2006: RMB9,194,213,000), grew by 30.95% over last year, which is mainly due to inflow of orders from new energy industry explored by the Company and increased inventories of raw materials, as well as semi-finished products for long-term production;

As at 31 December 2007, the total liabilities of the Company amounted to RMB32,718,717,000 (2006: RMB26,010,445,000). Items with relatively significant changes and the reasons are as follows:

i. Trade and other payables amounted to RMB17,512,365,000 (2006: RMB16,898,248,000), grew by 3.63% over 2006. Among which other payables recorded a substantial increase, which is primarily attributable to the consolidation of profit of Dongfang Turbine and Dongfang Boiler in the period from 1 January 2007 to 31 August 2007 to the other payables account of the Company under the Acquisition Agreement and Supplementary Agreement of Acquisition Agreement;

ii. Provision amounted to RMB228,378,000 (2006: RMB175,339,000), increased by 30.25% over 2006, which is mainly due to increased provisions for quality warranty;

iii. Trade payables to parent company amounted to RMB1,848,685,000, increased by 100% over 2006, which is mainly composed by residual payment for the aforesaid equity acquisition.

II. PRINCIPAL OPERATIONS AND THE OPERATING STATUS (continued)

4. Analysis on the financial status (continued)

(2) Prepared under HKFRS (continued)

2. Cash Flows

As at 31 December 2007, the cash and cash equivalents of the Company recorded a net decrease of RMB1,389,537,000 as compared with that of the last year, which is principally attributable to increased cash outflow resulted from for acquisition of Dongfang Turbine and Dongfang Boiler for listing of entire assets of principal operations.

3. Borrowings

As at 31 December 2007, the Company held short-term bank loan of RMB392,528,000 due within one year, which was obtained by discounted receivable notes to financial institutions. Such loan should be deemed as loans obtained by pledging receivable notes. In addition, the Company held long-term bank loan of RMB20,500,000 due within one year, and RMB5,820,000 due over two years but within five years. All loans, cash and cash equivalents are denominated in RMB. Such loans bore interest rates from 2.55%-6.39%.

4. Gearing Ratio

The total assets and total liability of the year amounted to RMB36,117,881,000 and RMB32,718,717,000 respectively. Accordingly, the gearing ratio was 90.58%. The relatively high gearing ratio is mainly attributable to prepayment from customers (45.17% of total liability). Moreover, the Company completed listing of entire assets in 2007. The residual payment of RMB2,310,000,000 for the acquisition of 100% equity interest of Dongfang Turbine and 68.05% equity interest of Dongfang Boiler, accounting for 7.06% of the total liability. Gearing ratios of individual statements are between 79% and 80%. Net asset being offset by acquisition payment for Dongfang Turbine and Dongfang Boiler, the consolidated gearing ratio rose on decreased total assets.

5. During the Reporting Period, the Company did not pledge any of its assets.

6. The risk in fluctuation of exchange rate and any related hedging

The amount of deposit in foreign currency was minimal; therefore the Company was less susceptible to exchange rate fluctuation. In addition, foreign exchange under prepayment account was mainly used to cover normal production and operation expenses including: letter of credit, collection, cash against delivery and imported raw material and equipment. Payments were made in various currencies, including: U.S. dollar, Japanese Yen, Euro, Swiss Franc and so on, thus minimize risks of RMB appreciation or depreciation against certain currency and the impact on profit of the Company. Given the overall environment of RMB appreciation, the management considers risk of exchange rate fluctuation is minimum. Therefore, the Company actively reduced U.S. dollar deposit, and kept a close eye on exchange rate fluctuation and its risks. The Company is not taking hedge including currency forward contracts or other instruments to avoid foreign exchange risks for the time being.

7. During the Reporting Period, the Company had no contingent liabilities.

III. INVESTMENT OF THE COMPANY

1. Use of Raised Proceeds

Pursuant to Acquisition Agreement and Supplementary Agreement of Acquisition Agreement entered between the Company and DEC, and approved by Zhengjian Gongsi Zi [2007] No.172 Notice of approval for private placement of Dongfang Electrical Machinery Company Limited to DEC for asset acquisition (《關於核准東方電機股份有限公司向中國東方電氣集團定向發行新股購買資產的通知》) issued by China Securities Regulatory Commission, the Company placed 367,000,000 ordinary shares with a nominal value of RMB1.00 each to DEC non-publicly at the price of RMB24.17, amounting to RMB8,870,000,000 in aggregation. DEC paid RMB8,870,000,000 for such placement together with 100% equity of Dongfang Turbine and 68.05% equity of Dongfang Boiler as consideration. Such equity interests and shares amounted to RMB12,180,000,000. After deduction of payment for the placement of RMB8,870,000,000 payable by DEC, the Company paid the residual payment of RMB3,310,000,000 to DEC in cash. Among which, RMB1,000,000,000 was paid upon the placement, and the residual consideration of RMB2,310,000,000 is to be made in five equal annual instalments after the first completion.

On 2 November 2007, the industrial and commercial change registration of 100% equity interests of Dongfang Turbine and share transfer registration of 68.05% shares of Dongfang Turbine were completed. On 5 November 2007, Deloitte Touche Tohmatsu CPA Ltd. verified and issued Capital Verification Report (De Shi (Shanghai) Bao Yan Zi (07) No. SZ003).

2. Projects unrelated to Raised Proceeds

1) Technological renovation for expansion of 1 million KW ultra-supercritical and nuclear power generating units

With RMB70 million invested in this project, the Company had completed construction of the factory building. The equipment has been put into use upon arrival, being installed and tested.

2) Expansion of hydraulic model laboratory

With RMB27.50 million invested in this project, the Company has completed the construction of the factory building and placed orders for the equipments.

3) Construction of turbine key technology experimental platform

With RMB35.46 million invested in this project, the construction of factory is about to complete while the equipments will arrive successively.

4) New crack detection room

With RMB7 million invested in this project, the Company is ready for equipment installation.

5) Construction of 110Kv substation

The Company invested RMB60 million in this project, for which the tender offer has been completed.

IV. REASON AND IMPACT OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTION TO MATERIAL ACCOUNTING ERRORS

Pursuant to Cai Kuai (2006) No.3 Notice on Publishing Detailed Provisions for Accounting Standard for Business Enterprise No.1-Inventory detailed standard (《關於印發<企業會計準則第1號—存貨>等38項具體準則的通知》), since January 2007, the Company implemented new Accounting Standards for Business Enterprises, and retroactively adjusted opening balance of 2007 in accordance with the requirement for the first time adoption of the new accounting standards (No. 38 Standard). Details of which were set out as follows:

Unit: RMB'0,000

Name of item	Disclosed amount in 2007 Annual Report
Shareholders' equity as at 31 December 2006 (under the old accounting standard)	251,518.87
Difference in long-term equity investment	65.10
Dismissal compensation qualified as accrued liabilities	(3,238.13)
Income tax	557.92
Minority interests	163.78
Others	(16,973.33)
Influence arose from business integration under common control	376,068.83
Shareholders' equity as at 1 January 2007 (under new accounting standard)	608,163.04

V. DAILY MANAGEMENT BY THE BOARD

1. Implementation of resolutions passed at general meetings by the Board

The Board of the Company has strictly implemented all resolutions passed at the general meeting during the reporting period and will continue to honestly and diligently serving the Company and its shareholders for their maximized interests.

2. Summary report on duty performance of the Audit Committee under the Board

(1) A meeting of the Audit and Review Committee was held on 2 April 2007, at which Deloitte Touche Tohmatsu CPA Ltd. reported the 2006 annual auditing work while Finance Department presented results of 2006. The Audit and Review Committee made detailed enquiry for connected transactions of the Company, accounts receivable and other matters, and asked for suggestions. The audited financial report was unanimously passed by the Audit and Review Committee and the subsequent acquisition of 31.95% equity interests in Dongfang Boiler was introduced to the Committee.

(2) A meeting of the Audit and Review Committee was held on 30 August 2007, at which the2007 Interim Report of the Company was reviewed.

V. DAILY MANAGEMENT BY THE BOARD *(continued)*

2. Summary report on duty performance of the Audit Committee under the Board *(continued)*

(3) The Audit and Review Committee reviewed financial statements prepared by the Company and was of opinion that it had reflected the financial position and operation results of the Company. After certified accountants for annual audit commenced their work, the Audit and Review Committee and the auditors discussed and determined schedule for auditing of the 2007 financial report, and communicated with certified accountants for annual audit. The Audit and Review Committee reviewed the financial statements after preliminary auditing opinion was issued by certified accountants for annual audit and was of opinion that it had reflected overall status of the Company truly, completely and accurately. The resolutions concerning the financial statements were presented to the Board for review after Audit Committee voted for it. Meanwhile, Audit and Review Committee submitted the summary on provision of audit by Auditors in 2007 for the Company and resolution in relation to re-appointment of the Auditors for next year.

3. Summary report on duty performance of the Remuneration Committee under the Board

In obedience to The Company Law of the People's Republic of China, Securities Law of the Peoples Republic of China, Trial Measures on Equity Incentive of State Owned (Controlled) Listed Company (Overseas)(國有控股上市公司(境外)股權激勵試行辦法) and other relevant laws and regulations, and in light of our existing remuneration system, performance assessment system and other management rules, the Remuneration and Nomination Committee submitted appreciation rights scheme of H shares to the Board, which was considered and passed by the 6th meeting of the fifth Board of Directors. The scheme has been published with its implement plan under study and formulation.

Remuneration and Nomination Committee reviewed the remunerations for directors, supervisors and senior management members. Annual remuneration of senior management members was linked with their operating responsibilities, risks and results. The Committee considered remuneration and allowance for every director, supervisor and senior management member.

VI. PROFIT DISTRIBUTION PLAN OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL

As audited by Deloitte Touche Tohmatsu CPA Ltd., the Company's net profit for the year 2007 was RMB648,618,130.19. According to the relevant requirement from the Articles of Association the Company, the Board recommended the 2007 profit distribution plan as follows:

1. To transfer RMB64,861,813.02 (equivalent to 10% of the net profit) into statutory surplus reserve;

2. Cash dividends per share was RMB0.24 (tax inclusive for A shares), totalling RMB196,080,000 with the remaining undistributed profits being carried forward to next year.

I. WORK OF SUPERVISORY COMMITTEE

1. The 5th meeting of the fifth Supervisory Committee was held on 2 April 2007. At the meeting, Proposal in Relation to Individual Recognition of Full Provision for Bad Debt of Account Receivable, 2006 Financial Report, Distribution Plan for 2006 Profit after Tax , the 2006 Annual Report and its summary, the 2007 Financial Budget, and the Proposal in Relation to Investment in Fixed Assets and the 2006 Report of the Supervisory Committee were considered and approved.

2. The 6th meeting of the fifth Supervisory Committee was held on 26 April 2007, at which the 2007 First Quarterly Report was considered and approved.

3. The 7th meeting of the fifth Supervisory Committee was held on 11 May 2007 for considering and approving Proposal regarding Private Placement of Dongfang Electric Company Limited to DEC for Asset Acquisition and Proposal in Relation to Connected Transaction.

4. The 8th meeting of the fifth Supervisory Committee was held on 30 August 2007, at which the 2007 Unaudited Interim Financial Statements, the 2007 Interim Profit Appropriation Plan, and the 2007 Interim Report were considered and approved.

5. The 9th meeting of the fifth Supervisory Committee was held on 24 October 2007, at which the 2007 Third Quarterly Report, Proposal in relation to Resignation of Supervisors and Proposal in relation to Nomination of Supervisor Candidates were considered and approved.

II. THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON LEGAL COMPLIANCE OF THE COMPANY'S OPERATIONS

The Supervisory Committee considers the Company has established a sound internal control system to operate in compliance with the laws. The Board of the Directors has strictly executed resolutions passed at the general meetings. The Company's decision procedures for significant matters are legal and relevant information is timely and accurately disclosed. Directors and managers of the Company diligently performed their duties, where no act in violation of the laws, regulations and the Articles of Association of the Company or detrimental to the interest of the Company was found.

III. THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON INSPECTION ON THE FINANCIAL POSITION OF THE COMPANY

During the reporting period, the Supervisory Committee carefully examined and reviewed the financial position and financial management of the Company. After the examination, the Supervisory Committee is of the view that the financial system of the Company is sound and complete with standard management, and laws and regulations including Accounting Law, Accounting Standard for Business Enterprises were strictly executed. The Supervisory Committee of the Company prudently reviewed the Company's 2007 Financial Report to be submitted at the general meeting, and is of the opinion that it truly, accurately, and objectively reflects the financial position and the operating results of the Company, and the preparation and review procedures of the report are in compliance with all requirements of the laws, regulations, the Articles of Association of the Company and internal administrative systems of the Company. None of the personnel participating in preparation and review of the annual report was engaged in any act in breach of confidentiality regulations. Deloitte Touche Tohmatsu has audited the 2007 Annual Report of the Company and issued a standard unqualified auditor's report.

IV. THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE ACTUAL USE OF THE COMPANY'S LAST RAISED PROCEEDS

During the reporting period, following regulatory procedures, the Company offered through private placement 367,000,000 new shares to DEC and raised a proceeds of RMB8,870,000,000. In full compliance with undertaking, the proceeds had been used for the acquisition of 100% equity in Dongfang Steam Turbine Co. Ltd and 68.05% equity of Dongfang Boiler (Group) Co. Ltd, which had been verified and the relevant capital verification report (De Shi (Shanghai) Bao Yan Zi (07) No. SZ003) had been issued by Deloitte Touche Tohmatsu CPA Ltd. As at 31 December 2007, all raised proceeds had been used up.

V. THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON ACQUISITION AND DISPOSAL OF ASSETS OF THE COMPANY

During the reporting period, the Company completed the non-public issue of 367,000,000 shares to DEC to acquire 273,165,244 shares (representing approximately 68.05% of issued shares of the Dongfang Boiler) in Dongfang Boiler (Group) Co. Limited and100% equity in DEC Dongfang Steam Turbine Co. Ltd. held by DEC. The acquisition procedures were in compliance with the relevant state laws and regulations and the acquisition considerations were fair and reasonable, in the interests of the shareholders of the Company.

Assets transactions were conducted at reasonable prices in compliance with market rules. No insider dealing or act detrimental to the interest of the shareholder or resulting in assets loss of the Company was found.

VI. THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE COMPANY'S CONNECTED TRANSACTIONS

During the reporting period, all approving procedures and regulations for connected transactions between the Company and relevant parties were in compliance with relevant regulations and were well regulated, which reflected the principle of fairness, justness and equitableness. No act detrimental to interest of the Company and shareholders was found.

I. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company had no material litigation and arbitration during the year.

II. ASSETS TRANSACTION

Acquisition of assets

As approved by the Notice of Approval for Private Placement of Dongfang Electrical Machinery Company Limited to DEC for Asset Acquisition (Zheng Jian Gong Si Zi [2007] No.172) (《關於核准東方電機股份有限公司向中國東方電氣集團定向發行新股購買資產的通知》) issued by China Securities Regulatory Commission, the Company non-publicly placed 367,000,000 ordinary shares with a nominal value of RMB1.00 each to DEC in the reporting period at the issue price of RMB24.17 per share, amounting to RMB8,870,000,000 in aggregation. DEC satisfied the consideration of RMB8,870,000,000 for such share placement out of its 100% equity interests in Dongfang Turbine and 68.05% shares in Dongfang Boiler, which were valued at RMB12,180,000,000 in total.

III. MATERIAL CONNECTED TRANSACTIONS DURING THE REPORTING PERIOD

1. Continuing connected transactions

On 16 May 2007, the Company entered into Purchase and Production Services Framework Agreement, the Sales and Production Services Framework Agreement, the Combined Ancillary Services Framework Agreement, Financial Services Framework Agreement and the Properties and Equipment Framework Lease Agreements for a term of three years with DEC or its associates; Shenzhen Dongfang Boiler Control Company Limited entered into Huaxi Sales Framework Agreement for a term of one year with Huaxi Energy Industrial Group Company Limited. As at 31 December 2007, the actual amounts for such significant connected transactions had been set out in note 39 to financial statement (prepared under Hong Kong Accounting Standards).

The above connected transaction are required by normal operating activities and are under normal commercial terms, the terms of which are fair and reasonable and are in the interests of the Shareholders of the Company as a whole.

The board of director engaged the auditors of the Company to perform agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported its factual findings on these procedures to the board of directors in accordance with Rule 14A.38 of the Rules governing the Listing of securities on the Stock Exchange of Hong Kong Limited.

2. Material connected transactions on assets and equity transfer

Please refer to the paragraph headed "Significant Events II. ASSETS TRANSACTION" hereinabove.

IV. IMPLEMENTATION OF UNDERTAKINGS

1. Undertaking of the Company or shareholders with 5% or more interest in the Company occurred in or subsisted to the reporting period

Undertaking for Share Segregation Reform and Implementation:

The non-tradable shares so held shall not be traded or transferred on the Shanghai Stock Exchange within 12 months from the implementation of share reform proposal. Upon the expiry of the aforesaid undertaking period, the shares of the Company will be traded on the Shanghai Stock Exchange, provided that the number of such shares so traded shall not exceed 5% of the total issued share capital of the Company for 12 months of trading and not exceed 10% for 24 months of trading respectively. The selling price of the shares shall not be lower than 150% of the closing price of A shares on the trading day immediately preceding the date of the announcement of the share segregation reform (namely RMB23.39 per A share). If there is any dividends distribution or allotment of shares and capitalization of capital reserve, which results in changes in shares or shareholding structure of the Company, such price will be calculated on an ex-rights basis.

Implementation: The undertakings have been diligently performed and there was no breach of undertakings.

Undertakings given upon issuance and Implementation:

Except for 130,815,000 A shares (being the consideration for acquisition of tradable shares subject to no trading moratorium held by shareholders of Dongfang Boiler by DEC by way of share exchange offer), the remaining shares privately placed to DEC shall not be transferred within 3 years. 1. The Company shall enter into connected transaction agreements with related parties to govern the connected transactions. 2. Upon completion of the Acquisition and after the Company was able to obtain and obtained the required qualification and the approval by regulatory authorities, the Company shall replace DEC to engage in chief contracting and sub-contracting for supply of complete equipment for power stations.

Implementation: The undertakings have been diligently performed and there was no breach of undertakings.

V. PUNISHMENT ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS OR DE FACTO CONTROLLER AND THE RECTIFICATION

In the reporting period, none of the Company or its directors, supervisors, senior management, shareholders or de facto controller was a subject of any investigation by competent authority, enforcement by judicial or discipline authorities, investigation for criminal liabilities by judicial authorities, inspection or administrative punishment by CSRC or prohibition from access to securities market, or was ruled as ineligible candidates and punished by other administrative department or was publicly criticised by any stock exchange.

VI. EXPLANATION ON OTHER MAJOR EVENTS

1. Details of the recourse on treasure notes of RMB200 million by Dongfang Boiler (Group) Company Limited, a subsidiary of the Company, was disclosed in its Third Quarterly Report for 2007. Dongfang Boiler (Group) Company Limited attended the first debtors' meeting and the credit commission meeting held by the Bankruptcy Trustee for Zhongke Securities respectively at the end of November and at the beginning of December. As the bankruptcy case of Zhongke Securities involves many creditors and the liquidation procedures are complex, the recourse on the treasure notes failed to achieve any substantial progress as at the date hereof and the recoverable amount for treasure notes is uncertain.

2. In the reporting period, the Company invested and set up a service centre named DongFang Electric (India) Private Limited (the "Service Centre") in Calcutta, India. The Service Centre will be established as a company with limited liability, with a registered capital of INR320,000,000 (equivalent to USD8 million) to which the Company will contribute INR319,968,000 (equivalent to USD$7,999,200) or 99.99% of the registered capital. Details were set out in the Company's Announcement of Overseas Investment (Lin 2007-027) dated 25 October 2007.

3. On 11 December 2007, the 20th meeting of the fifth Board of the Company passed the proposal for establishment of "DEC Dongfang Electrical Machinery Company Limited". The Company proposed to establish the company with the major operating assets of the Company (excluding the shares in Dongfang Boiler (Group) Co., Ltd., the equity interest in Dongfang Turbine Co., Ltd., the equity interest in Areva-Dongfang Reactor Coolant Pumps Company Limited, the property interests of Chongqing Huiyuan Building, assets to be written off and certain portion of the undistributed profits, all of which are owned by the Company).

VII. PUBLIC FLOAT

To the knowledge of the Directors, based on the public available information, the number of shares held by the public is enough and in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

TO THE SHAREHOLDERS OF
DONGFANG ELECTRIC CORPORATION LIMITED
(FORMERLY NAMED AS DONGFANG ELECTRIC COMPANY LIMITED AND DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED)
東方電氣股份有限公司(前稱東方電機股份有限公司)
(established in the Deyang City, Sichuan Province, the People's Republic of China ("PRC") with limited liability)

We have audited the consolidated financial statements of Dongfang Electric Corporation Limited (formerly named as Dongfang Electric Company Limited and Dongfang Electrical Machinery Company Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 112 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2008

Consolidated Income Statement

For the year ended 31 December 2007
(prepared in accordance with Hong Kong Financial Reporting Standards)

	NOTES	**2007** **RMB'000**	2006 *RMB'000* *(Restated, Note 2)*
Revenue	7	**24,099,128**	22,433,762
Cost of sales		**(19,198,474)**	(17,851,355)
Gross profit		**4,900,654**	4,582,407
Other income	8	**379,335**	334,377
Distribution expenses		**(385,247)**	(243,005)
Administrative expenses		**(2,090,789)**	(1,892,416)
Loss on held for trading investment		**—**	(5,849)
Share result of associates		**(44,881)**	(17,495)
Share result of jointly controlled entities		**20,871**	27,933
Finance costs	9	**(25,933)**	(3,928)
Profit before tax		**2,754,010**	2,782,024
Income tax expense	10	**(343,018)**	(324,977)
Profit for the year	11	**2,410,992**	2,457,047
Attributable to:			
Equity holders of the parent		**2,224,475**	2,269,084
Minority interests		**186,517**	187,963
		2,410,992	2,457,047
Dividends recognised as distribution during the year:			
Paid final dividend of RMB0.2 (2006: RMB0.5) per share	13	**90,000**	225,000
Earnings per share			
basic	14	**RMB2.723**	RMB2.777
diluted	14	**RMB2.723**	RMB2.777

Consolidated Balance Sheet

As at 31 December 2007
(prepared in accordance with Hong Kong Financial Reporting Standards)

	NOTES	2007 RMB'000	2006 RMB'000 (Restated, Note 2)
Non-current assets			
Property, plant and equipment	15	**2,337,910**	1,964,364
Construction in progress	16	**312,086**	314,703
Prepaid lease payments	17	**181,486**	181,749
Investment properties	18	**35,682**	37,308
Intangible assets	19	**108,201**	64,041
Interests in associates	20	**175,074**	63,262
Interests in jointly controlled entities	21	**121,368**	99,199
Available-for-sale investments	22	**55,099**	55,099
Deferred tax assets	23	**284,223**	234,550
		3,611,129	3,014,275
Current assets			
Inventories	24	**12,040,057**	9,194,213
Amount due from an associate	25	**—**	717
Amounts due from related parties	26	**1,391,756**	1,202,992
Trade and other receivables	27	**12,601,410**	9,983,821
Prepaid lease payments	17	**10,419**	4,842
Amounts due from customers for contract works	28	**1,442,840**	835,339
Bank deposits with maturity over three months	29	**900,000**	1,450,341
Pledged bank deposits	29	**206,331**	343,973
Cash and cash equivalent	29	**3,913,939**	5,303,543
		32,506,752	28,319,781
Current liabilities			
Amounts due to customers for contract works	28	**6,921,204**	5,633,968
Amounts due to related parties	26	**4,465,846**	1,739,363
Trade and other payables	30	**17,512,365**	16,898,248
Enterprise income tax liabilities		**271,058**	275,501
Other tax liabilities	31	**73,029**	73,064
Borrowings	32	**413,028**	218,680
Provision	33	**228,378**	175,339
Deferred income	34	**86,438**	61,346
Termination benefit	38	**16,472**	29,440
		29,987,818	25,104,949
Net current assets		**2,518,934**	3,214,832
Total assets less current liabilities		**6,130,063**	6,229,107

As at 31 December 2007

(prepared in accordance with Hong Kong Financial Reporting Standards)

	NOTES	**2007** **RMB'000**	2006 RMB'000 (Restated, Note 2)
Non-current liabilities			
Deferred income	34	**811,421**	862,795
Borrowings	32	**5,820**	19,320
Long term liabilities		**685**	685
Termination benefit	38	**64,973**	22,696
Amounts due to related parties	26	**1,848,000**	—
		2,730,899	905,496
Net assets		**3,399,164**	5,323,611
Capital and reserves			
Share capital	35	**817,000**	817,000
Reserves		**1,721,563**	3,839,424
Equity attributable to equity holders of the parent		**2,538,563**	4,656,424
Minority interests		**860,601**	667,187
		3,399,164	5,323,611

The consolidated financial statements on pages 55 to 112 were approved and authorised for issue by the Board of Directors on 28 March 2008.

Si Zefu
DIRECTOR

Wen Shugang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(prepared in accordance with Hong Kong Financial Reporting Standards)

	Attributable to equity holders of the parent									
	Share capital RMB'000	Merger reserve RMB'000 (Note e)	Capital surplus RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Statutory public welfare fund RMB'000 (Note b)	Dividend reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006, as previously stated	450,000	—	636,061	92,692	58,547	225,000	236,157	1,698,457	1,272	1,699,729
Arising from the Group Reorganisation *(see Note (c) below and Note 2)*	367,000	(93,837)	96,327	184,736	—	—	1,521,964	2,076,190	497,407	2,573,597
At 1 January 2006, as restated	817,000	(93,837)	732,388	277,428	58,547	225,000	1,758,121	3,774,647	498,679	4,273,326
Profit for the year and total recognised income for the year	—	—	—	—	—	—	2,269,084	2,269,084	187,963	2,457,047
Transfers	—	—	—	226,551	(58,547)	—	(168,004)	—	—	—
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	17,221	17,221
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	(36,676)	(36,676)
Dividend paid	—	—	—	—	—	(225,000)	—	(225,000)	—	(225,000)
Deemed distribution to parent Dongfang Electric Corporation ("DEC") *(see Note (c) below and Note 39(b))*	—	—	—	—	—	—	(508,629)	(508,629)	—	(508,629)
Distribution to DEC	—	—	—	—	—	—	(653,678)	(653,678)	—	(653,678)
Capitalisation of retained earnings of Turbine Business *(see Note (d) below and Note 2)*	—	904,911	—	—	—	—	(904,911)	—	—	—
Proposed final 2006 dividend	—	—	—	—	—	90,000	(90,000)	—	—	—
At 31 December 2006	817,000	811,074	732,388	503,979	—	90,000	1,701,983	4,656,424	667,187	5,323,611
Profit for the year and total recognised income for the year	—	—	—	—	—	—	2,224,475	2,224,475	186,517	2,410,992
Transfers	—	—	—	208,951	—	—	(208,951)	—	—	—
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	40,051	40,051
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	(33,154)	(33,154)
Dividend paid	—	—	—	—	—	(90,000)	—	(90,000)	—	(90,000)
Distribution to DEC as a result of the Group Reorganisation *(Note 2)*	—	(3,311,247)	(606,078)	(1,667)	—	—	(333,344)	(4,252,336)	—	(4,252,336)
Proposed final 2007 dividend	—	—	—	—	—	196,080	(196,080)	—	—	—
At 31 December 2007	817,000	2,500,173	126,310	711,263	—	196,080	3,188,083	2,538,563	860,601	3,399,164

Notes:

(a) *Capital surplus includes share premium and contribution from DEC. Capital surplus may be used to adjust against the difference between the consideration and the acquired net assets arising from business combination under common control. Included in the balance as at 31 December 2007 and 2006 is a RMB9,147,000 share premium which is not distributable.*

(b) *In accordance with the PRC Company Law and the relevant Articles of Association, the Company and its subsidiaries are required to appropriate amounts equal to 10% and 5% respectively of their profit after taxation as determined in accordance with the PRC accounting standards to each of the statutory surplus reserve and statutory public welfare fund respectively.*

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation need not be made. According to the PRC Company Law, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion and to adjust against the excess of difference between the consideration and the acquired net assets arising from business combination under common control over the capital surplus at date of combination. However when funds from statutory surplus reserve are converted to capital, the funds remaining in such reserve shall amount to not less than 25% of the registered capital.

Statutory public welfare fund is also part of shareholders' equity. According to the PRC Company Law, it shall only be applied for capital expenditure related to the provision of collective welfare for staff and workers and these welfare facilities remain as property of the Group. Statutory public welfare fund is non-distributable other than upon liquidation. It is transferred to statutory surplus reserve under the new modification of the PRC Company Law in 2006.

(c) *During 2007, the Company acquired 100% equity interest of Dongfang Turbine Co., Ltd. 東方電氣集團東方汽輪機有限公司 ("Dongfang Turbine") and 68.05% equity interest of Dongfang Boiler (Group) Co., Ltd. ("Dongfang Boiler") from DEC (the "Group Reorganisation"), which was accounted for using merger accounting (see Note 2 for details). Accordingly, the equity items of the Group as at 1 January 2006 was restated.*

Dongfang Turbine was established on 27 December 2006 in the PRC under the Company Law of the PRC. On the same day, it took over the core business of the manufacture and sale of turbines and related power generation equipment (the "Turbine Business") previously carried on by 東方汽輪機廠 ("Dongfang Turbine Works"). Such transaction is hereinafter referred to as "Turbine Reformation". Dongfang Turbine Works is a stated-controlled entity established in the PRC and is a wholly-owned subsidiary of DEC. Prior to the establishment of Dongfang Turbine, Dongfang Turbine Works carried on the Turbine Business and other ancillary businesses ("Ancillary Businesses").

During the period from 1 January 2006 to 26 December 2006, certain assets were purchased and certain liabilities were settled by the Turbine Business on behalf of the Ancillary Businesses which were not re-charged to DEC. Such payments have been reflected as deemed distribution as part of the Turbine Reformation. The summary of the transactions was disclosed in note 39(b).

(d) *The retained earnings of the Turbine Business was capitalised as paid up capital of Dongfang Turbine upon the injection of the Turbine Business by DEC.*

(e) *Merger reserve represents the difference between the par value of the 367,000,000 common shares issued for the purposes of the Group Reorganisation and the share capital of Dongfang Boiler and Dongfang Turbine attributable to DEC.*

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(prepared in accordance with Hong Kong Financial Reporting Standards)

	2007	2006
	RMB'000	*RMB'000*
		(Restated, Note 2)
OPERATING ACTIVITIES		
Profit before tax	**2,754,010**	2,782,024
Adjustments for:		
Finance costs	**25,933**	3,928
Interest income	**(104,981)**	(146,674)
Realisation of deferred income	**(76,405)**	(74,028)
Allowance for bad and doubtful debts	**197,358**	163,779
Reversal of impairment losses on property, plant and equipment	**—**	(1,161)
Depreciation and amortisation	**302,094**	335,397
Operating lease rentals in respect of prepaid lease payments	**10,419**	2,663
Inventories written off	**—**	30,358
Loss on disposal of an associate	**—**	1,307
Reversal of write down for inventories	**(2,380)**	(845)
Share result of jointly controlled entities	**(20,871)**	(27,933)
Share result of associates	**44,881**	17,495
Expense arising from Group Reorganisation	**87,409**	1,971
Gain on disposal of available-for-sale investment	**—**	(1,356)
Loss (gain) on disposal of property, plant and equipment	**577**	(652)
Operating cash flows before movements in working capital	**3,218,044**	3,086,273
Increase in inventories	**(2,843,464)**	(1,808,445)
(Increase) decrease in amounts due from related parties	**(188,764)**	116,143
Increase in trade receivables and other receivables	**(2,814,880)**	(2,190,044)
Decrease (increase) in net amounts due to/from customers for contract works	**679,735**	(3,482,294)
Increase in amounts due to related parties	**1,322,147**	811,666
Increase (decrease) in trade payables and other payables	**614,117**	(487,819)
Decrease (increase) in other tax liabilities	**(35)**	34,250
Increase in provision	**53,039**	82,941
Increase in deferred income	**50,123**	266,019
Increase (decrease) in provision in termination benefit	**29,309**	2,085
Decrease in held for trading investment	**—**	5,849
Cash from (used in) operations	**119,371**	(3,563,376)
PRC enterprise income tax paid	**(397,134)**	(418,602)
NET CASH USED IN OPERATING ACTIVITIES	**(277,763)**	(3,981,978)

For the year ended 31 December 2007
(prepared in accordance with Hong Kong Financial Reporting Standards)

	2007	2006
	RMB'000	*RMB'000*
		(Restated, Note 2)
INVESTING ACTIVITIES		
Decrease in amount due from an associate	**717**	290,941
Decrease in bank deposits with maturity over three months and pledged bank deposits	**687,983**	4,079,205
Prepayment for land lease	**(15,733)**	—
Purchase of property, plant and equipment	**(81,688)**	(32,241)
Payment for construction in progress	**(584,974)**	(486,010)
Purchase of intangible assets	**(69,929)**	(1,688)
Proceeds from disposal of interest in an associate	**—**	5,207
Proceeds on disposal of available for sales investment	**—**	3,305
Purchase of available for sales investment	**—**	(34,499)
Capital contribution in associate	**(156,693)**	(9,232)
Increase in investment cost in jointly controlled entity	**(19,124)**	—
Dividend received from jointly controlled entity	**17,826**	—
Acquisition of a jointly controlled entity	**—**	(17,000)
Interest received	**104,981**	166,888
Proceeds on redemption of held to maturity investment	**—**	80,056
Proceeds from disposal of property, plant and equipment	**20,457**	8,072
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(96,177)**	4,053,004
FINANCING ACTIVITIES		
Dividends and distribution paid	**(90,000)**	(1,387,307)
Repayment of loans	**(209,680)**	(64,000)
New loans raised	**390,528**	235,680
Interest paid	**(25,933)**	(3,928)
Partial payment of cash consideration paid for the Group Reorganisation *(Note 2)*	**(1,000,000)**	—
Expense arising from Group Reorganisation	**(87,409)**	(1,971)
Dividends paid to minority shareholders	**(33,154)**	(36,676)
Contribution from minority shareholders	**40,051**	17,221
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(1,015,597)**	(1,240,981)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,389,537)**	(1,169,955)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**5,303,543**	6,473,838
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(67)**	(340)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented by:		
Bank balances and cash and deposits in a financial institution	**3,913,939**	5,303,543

1. GENERAL

The Company was established on 28 December 1993 in Deyang, Sichuan, the PRC as a joint stock limited company. With effect from the same date, the Company assumed the business of manufacture and selling power equipment, electric motors and their respective auxiliary parts together with the relevant assets and liabilities from Dongfang Electrical Machinery Works ("DFEW"). On 31 May 1994, the Company placed and issued 170,000,000 overseas listed foreign investment shares (the "H Shares") to the public in Hong Kong and the H Shares have been listed on The Stock Exchange of Hong Kong Limited since 6 June 1994. On 4 July 1995, with the approval of the relevant authorities including the Securities Regulatory Commission of the PRC, the Company issued 60,000,000 domestic listed Renminbi ordinary shares (the "A Shares") in the PRC. The A Shares have been listed on the Shanghai Stock Exchange since 10 October 1995. On 30 December 2005, the State-owned Assets Supervision and Administration Commission ("SASAC") promulgated "Approval of certain issues in the transfer of state-owned shares of Dongfang Electrical Machinery Company Limited" (National asset rights [2005] No. 1604) (《關於東方電機股份有限公司國有股劃轉有關問題的批覆》(國資產權[2005]1604號) to approve the transfer of 220,000,000 non-circulating State-owned domestic shares, representing DFEW's then 48.89% of the share capital of the Company, from DFEW to DEC, a stated-owned enterprise established in the PRC which is directly supervised by SASAC. DEC is also the parent of DFEW.

The directors of the Company consider that its immediate parent and ultimate parent is DEC. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is principally engaged in the business of manufacture and sale of main thermal power equipment, main hydro power equipment and AC/DC motors which are used in large-scale coal-fired, gas-fired, and nuclear power plants and wind power generation sets, as well as provision of engineering and repairing services. The Company also has the capacity to manufacture nuclear island equipment (mainly reactor pressure vessels and steam generator) and convention island equipment (mainly moisture separator re-heaters).

In accordance with the acquisition agreement and the supplementary agreement entered into between the Company and DEC which were approved by China Securities Regulatory Commission on 18 October 2007, the Company acquired 100% equity interest of Dongfang Turbine which carries the business of design, manufacture and sale of turbines and related power generation equipment which are used in large-scale coal-fired, gas-fired and nuclear power plants as well as wind power generation sets, and 68.05% equity interest of Dongfang Boiler (representing all of DEC's interest in Dongfang Boiler) which carries the business of design, manufacture and sale of boilers which are used in large-scale thermal coal-fired and oil-fired power plants, production of pressure vessels for non-power generation industrial use as well as auxiliary equipment and environmental protection products for power generation equipment, manufacture of nuclear island equipment (mainly reactor pressure vessels and steam generators) and conventional island equipment (mainly moisture separator re-heaters) from DEC (the "Group Reorganisation"). Upon the completion of the Group Reorganisation on 18 October 2007, DEC holds 69.87% equity interest of the Company.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries.

2. BASIS OF PREPARATION

The Group Reorganisation has been accounted for as a combination of businesses under common control by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting under Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") since the directors of the Company consider that the Company, Dongfang Turbine and Dongfang Boiler are under the common control of DEC. As a result, the consolidated income statements and the consolidated cash flow statements in this report have been prepared as if the current group structure had been in existence since 1 January 2006 or since their respective dates of incorporation or establishment where this is a shorter period in accordance with the respective equity interests in the individual companies attributable to DEC. The consolidated balance sheets of the Group as at 1 January 2006 and 31 December 2006 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure as at 18 October 2007 had been in existence as at these dates and in accordance with the respective equity interests of these businesses attributable to DEC as at these dates. Consequently, the share capital in respect of the 367,000,000 common shares disclosed below issued for the purposes of the business combination is shown as if it had always been issued. All significant intra-group transactions, balances, income and expenses are eliminated on combination.

The total consideration for the acquisition of 100% equity interest of Dongfang Turbine and 68.05% equity interest of Dongfang Boiler has been satisfied by the allotment and issue of 367,000,000 common shares of the Company to DEC and a RMB4,252 million cash consideration. RMB1,000 million of which was paid in 2007 and five equal annual instalments totalling RMB2,310 million is payable by the Company to DEC after the completion of the Group Reorganisation which carries interest at 6.08% per annum (see note 26).

Dongfang Boiler is a joint stock limited company established in the PRC and its A Shares are listed on the Shanghai Stock Exchange since December 1996.

Dongfang Turbine was established on 27 December 2006 in the PRC under the Company Law of the PRC. On the same day, it took over the core business of the manufacture and sale of turbines and related power generation equipment (the "Turbine Business") previously carried on by 東方汽輪機廠 ("Dongfang Turbine Works"). Dongfang Turbine Works is a stated-controlled entity established in the PRC and is a wholly-owned subsidiary of DEC. Prior to the establishment of Dongfang Turbine, Dongfang Turbine Works carried on the Turbine Business and other ancillary businesses ("Ancillary Businesses" such business of DEC was not injected to Dongfang Turbine nor the Group).

The consolidated financial statements include all the revenue attributable to the Turbine Business and related cost of operations. For the period from 1 January 2006 to 26 December 2006, all major costs are allocated to the Turbine Business and the Ancillary Businesses carried out by Dongfang Turbine Works based on their nature. For those expenses, mainly staff related costs, which do not have reliable basis for separate identification; it would be allocated between the Turbine Business and Ancillary Businesses based on the total number of staffs. The management of Dongfang Turbine has represented that the basis of allocation is appropriate.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group, has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the current year beginning from 1st January, 2007.

The application of the remaining new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group..

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC) — INT 12	Service Concession Arrangements[3]
HK(IFRIC) — INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) — INT 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] *Effective for annual periods beginning on or after 1 January, 2009.*

[2] *Effective for annual periods beginning on or after 1 March, 2007.*

[3] *Effective for annual periods beginning on or after 1 January, 2008.*

[4] *Effective for annual periods beginning on or after 1 July, 2008.*

[5] *Effective for annual periods beginning on or after 1 July, 2009.*

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Other than the business combination which constitutes reorganisation of entities under common control for which accounting policy is disclosed in Note 2, the purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealized profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grant

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets and are classified as other income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment and construction in progress

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction-in-progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised. Construction in progress is not depreciated until completion of construction and the asset is available for intended use. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value.

Plant and machinery and furniture, fixtures and equipment are depreciated on reducing-balance method. Buildings and motor vehicles are depreciated on a straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated deassets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

The prepayment made on acquiring land use right represents prepaid lease payment and it is accounted for as an operating lease. The prepaid lease payment is realised to consolidated income statement on a straight-line basis over the lease term, or when there is impairment, the impairment is expensed in the consolidated income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments of which interest income is included in net gains or losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from an associate, amounts due from related parties, trade and other receivables, bank deposits with maturity over three months, bank balances and pledged bank deposit) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or amounts due from related parties is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including amounts due to related parties, trade and other payables, borrowings, and payable to ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. Impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

The Group also offers a scheme for early termination of elderly employees before their statutory retirement dates which is considered as defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or can significantly affect the amounts recognised in the financial information is discussed below.

Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses. The amount of provision is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Provision

Provision has been made for additional costs to repair or replace defective goods, such as labour (whether internal or external) and material costs, and cost that might not be recovered from customers for rework. The provision requires management to estimate the extent of repair and replacments with reference to historical warranty trends and may vary as a result of new materials and altered manufacturing process. Any of these factors may affect the extent of the repair or replacement required and therefore the ultimate repair and replacement costs to be incurred in the future period.

Construction contract

In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Should there be a change in these estimates, then will be an impact on the amount of contract revenue or contract loss.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include amounts due from related parties, trade and other receivables, bank deposits with maturity over three months, pledged bank deposits, bank balances, amounts due to related parties, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank borrowings disclosed in note 32, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group's supervisory committee reviews the capital structure on a ongoing basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

The Group's overall strategy remains unchanged from 2006.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**15,010,809**	12,900,072
Available-for-sale financial assets	**55,099**	55,099
	15,065,908	12,955,171

	2007 RMB'000	2006 RMB'000
Financial liabilities		
Amortised cost	**10,591,334**	5,250,087

At the reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

(d) Financial risk management objectives

The management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures.

(e) Foreign currency risk management

The Group's functional and presentation currency has been in Renminbi since the operations are mainly in Renminbi and the operating expenses incurred are denominated in Renminbi. Accordingly, the directors consider the foreign exchange risk is not significant.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(f) Interest rate risk management

The Group's fair value interest rate risk relates primarily to fixed rate pledged bank deposits, bank deposits with maturity over three months, borrowings and amount due to immediate holding entity. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need rise.

The Group has exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and deposits with a financial institution which carry at prevailing market interest rates.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instrument at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2007 would increase/decrease by RMB4,608,000 (2006: increase /decrease by RMB5,296,000). This is mainly attributable to the Group's exposure to interest rates on its bank deposits.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate deposits with banks and a financial institution.

(g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade and other receivables and amount due from related parties consist of a large number of customers and counter parties. Ongoing credit evaluation is performed on the financial condition of these receivables.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(h) Equity price risk

The Group is exposed to equity price risk through its investments in available-for-sale investments, which are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. The directors consider the price risk is not significant.

(i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Non-interest bearing		Interest bearing			
			Undiscounted cash flows	Undiscounted cash flows	**Carrying amount**	Carrying amount
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**7,797,513**	4,989,391	**903,713**	219,631	**875,028**	218,680
1 — 2 years	**16,243**	5,674	**493,723**	14,096	**465,500**	13,500
2 — 3 years	**16,243**	5,674	**492,459**	5,954	**464,320**	5,820
More than 3 years	**32,487**	11,348	**980,179**	—	**924,000**	—
	7,862,486	5,012,087	**2,870,074**	239,681	**2,728,848**	238,000

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to outside customers during the year and is analysed as follows:

	2007	2006
	RMB'000	*RMB'000*
Sale of goods	**10,864,995**	8,883,222
Revenue from construction contracts	**13,199,202**	13,490,722
Revenue from engineering and repairing services	**34,931**	59,818
	24,099,128	22,433,762

Business segments

The Group operates in five major segments as follows - main thermal power equipment, main hydro power equipment, environmental production products for power generation equipment, wind power generation sets and AC/DC motors, nuclear power plants, oil-fired power plants, production of pressure vessels for non-power generation industrial use and engineering and repairing services for power stations.

Principal activities are manufacture, construction and sale of the following products:

Main thermal power equipment	main thermal power equipment (including turbines and boilers)
Main hydro power equipment	main hydro power equipment
Environmental production products	environmental production products for power generation equipment
Wind power generation sets	wind power generation sets
Others	AC/DC motors, nuclear power plants, oil-fired power plants, production of pressure vessels for non-power generation industrial use providing engineering and repairing services for power stations

Segment information about these businesses is presented below.

7. REVENUE AND SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2007

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Environmental production products RMB'000	Wind power generation sets RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE							
External sales	19,616,680	2,648,361	538,068	551,669	744,350	—	24,099,128
Inter-segment sales	3,696	—	—	—	545,910	(549,606)	—
Total revenue	19,620,376	2,648,361	538,068	551,669	1,290,260	(549,606)	24,099,128
SEGMENT RESULTS	4,327,030	243,413	(36,451)	45,471	321,191	—	4,900,654
Other income							379,335
Distribution expenses							(385,247)
Administrative expenses							(2,090,789)
Share result of associate							(44,881)
Share result of jointly controlled entities							20,871
Finance costs							(25,933)
Profit before taxation							2,754,010
Income tax expense							(343,018)
Profit for the year							2,410,992
ASSETS							
Segment assets	14,464,758	3,707,223	409,388	318,989	444,657	—	19,345,015
Unallocated corporate assets							16,772,866
Consolidated total assets							36,117,881
LIABILITIES							
Segment liabilities	9,527,539	829,665	284,155	1,503,301	97,251	—	12,241,912
Unallocated corporate liabilities							20,476,805
Consolidated total liabilities							32,718,717
OTHER INFORMATION							
Allowance for bad and doubtful debts	144,233	44,510	4,719	2,526	1,370	—	197,358
Amortisation	25,118	—	—	—	—	—	25,118

7. REVENUE AND SEGMENT INFORMATION (continued)

For the year ended 31 December 2006

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Environmental production products RMB'000	Wind power generation sets RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE							
External sales	18,550,604	2,164,591	122,654	—	1,595,913	—	22,433,762
Inter-segment sales	1,978	—	—	—	531,432	(533,410)	—
Total revenue	18,552,582	2,164,591	122,654	—	2,127,345	(533,410)	22,433,762
SEGMENT RESULTS	3,726,438	348,278	(38,263)	—	545,954	—	4,582,407
Other income							334,377
Distribution expenses							(243,005)
Administrative expenses							(1,892,416)
Loss on fair value change of held-for-trading investments							(5,849)
Share result of associates							(17,495)
Share result of jointly controlled entities							27,933
Finance costs							(3,928)
Profit before taxation							2,782,024
Income tax expense							(324,977)
Profit for the year							2,457,047
ASSETS							
Segment assets	10,094,895	5,404,419	533,412	177,756	388,391	—	16,598,873
Unallocated corporate assets							14,735,183
Consolidated total assets							31,334,056
LIABILITIES							
Segment liabilities	6,811,099	2,107,029	446,092	185,021	76,816	—	9,626,057
Unallocated corporate liabilities							16,384,388
Consolidated total liabilities							26,010,445
OTHER INFORMATION							
Allowance for bad and doubtful debts	77,022	77,572	7,165	314	1,706	—	163,779
Amortisation	25,532	—	—	—	—	—	25,532

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical segments

More than 90% of the Group's sales and provision of services are provided to customers located in the PRC and all of the Group's carrying amount of segment assets and additions to property, plant and equipment are situated in the PRC. Accordingly, no segmental analysis of geographical segment is presented for both years.

8. OTHER INCOME

	2007	2006
	RMB'000	*RMB'000*
Interest income	**104,981**	146,674
Consultancy service income	**93,263**	16,041
Government grants *(Note 34)*	**76,405**	74,028
Other service income	**—**	5,069
Gain from sales of scrap materials	**97,759**	73,817
Rental income	**544**	370
Gain on disposal of available for sales investment	**—**	1,356
Provision of power supply	**—**	6,461
Net foreign exchange gain	**—**	19
Others	**6,383**	10,542
	379,335	334,377

9. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Bank loans and other borrowings wholly repayable within five years	**3,903**	2,705
Interest on amounts due to related parties	**22,030**	1,529
Less: amount capitalised on a specific loan	**—**	(306)
	25,933	3,928

10. INCOME TAX EXPENSE

	2007	2006
	RMB'000	*RMB'000*
PRC enterprise income tax		
— Current year	**392,691**	410,318
— Underprovision in prior years	**—**	8,291
	392,691	418,609
Deferred tax *(Note 23)*	**(49,673)**	(93,632)
	343,018	324,977

10. INCOME TAX EXPENSE *(continued)*

PRC enterprise income tax is calculated at 15% of the estimated taxable income for the year.

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before tax	**2,754,010**	2,782,024
Tax charge at enterprise tax rate of 15% (2006: 15%) *(a)*	**413,102**	417,304
Tax effect of income not taxable for tax purpose	**(14,408)**	(13,275)
Tax effect of share of result of associates	**6,376**	2,625
Tax effect of share of result of jointly controlled entities	**(3,129)**	(4,189)
Tax effect of expenses not deductible for tax purpose	**2,464**	5,605
Tax effect of tax benefits *(b)*	**(61,987)**	(64,028)
Utilisation of temporary differences previously not recognised	**—**	(27,702)
Utilisation of tax losses previously not recognised	**—**	—
Underprovision in respect of prior years	**—**	8,291
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	**600**	346
Tax charge for the year	**343,018**	324,977

Note:

(a) Applicable income tax rate of 15% represents the relevant income tax rate of the Company, Dongfang Boiler and Dongfang Turbine, which are the major entities of the Group.

(b) Tax benefits represents (i) an incentive scheme, in addition to the research and development cost which is deductible for tax purpose, further 50% of the research and development cost is deductible (ii) tax credits on acquisition of qualified property, plant and equipment.

Pursuant to the provisions from the State Council in 2007 in relation to the Development of the Western Region, the enterprise tax rate of the Company, Dongfang Boiler and Dongfang Turbine is 15% until 2010.

During the year, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China (the "New PRC Enterprise Income Tax Law"), which become effective on 1st January 2008. On 6 December 2007, the State Council issued Implementation Regulations of the New PRC Enterprise Income Tax Law. According to the New PRC Enterprise Income Tax Law and Implementation Regulations, the current income tax rate of 15% for the Group's subsidiary in Shenzhen will be increased to 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively.

The enterprise tax rate of other subsidiaries of the Company would be 25% from 2008 onwards.

11. PROFIT FOR THE YEAR

	2007	2006
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Salaries and wages	**1,167,272**	979,671
Retirement benefits scheme contributions		
— defined contribution plans *(Note 38)*	**144,565**	123,011
Staff welfare	**148,147**	110,215
Housing fund *(Note 38)*	**117,974**	89,595
Termination benefits *(Note 38)*	**69,314**	29,083
Total staff cost *(Note a)*	**1,647,272**	1,331,575
Auditor's remuneration	**3,600**	2,190
Amortisation of intangible assets	**25,769**	26,074
Amortisation of prepaid lease payments	**10,419**	2,663
Allowance for bad and doubtful debts	**197,358**	163,779
Cost of inventories recognised as an expense	**19,198,474**	17,847,403
Depreciation on property, plant and equipment	**274,699**	307,697
Depreciation on investment properties	**1,626**	1,626
Loss on disposal of raw material	**—**	15,670
Loss (gain) on disposal of property, plant and equipment	**577**	(652)
Loss on disposal of an associate	**—**	1,307
Gain on disposal of available for sale investment	**—**	(1,356)
Reversal of impairment loss of property, plant and equipment *(Note b)*	**—**	(1,161)
Reversal of write down for inventories *(Note c)*	**(2,380)**	(845)
Rental expense	**3,758**	3,596
Written off of inventories	**—**	30,358
Research and development expenditure (included in administrative expenses)	**468,747**	309,008
Foreign exchange losses	**27,996**	24,781
Foreign exchange gains	**(21,063)**	(18,133)
Share of tax of associates (included in share of result of associates)	**448**	88
Gross rental income from investment properties	**(592)**	(392)
Less: direct operating expenses from investment properties that generated rental income during the year	**48**	22
	(544)	(370)

Note:

(a) *Directors' and supervisors' emoluments are included in the above staff costs.*

(b) *Reversal of impairment loss of property, plant and equipment was made when the recoverable amount of those property, plant and equipment on which impairment had previously been made is estimated to be greater than its carrying amount.*

(c) *Reversal of write down for inventories was made when the net realisable value of those inventories on which allowance had previously been made is greater than the carrying amount and lower than the original cost.*

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the 18 (2006: 12) directors and supervisors were as follows:

For the year ended 31 December 2007

	Director									Independent non-executive directors				Supervisors					
	Si Zefu*	Zhu Yuanchao	Wen Shugang*	Li Hongdong	Chen Xinyou	Zhang Xiaolun*	Zhang Jilie*	Han Zhigiao	Gong Dan	Liu Shigang	Chen Zhangwu	Xie Songlin	Zheng Peimin	Wen Bingyou*	Wang Wanling	Fang Yunfu	Wen Limin*	Ma zonggiong*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	–	–	–	–	–	–	–	–	–	–	50	50	50	–	–	–	–	–	150
Basic salaries and allowances	–	–	–	426	434	–	–	464	408	–	–	–	–	–	158	172	–	–	2,062
Retirement benefits scheme contributions	–	–	–	27	28	–	–	29	24	–	–	–	–	–	17	17	–	–	142
Total	–	–	–	453	462	–	–	493	432	–	50	50	50	–	175	189	–	–	2,354

For the year ended 31 December 2006

	Director						Independent non-executive directors			Supervisors			
	Zhu Yuanchao	Han Zhiqiao	Li Hongdong	Gong Dan	Fu Haibo *	Liu Shigang *	Chen Zhangwu	Xie Songlin	Zheng Peimin	Wen Bingyou *	Wang Wanling	Fang Yunfu	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	–	–	–	–	–	–	50	50	50	–	–	–	150
Basic salaries and allowances	348	348	296	296	–	–	–	–	–	–	105	126	1,519
Retirement benefits scheme contributions	24	24	20	20	–	–	–	–	–	–	4	4	96
Total	372	372	316	316	–	–	50	50	50	–	109	130	1,765

* *Emoluments paid by DEC.*

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(continued)*

None of the directors received more than HK$1,000,000 for any of these two years. No directors waived any emoluments for these two years.

The five highest paid individuals in the Group in 2007 and 2006 were all directors of the Company and details of their emoluments are included above.

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for these two years ended.

13. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
The Company		
Dividends recognised as distribution during the year:		
2006 final dividend of RMB0.2		
(2006: 2005 final dividend of RMB0.5) per ordinary share	**90,000**	225,000

The final dividend of RMB0.24 (2006: RMB0.2) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2007	2006
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share		
(profit for the year attributable to shareholders of the parent)	**2,224,475**	2,269,084

	2007	2006
	RMB'000	*RMB'000*
Number of shares		
Weighted average number of ordinary shares for the		
purposes of basic and diluted earnings per share	**817,000**	817,000

No diluted earnings per share are calculated as there were no potentially dilutive share is issued in both periods presented.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2006	906,250	2,282,966	212,643	96,930	3,498,789
Transfer from construction in progress	213,787	333,707	43,003	—	590,497
Transfer to DEC (Note 39(b)	(4,042)	(5,091)	—	—	(9,133)
Additions	445	2,984	6,267	22,545	32,241
Disposals/written off	(9,999)	(42,494)	(10,002)	(3,453)	(65,948)
At 31 December 2006	1,106,441	2,572,072	251,911	116,022	4,046,446
Transfer from construction in progress	160,856	390,924	35,811	—	587,591
Additions	20,636	29,755	8,197	23,100	81,688
Disposals/written off	(33,803)	(31,572)	(12,767)	(2,087)	(80,229)
At 31 December 2007	1,254,130	2,961,179	283,152	137,035	4,635,496
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2006	415,825	1,229,618	137,575	51,056	1,834,074
Charge for the year	42,038	230,171	25,284	10,204	307,697
Eliminated on disposals/ written off	(7,560)	(38,574)	(9,509)	(2,885)	(58,528)
Reversal of impairment loss recognised	—	(1,161)	—	—	(1,161)
At 31 December 2006	450,303	1,420,054	153,350	58,375	2,082,082
Charge for the year	50,440	177,920	32,931	13,408	274,699
Eliminated on disposals/ written off	(15,241)	(29,221)	(12,767)	(1,966)	(59,195)
At 31 December 2007	485,502	1,568,753	173,514	69,817	2,297,586
NET BOOK VALUES					
At 31 December 2007	768,628	1,392,426	109,638	67,218	2,337,910
At 31 December 2006	656,138	1,152,018	98,561	57,647	1,964,364

The buildings are located on land held under medium term leases and are situated in the PRC.

15 ROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2007, the Company has not obtained the building ownership certificates for certain buildings with net book value of approximately RMB129,592,000 (2006: RMB493,072,000). All the buildings are located in the PRC.

	Useful lives	Estimated residual value ratio	Annual depreciation rate
Buildings for production	20	5%	4.75%
Buildings for non-production	25	5%	3.80%
Plant and machinery	10	5%	Declining-balance method
Furniture, fixtures and equipment	5-6	5%	Declining-balance method
Motor vehicles	6	5%	15.83%

16. CONSTRUCTION IN PROGRESS

	2007 *RMB'000*	2006 *RMB'000*
COST		
As at 1 January	**314,703**	438,540
Additions	**584,974**	486,010
	899,677	924,550
Transfer to property, plant and equipment	**(587,591)**	(590,497)
Transfer to DEC *(Note 39(b))*	**—**	(19,350)
As at 31 December	**312,086**	314,703

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent medium-term land use rights in the PRC. They are analysed for reporting purpose as follow:

	2007 *RMB'000*	2006 *RMB'000*
Analysed for reporting purposes as:		
Current portion	**10,419**	4,842
Non-current portion	**181,486**	181,749
	191,905	186,591

The amount represents the land use rights situated in the PRC for a period of 50 years.

18. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2006, 31 December 2006 and 2007	42,145
ACCUMULATED DEPRECIATION	
At 1 January 2006	3,211
Provided for the year	1,626
At 31 December 2006	4,837
Provided for the year	1,626
At 31 December 2007	6,463
CARRYING VALUES	
At 31 December 2007	35,682
At 31 December 2006	37,308

The fair value of the Group's investment properties at 31 December 2007 and 31 December 2006 was approximately RMB53,330,000 and RMB51,530,000 respectively. The fair value has been arrived at based on a valuation carried out by Vigers Asia Pacific Ltd., an independent valuer not connected with the Group. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market prices for similar properties.

At 31 December 2007, the Group has not obtained the building ownership certificates for certain investment properties with net book value of approximately RMB22,721,000 (2006: RMB23,739,000).

The above investment properties are depreciated on a straight-line basis over 25 years.

19. INTANGIBLE ASSETS

	Technology know-how *RMB'000*	Computer software and telecommunication system *RMB'000*	Total *RMB'000*
COST			
At 1 January 2006	148,644	2,153	150,797
Additions	405	1,283	1,688
At 31 December 2006	149,049	3,436	152,485
Additions	68,451	1,478	69,929
At 31 December 2007	217,500	4,914	222,414
AMORTISATION			
At 1 January 2006	61,516	854	62,370
Charge for the year	25,532	542	26,074
At 31 December 2006	87,048	1,396	88,444
Charge for the year	25,118	651	25,769
At 31 December 2007	112,166	2,047	114,213
CARRYING VALUES			
At 31 December 2007	105,334	2,867	108,201
At 31 December 2006	62,001	2,040	64,041

All of the Group's intangible assets were acquired from third parties. The above intangible assets have definite useful lives and are amortised on a straight-line basis over 3 to 15 years and 3 to 5 years for technology know-how and computer software and telecommunication system, respectively, being the shorter of useful life or the corresponding license periods.

20. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Cost of investment in unlisted associates unlisted in the PRC	**256,490**	99,797
Share of post-acquisition losses and reserves	**(81,416)**	(36,535)
	175,074	63,262

As at 31 December 2007, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of establishment	Principal place of operation	Class of share held	Registered capital held by the Group %	Proportion of voting power held %	Principal activity
Leshan City Dongle Heavy Piece Handling Co., Ltd.	Limited liability company	PRC	PRC	Registered capital	49	49	Provision of transportation and warehousing services
Mitsubishi Heavy Industries Dongfang Gas Turbine (Guangzhou) Co., Ltd	Sino-foregin Equity Joint Venture	PRC	PRC	Registered capital	49	49	Manufacturing of components and spare parts for gas fired steam turbines
東方電氣(廣州)重型機器有限公司 *(Note)*	Limited liability company	PRC	PRC	Registered capital	30	30	Manufacturing of components for nuclear island equipment

Note: 東方電氣(廣州)重型機器有限公司 *was acquired during 2007.*

The summarised financial information prepared under HKFRS in respect of the Group's associates is set out below:

	2007 RMB'000	2006 RMB'000
Total assets	**1,762,732**	214,606
Total liabilities	**(1,234,486)**	(85,983)
Net assets	**528,246**	128,623
Revenue	**62,574**	51,030
Loss for the year	**(153,444)**	(35,840)
Group's share of result of associates for the year	**(44,881)**	(17,495)

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 *RMB'000*	2006 *RMB'000*
Cost of unlisted investments in jointly controlled entities	**76,637**	57,513
Share of post-acquisition profits, net of dividends received	**44,731**	41,686
	121,368	99,199

As at 31 December 2007, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Country of establishment	Principal place of operation	Class of share held the Group	Registered capital held by power held %	Proportion of voting %	Principal activity
Areva-Dongfang Reactor Coolant Pumps Company Limited	Limited liability company	PRC	PRC	Registered capital	50	50	Design, manufacture and sales of reactor coolant pumps for unclear power Stations.
Babcock -Hitichi Dongfang Boiler Limited boilers	Limited liability company	PRC	PRC	Registered capital	50	50	Design, manufacture and sales of boilers of power plants

The summarised financial information in respect of the Group's share of net assets of jointly controlled entities which are accounted for using the equity method is set out below:

	2007 *RMB'000*	2006 *RMB'000*
Total assets	**261,620**	177,831
Total liabilites	**140,252**	78,632
Income	**270,668**	242,810
Expenses	**249,797**	214,877

22. AVAILABLE-FOR-SALE INVESTMENTS

	2007 RMB'000	2006 RMB'000
Unlisted equity securities, at cost	**57,720**	57,720
Less: impairment losses recognised	**(2,621)**	(2,621)
	55,099	55,099

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

During the year ended 31 December 2006, the Dongfang Boiler disposed of certain unlisted equity securities with carrying amount of approximately RMB1,949,000 which was measured at cost less impairment. A gain on disposal of approximately RMB1,356,000 has been recognised in income statement for the year ended 31 December 2006.

23. DEFERRED TAX ASSETS

The following are the major deferred tax balances recognised and movements thereon during the current year:

	Warranty provision RMB'000	Accrual for payroll RMB'000	Loss on construction contracts RMB'000	Allowance on inventory RMB'000	Deprecation allowance RMB'00	Allowance on trade and other receivables RMB'00	Others RMB'00	Total RMB'000
Deferred tax asset								
At 1 January 2006	13,571	48,151	15,921	9,162	5,790	47,363	960	140,918
Credit (debit) to consolidated income statement	14,180	(716)	17,911	(2,575)	(589)	65,611	(190)	93,632
At 31 December 2006	27,751	47,435	33,832	6,587	5,201	112,974	770	234,550
Credit (debit) to consolidated income statement	6,506	770	(3,634)	4,137	2,401	39,997	(504)	49,673
At 31 December 2007	34,257	48,205	30,198	10,724	7,602	152,971	266	284,223

24. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
Raw materials and consumables	**3,783,232**	2,871,906
Work in progress	**7,887,585**	5,966,583
Finished goods	**362,254**	336,051
Spare parts and consumables	**6,986**	19,673
	12,040,057	9,194,213

25. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate represented an advance and was unsecured, interest free and was fully settled in 2007.

26. AMOUNTS DUE FROM/TO RELATED PARTIES

All of the Group's revenue generated from related parties are through construction projects. Settlement is made in accordance with the terms specified in the contracts governing the relevant transactions, and the Group offers credit terms generally accepted in the power equipment manufacturing industry of two to three years to them, which vary depending on the size of contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, quality of customers are evaluated periodically.

	2007	2006
	RMB'000	*RMB'000*
Amounts due from related parties due within one year		
Trade receivables:		
Fellow subsidiaries	**372,353**	165,487
Immediate holding entity	**629,925**	690,195
Less: accumulated impairment	**(83,440)**	(111,683)
	918,838	743,999
Prepayment for materials:		
Fellow subsidiaries	**389,878**	369,419
Immediate holding entity	**83,040**	89,574
	472,918	458,993
	1,391,756	1,202,992

26 AMOUNTS DUE FROM/TO RELATED PARTIES *(continued)*

	2007 RMB'000	2006 RMB'000
Amounts due to related parties		
Trade payables:		
Fellow subsidiaries	**391,295**	179,541
Immediate holding entity	**4,581**	2,362
	395,876	181,903
Receipt in advance:		
Fellow subsidiaries	**824,618**	339,156
Immediate holding entity	**1,841,016**	1,218,304
	2,665,634	1,557,460
Cash consideration for the Group Reorganisation:		
Immediate holding entity	**3,252,336**	—
	6,313,846	1,739,363
Analysed for reporting purpose:		
Current position	**4,465,846**	1,739,363
Non-current position	**1,848,000**	—
	6,313,846	1,739,363

The RMB3,252,336,000 above represents the cash consideration payable to DEC arising from the Group Reorganisation, which represents a RMB942,336,000 payable to DEC and five equal annual instalments totalling RMB2,310,000,000 payable to DEC after the completion of the Group Reorganisation which carries interest at 6.08% per annum. Accordingly, RMB1,848,000,000 is payable to DEC after one year from the balance sheet date. Apart from the RMB2,310,000,000 as mentioned above, other balances with related parties are interest free, unsecured and repayable on demand. The directors consider the carrying amounts of amounts due from and to related parties approximate their fair values.

The following is an aged analysis of amounts due from related parties which are trade in nature:

	2007 RMB'000	2006 RMB'000
Within 1 year	**577,702**	701,796
1 - 2 years	**316,272**	39,195
2 - 3 years	**24,578**	3,008
More than 3 years	**286**	—
	918,838	743,999

26 AMOUNTS DUE FROM/TO RELATED PARTIES *(continued)*

Trade receivables from related parties which are past due at the reporting date for which the Group has not provided, the aged analysis is set out as follow:

	2007	2006
	RMB'000	RMB'000
2 - 3 years	24,578	3,008
More than 3 years	286	—
	24,864	3,008

Impairment of the above amounts has not been provided by the Group as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Movements in accumulated impairment loss of trade receivables due from related parties in aggregate during the year are as follows:

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	111,683	143,494
Decrease in allowance recognised in profit or loss	(28,243)	(31,811)
Balance at end of the year	83,440	111,683

The following is an aged analysis of amounts due to related parties which are trade in nature:

	2007	2006
	RMB'000	RMB'000
Within 1 year	368,137	170,125
1 - 2 years	15,684	3,719
2 - 3 years	7,231	6,026
More than 3 years	4,824	2,033
	395,876	181,903

27. TRADE AND OTHER RECEIVABLES

Portion of the Group's revenue is generated through construction projects. Settlement is made in accordance with the terms specified in the contracts governing the relevant transactions, and the Group offers credit terms generally accepted in the power equipment manufacturing industry of two to three years to its customers, which vary depending on the size of contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, quality of customers are evaluated periodically.

For sales of products, a credit period normally at one year may be granted to large or long-established customers with good repayment history. Revenue from small, new or short-term customers is normally expected to be settled 180 days after provision of services or delivery of goods.

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**9,243,726**	5,034,069
Less: accumulated impairment	**(718,677)**	(493,076)
	8,525,049	4,540,993
Prepayment for raw materials	**4,002,618**	5,385,315
Deposits and other receivables	**73,743**	57,513
	12,601,410	9,983,821

Included in the trade receivables is bills receivables amounted to RMB755,264,000 (2006: RMB454,769,000) aged within one year.

The following is an aged analysis of trade receivables based on invoice date net of impairment losses at the reporting date:

	2007	2006
	RMB'000	*RMB'000*
Within 1 year	**5,700,121**	2,977,851
1 - 2 years	**1,990,857**	1,186,605
2 - 3 years	**691,570**	249,293
More than 3 years	**142,501**	127,244
	8,525,049	4,540,993

27. TRADE AND OTHER RECEIVABLES *(continued)*

Before accepting any new customer, the Group carries out research on the creditworthiness of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. For the year ended 31st December, 2007, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 12.2% (2006: 16.7%) of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 5.6 % (2006: 5.6%) of the Group's total turnover. There is no customer who represents more than 5% (2006: 5%) of the total balance of trade debtors. In the opinion of directors, trade and other receivables not past due nor impaired are of good credit quality at the balance sheet dates.

Trade receivables which are past due at the reporting date for which the Group has not provided, the aged analysis is set out as follow:

	2007	2006
	RMB'000	*RMB'000*
Within 1 year	**—**	—
1 - 2 years	**1,904**	—
2 - 3 years	**21,467**	6,835
More than 3 years	**29,938**	24,460
	53,309	31,295

Impairment of the above amount has not been provided by the Group as there has not been a significant change in credit quality and the amounts are still considered recoverable. The directors of the Company considers they are in good credit quality. The Group does not hold any collateral over these balances.

Movements in accumulated impairment loss of trade receivables in aggregate during the year are as follows:

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	*RMB'000*
Balance at beginning of the year	**493,076**	297,486
Increase in allowance recognised in profit or loss	**225,601**	195,590
Balance at end of the year	**718,677**	493,076

The above allowance represents full impairment for all receivable which are considered not recoverable.

28 AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2007	2006
	RMB'000	*RMB'000*
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	**3,133,790**	7,522,617
Less: progress billings	**(8,612,154)**	(12,321,246)
	(5,478,364)	(4,798,629)
Analysed for reporting purposes as:		
Amounts due from customers for contract works	**1,442,840**	835,339
Amounts due to customers for contract works	**(6,921,204)**	(5,633,968)
	(5,478,364)	(4,798,629)

Included in the trade receivables is retentions held by customers for contract works amounted to RMB3,576,666,000 (2006: RMB3,002,778,000).

29. BANK DEPOSITS WITH MATURITY OVER THREE MONTHS/ PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

Pledged bank deposits represents deposits pledged for short-term bank loans facilities granted to the Group and are therefore classified as current assets.

The weighted average effective interest rates on bank deposits with maturity over three months, pledged bank deposits and other cash and cash equivalents as at 31 December 2007 were ranged from 2.61% to 3.6% (2006: 2.61% to 3.6%), 0.72% (2006: 0.72%) and ranged from 2.25% to 3.6% (2006: 2.25% to 3.6%) respectively.

30. TRADE PAYABLES AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	2007	2006
	RMB'000	*RMB'000*
Within 1 year	**3,258,657**	2,707,186
1 - 2 years	**167,384**	148,613
2 - 3 years	**—**	56,302
	3,426,041	2,912,101
Receipt in advance	**13,735,170**	13,677,660
Other payables and accruals	**351,154**	308,487
	17,512,365	16,898,248

Included in the trade payables is bills payables amounted to RMB1,591,487,000 (2006: RMB1,205,842,000) aged within one year.

31. OTHER TAX LIABILITIES

	2007	2006
	RMB'000	*RMB'000*
Value added tax	**53,551**	64,824
Business tax	**756**	725
Property tax	**7,157**	495
Stamp duty	**5,233**	16
Others	**6,332**	7,004
	73,029	73,064

32. BORROWINGS

The exposure of the fixed-rate and floating-rate bank loans and the contractual maturity dates (or repricing dates) are as follows:

	2007 RMB'000	2006 RMB'000
Secured bill discounted with recourse	**398,348**	211,680
Unsecured bank loans	**10,000**	10,000
Unsecured other loans	**10,500**	16,320
	418,848	238,000
Carrying amount repayable:		
On demand or within one year	**413,028**	223,680
More than one year, but not exceeding two years	**5,820**	8,500
More than two years, but not exceeding five years	**—**	5,820
	418,848	238,000
Less: Amount due within one year shown under current liabilities	**(413,028)**	(218,680)
Amount due after one year	**5,820**	19,320

As at 31 December 2006 and 2007, the bill discounted with recourse are fixed-rate which carry interest at 5.86% per annum and secured by the bills receivables.

As at 31 December 2006 and 2007, the bank loans are fixed-rate borrowings which carry interest at 6.12% per annum.

As at 31 December 2006 and 2007, other loans are fixed-rate borrowing which carry interest at 2.55% per annum.

The management considers the carrying amounts of bank loans and other loans approximate to their fair values.

33. PROVISIONS

	Warranty
	RMB'000
At 1 January 2006	92,398
Provided for the year	108,210
Amount utilised	(25,269)
At 31 December 2006	175,339
Provided for the year	128,290
Amount utilised	(75,251)
At 31 December 2007	228,378

The provision for warranty claims represents the present value of the director's best estimate of the future outflow of economic benefits that will be required under the Group's warranty program for power equipment for two to three years. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials and altered manufacturing processes.

34. DEFERRED INCOME

Deferred income represents non-conditional government grants received for acquisition and improvement of property, plant and equipment.

The deferred income is released to the income statement over the expected useful life of the relevant assets. Movements of deferred income during the year are as follows:

	2007	2006
	RMB'000	*RMB'000*
At 1 January	**924,141**	732,150
Additions	**50,123**	266,019
Realised to consolidated income statement	**(76,405)**	(74,028)
At 31 December	**897,859**	924,141
Analysed for reporting purposes as:		
Current portion	**86,438**	61,346
Non-current portion	**811,421**	862,795
	897,859	924,141

35. SHARE CAPITAL

	Non-circulating state-owned domestic shares '000	Restricted circulating state-owned domestic shares '000	A shares '000	H shares '000	Total '000
Number of shares					
Authorised, issued and fully paid:					
1 January 2006, as previously stated	220,000	—	60,000	170,000	450,000
Arising from the Group Reorganisation	—	367,000	—	—	367,000
1 January 2006, as restated	220,000	367,000	60,000	170,000	817,000
Transfer	(220,000)	203,800	16,200	—	—
31 December 2006	—	570,800	76,200	170,000	817,000
Transfer	—	(22,500)	22,500	—	—
31 December 2007	—	548,300	98,700	170,000	817,000
Share capital:					
1 January 2006, as previously stated	220,000	—	60,000	170,000	450,000
Adjusted for the Group Reorganisation	—	367,000	—	—	367,000
1 January 2006, as restated	220,000	367,000	60,000	170,000	817,000
Transfer	(220,000)	203,800	16,200	—	—
31 December 2006	—	570,800	76,200	170,000	817,000
Transfer	—	(22,500)	22,500	—	—
31 December 2007	—	548,300	98,700	170,000	817,000

35. SHARE CAPITAL *(continued)*

The non-circulating state-owned domestic shares could not be traded while restricted circulating state-owned domestic shares could not be traded within the locked-up period. The A shares of ordinary shares are traded only in the PRC and the H shares of ordinary shares are traded only in Hong Kong. All shares rank pari passu in all other material aspects.

As disclosed in Note 2, the Group Reorganisation is a combination of business under common control since the Company, Dongfang Turbine and Dongfang Boiler are under the common control of DEC. As a result, the Company accounted for the acquisition in a manner similar to a uniting of interests. The consolidated financial statements have been restated to give effect to the acquisition with all periods presented as if the operations of the Company, Dongfang Turbine and Dongfang Boiler have always been combined which the principle of merger accounting was applied. Consequently, the share capital in respect of the 367,000,000 common shares issued in 2007 for the purposes of the business combination is shown as if it had always been issued.

On 17 February 2006, the Company received a Transfer and Registration Confirmation issued by the China Securities Depository and Clearing Corporation Limited (Shanghai Branch) confirming that the 220,000,000 non-circulating state-owned domestic shares of the Company have been transferred from DFEW to DEC.

On 17 April 2006, DEC made a share segregation reform (the "Reform Proposal"), that 2.7 non-circulating state-owned domestic shares would be allocated to each shareholders of A Shares for every ten A Shares held by such A Shares shareholder at the close of business on the Reform Proposal record date, in exchange for the consent of A Shares shareholders on the conversion of DEC's non-circulating state-owned domestic shares into restricted circulating state-owned domestic shares. Accordingly, an aggregate of 16,200,000 shares were allocated by DEC to the A Shares shareholders.

36. OPERATING LEASE ARRANGEMENTS

The Group as lessor

The investment properties of the Group are expected to generate rental yields of 3.13% on an ongoing basis. All of the properties held have committed tenants for one year in average.

At balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	2007	2006
	RMB'000	*RMB'000*
Within one year	**119**	592
In the second year	**—**	119
	119	711

The Group as lessee

	2007	2006
	RMB'000	*RMB'000*
Minimum lease payments paid under operating leases during the year:		
Properties	**8,364**	8,940

36. OPERATING LEASE ARRANGEMENTS *(continued)*

At the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	2006
	RMB'000	*RMB'000*
Within one year	**5,153**	64

Operating lease payments represent rentals payable by the Group for office premise. Leases are negotiated for one year.

37 CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2007	2006
	RMB'000	*RMB'000*
Capital expenditure for the acquisition of:		
Investment in a jointly controlled entity		
— contracted for but not provided in the consolidated financial statements	**—**	19,125
Construction in progress		
— contracted for but not provided in the consolidated financial statements	**485,837**	348,553
	485,837	367,678

38 RETIREMENT BENEFITS PLANS AND HOUSING FUND

The employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. For the year ended 31 December 2007, the retirement benefits scheme contributions made by the Group amounted to RMB144,565,000 (2006: RMB123,011,000).

The Group's full-time employees are entitled to a housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund on 11% of employees' salaries. From 1 February 2005, the contribution rate was changed to 15%. For the year ended 31 December 2007, the housing fund contributions made by the Group amounted to RMB117,924,000 (2006: RMB89,595,000).

In addition, the Company and Dongfang Turbine offered a scheme for early termination of certain elderly employees before their statutory retirement dates. Under the scheme, the early retired employees are entitled to certain benefits monthly till their statutory retirement dates.

38 RETIREMENT BENEFITS PLANS AND HOUSING FUND (continued)

The movements of the expected expenditure to settle such early termination obligation and amount utilised are as follows:

	Termination benefit RMB'000
At 31 December 2005	50,051
Additional provision for the year	29,083
Amount paid	(26,998)
At 31 December 2006	52,136
Addition provision for the year	69,314
Amount paid	(40,005)
At 31 December 2007	81,445

	2007 ***RMB'000***	2006 *RMB'000*
Reported as:		
Current liabilities	**16,472**	29,440
Non-current liabilities	**64,973**	22,696
	81,445	52,136

39 RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in Note 1, 2 and 26, during the year, the Group entered into the following transactions with related parties:

(a) Transactions with DEC and its subsidiaries other than DFEW and its subsidiaries in Note (c)

	2007 ***RMB'000***	2006 *RMB'000*
Expenditure		
— Interest paid and payable	**22,030**	1,529
— Purchase of raw materials	**2,114,462**	1,628,114
— Freight and maintenance	**105,016**	186,860
— Sub-contracting services	**804,807**	719,574
	3,046,315	2,536,077
Revenue		
— Sale of finished goods	**2,361,339**	2,556,516
Other income		
— Interest income	**11,529**	18,680
— Others	**61**	953
	11,590	19,633

39 RELATED PARTY TRANSACTIONS (continued)

(b) Payments for Ancillary Businesses of DEC not re-charged to DEC were as follows:

	2007 RMB'000	2006 RMB'000
Transfer of property, plant and Equipment and construction in progress to Ancillary Businesses	—	28,483
Payment made on behalf of Ancillary Businesses	—	535,623
Received on behalf of Ancillary Businesses	—	(55,477)
	—	508,629

(c) Transactions with DFEW and its subsidiaries

	2007 RMB'000	2006 RMB'000
Revenue		
— Sale of goods	**38,875**	47,263
Expenditure		
— Purchase of raw materials	**137,225**	111,859
— Freight and maintenance	**105,432**	73,116
— Rental expenses	**3,779**	3,596
— Sub-contracting services	**73,971**	36,266
— Management fee	**4,193**	4,602
— Others	**136**	–
	324,736	229,439
Other income		
— Provision of power supply	**9,854**	9,302

39 RELATED PARTY TRANSACTIONS *(continued)*

(d) Current accounts with related parties are as follows:

Name of related company	Related balances	2007 *RMB'000*	2006 *RMB'000*
DEC and its subsidiaries (other than DFEW and its subsidiaries below)	Trade receivables	**904,044**	889,406
	Receipts in advance	**2,545,372**	2,172,075
	Prepayment	**462,621**	401,130
	Trade payable	**292,591**	107,738
	Other payable	**1,036,171**	—
	Bills payables	**176,341**	98,636
	Other receivables	**20,767**	68,900
	Long term payables	**1,848,000**	—
DEC Finance Company (subsidiary of DEC)	Deposits	**360,818**	445,559
DFEW and its subsidiaries	Trade receivables	**98,234**	70,940
	Other receivables	**3,324**	2,608
	Prepayment	**14,389**	15,367
	Trade payables	**103,285**	74,165
	Bills payables	**8,006**	13,874
	Receipts in advance	**2,009**	2,919
	Other payables	**2,888**	5,389

39 RELATED PARTY TRANSACTIONS *(continued)*

(e) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under DEC, which is controlled by the PRC government. Apart from the transactions with DEC and its subsidiaries disclosed in (a), (b), (c) and (d) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions/balances with other state controlled entities are as follows:

	2007	2006
	RMB'000	*RMB'000*
Sales	**19,498,352**	20,706,441
Purchases	**5,882,441**	4,892,182
Amounts due from other state-controlled entities	**7,648,315**	6,264,693
Amounts due to other state-controlled entities	**6,200,236**	7,640,699

(f) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007	2006
	RMB'000	*RMB'000*
Short-term employee benefits	**2,212**	1,880
Post-employment benefits	**142**	239
	2,354	2,119

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

The remuneration of four (2006: two) directors and one (2006: one) supervisors were paid by DEC.

40 PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place/country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital	Proportion ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
				Directly	Indirectly		
			'000	%	%		
Dongfond Turbines	PRC	Registered capital	RMB1,846,000	100	–	100	Design, manufacture and sales of Turbines
Dongfang Boiler	PRC	Registered capital	RMB401,415	68.05	–	68.05	Design, manufacture and sales of boiler
DFEM Equipment Engineering Co., Ltd.	PRC	Registered capital	RMB13,500	97.04	0.74	97.78	Provision of services for repair and upgrade of electrical machinery equipment
DFEM Power Equipment Co., Ltd.	PRC	Registered capital	RMB42,754	98.83	–	98.83	Manufacture and sales of AC/DC electrical motors
DFEM Tooling and Moulding Co., Ltd.	PRC	Registered capital	RMB14,600	99.32	–	99.32	Manufacture and sales of tools and moulds
DFEM Control Equipment Co., Ltd.	PRC	Registered capital	RMB13,000	96.15	–	96.15	Manufacture and sales of control equipment of power generators
Shenzhen Dongfang Boiler Control Co., Ltd.	PRC	Registered capital	RMB10,000	–	51	51	Research and manufacture of power station boiler control system
Chengdu Dongfang KWH Catalysts Co., Ltd	PRC	Registered capital	EUR13,000	–	51	51	Design, manufacture and sales of Selective Catalytic catalysts

There is no change in the proportion ownership interest held by the Company and the proportion of voting power held by the Company during 2006 and 2007.

All of the subsidiaries of the Company are domestic entities. None of the subsidiaries had issued any debt securities at the end of the year.

41 POST BALANCE SHEET EVENT

(1) The English name of the Company has been changed to Dongfang Electric Corporation Limited with effect from 2 January 2008, while the Chinese name 東方電氣股份有限公司 remains unchanged.

(2) Following the lapse of the acquisition offer (the "Acquisition Offer") for the acquisitionof the shares of Dongfang Bolier by the Company on 26 January 2008, a total of126,905,730 shares of Dongfang Bolier was accepted by the shareholders of DongfangBolier as confirmed by the China Securities Depository and Clearing Corporation LimitedShanghai Branch. Upon the completion of the Acquisition Offer, the Company hasaltogether had 400,070,974 shares of Dongfang Bolier, representing 99.67% of the issuedshare capital of Dongfang Bolier. In accordance with the relevant regulations under theSecurities Law, the distribution of the shares in Dongfang Boiler does not fulfill thelisting requirement and with effect from 18 March 2008, the listing status of DongfangBolier was terminated by the Shanghai Stock Exchange.

(3) During the 2008 First Extraordinary General Meeting on 19 January 2008, it was approved that the 東方電氣集團東方電機有限公司 is to be established.

(4) On 5 March 2008, the Company made an announcement relating to the AcquisitionOffer in respect of the shares of Dongfang Boiler acquired pursuant to the AcquisitionOffer that lapsed on January 26, 2008 and the settlement and register of the relevant Ashares was completed on February 29, 2008. The number of the A shares of the Companyissued and in circulation was 129,444,150 and was granted listing on March 10, 2008.

(5) Pursuant to the Board meeting on 28 March 2008, the Company's Board of Directorsapproved to make appropriation to statutory surplus reserve at 10% of the net profit forthe year and proposed the final dividend of RMB0.24 per share totally RMB196,080,000.The reSmaining retained earnings is carried forward to next year.

To the shareholders of
Dongfang Electric Company Limited

We have audited the accompanying financial statements of Dongfang Electric Company Limited (the "Company"), including consolidated balance sheet of the Company and its subsidiaries (the "Group") as at 31 December 2007, the consolidated income statement of the Company and the Group, the consolidated statement of changes in equity of the Company and the Group, the consolidated cash flow statement of the Company and the Group for the year then ended, and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation of these financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprise, and present fairly, in all material respect, the financial position of the Company and the Group as of 31 December 2007, and the results of its operations and cash flows for the year then ended.

Deloitte Touche Tohmatsu CPA Ltd.
Shanghai, China

28 March 2008

Chinese Certified Public Accountant

Chinese Certified Public Accountant

Consolidated Balance Sheet of the Company and the Group

At 31 December 2007
(prepared under PRC Accounting Standards)

	Group		Company	
	31/12/2007	31/12/2006	**31/12/2007**	31/12/2006
	RMB	*RMB*	***RMB***	*RMB*
		(Restated)		(Restated)
ASSETS				
CURRENT ASSETS:				
Monetary funds	**5,020,270,063.60**	7,097,857,636.21	**1,442,874,984.13**	3,211,978,362.88
Trading financial asset	**885,904.02**	44,263.24	**885,904.02**	44,263.24
Notes receivable	**755,264,420.90**	454,768,717.66	**26,739,996.00**	43,280,000.00
Accounts receivable	**7,776,081,054.89**	5,311,719,480.72	**1,816,511,272.13**	1,120,853,375.49
Advances to suppliers	**5,285,587,991.11**	4,969,363,754.52	**1,359,317,112.77**	1,347,501,870.69
Other receivables	**175,838,074.92**	211,056,914.25	**72,441,877.45**	120,022,615.38
Inventories	**13,525,874,727.87**	10,077,549,131.26	**3,562,825,462.26**	2,787,089,563.67
Including: Amounts due from customers for contract work	**1,645,151,464.47**	846,391,980.67	**979,300,224.95**	580,865,392.24
Total current assets	**32,539,802,237.31**	28,122,359,897.86	**8,281,596,608.76**	8,630,770,051.35
Non-current assets				
Long-term equity investment	**351,499,670.86**	209,303,091.13	**4,253,871,225.67**	107,284,713.43
Properties held for investment	**35,681,586.19**	37,307,994.14	**24,912,778.92**	26,029,234.15
FIXED ASSETS	**2,506,618,981.28**	2,257,667,275.52	**696,290,799.76**	651,522,289.97
Construction in progress	**311,851,600.57**	251,915,360.57	**120,814,547.51**	48,659,793.17
Construction materials	**121,664.96**	503,916.63	**—**	—
Intangible assets	**348,472,241.17**	302,713,453.85	**37,312,038.74**	30,922,779.99
Long-term deferred expenses	**—**	5,545,563.27	**—**	—
Deferred income tax assets	**284,349,148.36**	242,457,028.09	**71,626,678.07**	53,711,182.68
Total non-current assets	**3,838,594,893.39**	3,307,413,683.20	**5,204,828,068.67**	918,129,993.39
TOTAL ASSETS	**36,378,397,130.70**	31,429,773,581.06	**13,486,424,677.43**	9,548,900,044.74

At 31 December 2007
(prepared under PRC Accounting Standards)

	Group		Company	
	31/12/2007	31/12/2006	**31/12/2007**	31/12/2006
	RMB	*RMB*	***RMB***	*RMB*
		(Restated)		(Restated)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term loans	**392,528,000.00**	211,680,000.00	**—**	—
Notes payable	**1,591,486,937.85**	1,205,841,367.68	**301,638,597.34**	315,298,480.74
Accounts payable	**3,426,040,657.01**	2,806,618,928.65	**658,637,144.10**	659,678,776.11
Advances form customers	**21,699,570,822.34**	18,385,415,047.85	**5,501,028,902.45**	5,489,841,411.39
Including: amounts received for uncompleted contract work	**6,921,024,498.07**	5,408,422,982.50	**2,017,970,375.26**	1,971,851,421.68
Salaries and wages payable	**377,287,439.20**	518,079,651.08	**144,670,488.50**	220,855,125.29
Taxes payable	**344,086,857.58**	423,112,440.64	**108,684,899.37**	223,694,051.00
Interest payable	**21,457,333.33**	—	**21,457,333.33**	—
Dividend payable	**4,275.00**	—	**—**	—
Other payables	**1,347,536,178.71**	794,053,429.73	**1,420,685,108.47**	44,540,448.49
Non-current liabilities due within one year	**482,500,000.00**	7,000,000.00	**462,000,000.00**	—
Total current liabilities	**29,682,498,501.02**	24,351,800,865.63	**8,618,802,473.56**	6,953,908,293.02
Non-current liabilities				
Long-term borrowings	**5,820,000.00**	19,320,000.00	**—**	—
Long-term payables	**1,848,685,252.84**	685,252.84	**1,848,685,252.84**	685,252.84
Estimated liabilities	**228,377,931.14**	175,340,429.13	**52,795,709.59**	38,045,913.65
Deferred income tax liabilities	**45,120,569.93**	82,379,697.60	**126,246.12**	—
Other non-current liabilities	**699,787,210.76**	718,616,884.89	**217,035,121.28**	247,077,649.14
Total non-current liabilities	**2,827,790,964.67**	996,342,264.46	**2,118,642,329.83**	285,808,815.63
TOTAL LIABILITIES	**32,510,289,465.69**	25,348,143,130.09	**10,737,444,803.39**	7,239,717,108.65
SHAREHOLDERS' EQUITY				
Paid-in capital	**817,000,000.00**	450,000,000.00	**817,000,000.00**	450,000,000.00
Capital reserve	**—**	2,731,294,116.09	**117,162,867.00**	602,984,059.24
Surplus reserves	**405,525,983.43**	519,017,218.85	**288,363,116.43**	223,501,303.41
Retained earnings	**1,784,980,994.44**	1,714,308,699.92	**1,526,453,890.61**	1,032,697,573.44
Including: Cash dividends approved to be distributed after the balance sheet date	**196,080,000.00**	90,000,000.00	**196,080,000.00**	90,000,000.00
Total equity attributable to shareholders of the Company	**3,007,506,977.87**	5,414,620,034.86	**2,748,979,874.04**	2,309,182,936.09
Minority interests	**860,600,687.14**	667,010,416.11	**—**	—
TOTAL SHAREHOLDERS' EQUITY	**3,868,107,665.01**	6,081,630,450.97	**2,748,979,874.04**	2,309,182,936.09
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**36,378,397,130.70**	31,429,773,581.06	**13,486,424,677.43**	9,548,900,044.74

Legal representative:	Person in charge of accounting function	Person in charge of accounting department

Income Statement of the Company and the Group

For the year ended 31 December 2007
(prepared under PRC Accounting Standards)

Item			Group		Company	
			2007	2006	**2007**	2006
			RMB	*RMB*	***RMB***	*RMB*
				(Restated)		(Restated)
1.	**Operating Revenue**		**24,886,776,619.93**	23,077,260,672.50	**5,742,238,074.21**	4,905,285,498.77
	Less:	Operating cost	**20,088,669,634.76**	18,615,415,282.14	**4,440,525,983.97**	3,572,767,928.86
		Business tax and surcharges	**58,246,734.03**	39,483,782.59	**18,910,019.20**	8,611,073.16
		Sales expenses	**385,246,663.20**	284,073,619.48	**67,165,180.56**	68,487,332.10
		General and administrative expenses	**1,659,129,362.70**	1,243,589,794.02	**490,858,506.68**	356,668,610.30
		Financial costs	**(45,341,410.95)**	(135,565,286.94)	**(12,110,242.94)**	(51,064,979.57)
		Loss of assets impairment	**293,107,127.65**	552,746,382.90	**27,043,720.90**	47,704,259.03
	Add:	Profit from changes in fair value	**841,640.78**	—	**841,640.78**	—
		Investment income	**(24,009,408.27)**	5,642,809.24	**(4,130,711.30)**	384,615.38
	Including:	Investment income from associated enterprises and joint ventures	**(24,009,408.27)**	1,840,904.28	**(6,053,711.30)**	—
2.	**Operating Profit**		**2,424,550,741.05**	2,483,159,907.55	**706,555,835.32**	902,495,890.27
	Add:	Non-operating revenue	**88,744,271.14**	87,785,808.96	**37,521,085.54**	45,649,500.15
	Less:	Non-operating expenditure	**23,381,339.86**	25,993,496.97	**3,824,887.22**	3,283,225.69
3.	**Profit before tax**		**2,489,913,672.33**	2,544,952,219.54	**740,252,033.64**	944,862,164.73
	Less:	Income tax fee	**313,540,619.29**	286,450,158.26	**91,633,903.45**	92,493,842.47
4.	**Net profit**		**2,176,373,053.04**	2,258,502,061.28	**648,618,130.19**	852,368,322.26
	Including:	Net profit of the merged parties under common control	**1,258,836,016.00**	1,368,236,271.52		
	Net profit attributable to the shareholders of the parent company		**1,989,855,973.51**	2,070,510,606.87		
	Minority interest income		**186,517,079.53**	187,991,454.41		
5.	**Earnings per share**					
	(1) Basic earnings per share		**2.44**	2.53		
	(2) Diluted earnings per share		**2.44**	2.53		

Consolidated Statement of Cash Flow of the Company and the Group

For the year ended 31 December 2007
(prepared under PRC Accounting Standards)

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
		(Restated)		(Restated)
1. CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from sales of goods and rendering services	**26,570,733,046.97**	18,848,625,411.25	**4,955,644,953.30**	4,712,887,238.88
Tax Refund	**46,758,787.95**	319,703,627.16	**—**	38,041,254.86
Other cash receipts relating to operating activities	**257,402,616.72**	494,215,359.89	**562,812,023.79**	96,558,673.48
Sub-total of cash inflows from operating activities	**26,874,894,451.64**	19,662,544,398.30	**5,518,456,977.09**	4,847,487,167.22
Cash paid for goods and services	**23,491,049,172.81**	20,454,705,453.49	**4,694,170,642.33**	4,233,604,858.16
Cash paid to and on behalf of employees	**1,645,708,664.82**	1,361,909,317.95	**721,192,643.42**	527,944,120.77
Tax payments	**1,076,324,385.29**	970,925,009.65	**357,387,045.64**	164,944,297.76
Other cash payments relating to operating activities	**1,123,701,586.86**	1,283,566,240.80	**202,542,792.15**	178,009,178.48
Sub-total of cash outflows from operating activities	**27,336,783,809.78**	24,071,106,021.89	**5,975,293,123.54**	5,104,502,455.17
Net cash flow from operating activities	**(461,889,358.14)**	(4,408,561,623.59)	**(456,836,146.45)**	(257,015,287.95)
2. CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash received from disposal of investments	**320,332.46**	8,592,519.28	**1,923,000.00**	384,615.38
Net cash received from disposal of fixed assets, intangible assets and other long term assets	**5,773,872.24**	89,685,133.92	**2,109,030.84**	3,487,470.00
Sub-total of cash inflows from investing activities	**6,094,204.70**	98,277,653.20	**4,032,030.84**	3,872,085.38
Cash paid to acquire fixes assets, intangible assets and other long term assets	**692,651,108.09**	578,387,155.95	**187,626,716.77**	195,416,359.27
Cash paid to acquire investments	**1,175,819,100.00**	54,105,120.20	**1,019,125,000.00**	17,000,000.00
Sub-total of cash outflows from investing activities	**1,868,470,208.09**	632,492,276.15	**1,206,751,716.77**	212,416,359.27
Net cash flows from investing activities	**(1,862,376,003.39)**	(534,214,622.95)	**(1,202,719,685.93)**	(208,544,273.89)

Consolidated Statement of Cash Flow of the Company and the Group *(continued)*

For the year ended 31 December 2007
(prepared under PRC Accounting Standards)

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
		(Restated)		(Restated)
3. CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash received from capital contribution	**9,811,371.97**	37,824,809.99	**—**	
Cash received from borrowing	**392,528,000.00**	221,680,000.00	**—**	10,000,000.00
Sub-total of cash inflows from financing activities	4**02,339,371.97**	259,504,809.99	**—**	10,000,000.00
Cash repayments of borrowings	**—**	30,000,000.00		20,000,000.00
Dividends paid, profit distributed or interest paid				
Sub-total of cash outflows from financing activities	**176,819,878.85**	523,624,962.87	**88,407,745.05**	221,831,967.61
Net Cash Flows from Financing Activities	**176,819,878.85**	553,624,962.87	**88,407,745.05**	241,831,967.61
Net Cash Flows from Financing Activities	**225,519,493.12**	(294,120,152.88)	**(88,407,745.05)**	(231,831,967.61)
4. EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS:	**(67,595.34)**	(312,874.59)	**(173,711.40)**	(340,744.31)
5. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	**(2,098,813,463.75)**	(5,237,209,274.01)	**(1,748,137,288.83)**	(697,732,273.76)
Add: Cash and cash equivalents at the beginning of the period	**6,926,194,176.42**	12,163,403,450.43	**3,085,916,286.59**	3,783,648,560.35
6. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,827,380,712.67**	6,926,194,176.42	**1,337,778,997.76**	3,085,916,286.59

For the year ended 31 December 2007
(Prepared in accordance with HKFRS (Audited))

Consolidated income statement

	2007	2006	2005	2004	2003
	RMB'000	*RMB'000* (restated)	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**24,099,128**	22,433,762	3,047,858	2,051,360	1,199,622
Profit before tax	**2,754,010**	2,782,024	617,201	311,759	20,126
Income tax charge	**(343,018)**	(324,977)	(82,213)	(59,004)	(1,510)
Profit for the year	**2,410,992**	2,457,047	534,988	252,755	18,616
Minority interests	**186,517**	187,963	290	167	(2)
Profit Attributable to the equity holders of the parent	**2,224,475**	2,269,084	534,698	252,588	18,618

Consolidated balance sheets

	2007	2006	2005	2004	2003
	RMB'000	*RMB'000* (restated)	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**36,117,881**	31,334,058	8,462,888	6,348,184	3,730,752
Total liabilities	**(32,718,717)**	(26,010,445)	(6,763,159)	(5,129,397)	(2,764,699)
Miniority interests	**(860,601)**	(667,187)	(1,272)	(1,028)	(882)
Net assets	**2,538,563**	4,656,424	1,698,457	1,217,759	965,171

Documents Available for Inspection

1. 2007 Annual Report signed by the Chairman of the Company.

2. Original financial statements of the Company stamped and signed by the Legal Representative, General Accountant and Finance Manager.

3. Articles of Association of the Company.

4. This report has been prepared in both Chinese and English. Should there be any discrepancies between the two versions, the Chinese version shall prevail.

Si Zefu
Chairman

Dongfang Electric Company Limited
28 March 2008