



東方電機股份有限公司
Dongfang Electrical Machinery Company Limited

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



Interim Report 2007





CONTENT

I.	IMPORTANT NOTICE	2
II.	COMPANY PROFILE	3
III.	CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS	7
IV.	DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT	13
V.	REPORT OF THE BOARD	16
VI.	SIGNIFICANT EVENTS	23
VII.	FINANCIAL STATEMENT (UNAUDITED)	35
VIII.	DOCUMENTS AVAILABLE FOR INSPECTION	74



I. IMPORTANT NOTICE

1. The board of directors (the “Board”), the supervisory committee and the directors, supervisors and senior management of Dongfang Electrical Machinery Company Limited (the “Company”) have confirmed that this interim report contains no false representation, misleading information or material omission. The Board of the Company jointly and severally accepts full responsibility for the truthfulness, accuracy and completeness of the contents of this interim report.
2. The financial statements in this interim report have not been audited.
3. Mr. Si Zefu, the Legal Representative and Chairman of the Company, Mr. Gong Dan, Vice General Manager of Finance Department and the General Accountant, and Ms. Yan Ling, the Finance Manager have declared that they confirm the truthfulness and completeness of the financial statements in this interim report.

II. COMPANY PROFILE

(I) Basic Information

1. Company name (in Chinese) : 東方電機股份有限公司
Chinese abbreviation : 東方電機
Company name (in English) : DONGFANG ELECTRICAL
MACHINERY
COMPANY LIMITED

English abbreviation : DFEM
2. Place of listing of A share : Shanghai Stock Exchange
Abbreviation of A share
of the Company : Dongfang Electrical
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 Electrical
Stock code of H share
of the Company : 1072
3. Registered Company address : 188 Huanghe West Road, Deyang,
Sichuan Province, the PRC
Registered office address : 188 Huanghe West Road, Deyang,
Sichuan Province, the PRC

Postal code : 618000
Website : <http://www.dfem.com.cn>
E-mail : dsb@dfem.com.cn



4. Legal representative
of the Company : Si Zefu
5. Secretary to the Board
of Directors : Gong Dan
Telephone : 0838-2409358, 2412114
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E-mail : dsb@dfem.com.cn
Contact address : 188 Huanghe West Road, Deyang,
Sichuan Province, the PRC
- Representative of
securities affairs : Huang Yong
Telephone : 0838-2409358, 2412114
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Sichuan Province, the PRC
6. Newspapers for disclosure
of the Company's information : "China Securities Journal", "Shanghai
Securities News", "Securities Daily"
"The Standard", "Hong Kong
Economic Times"
- Website publishing the
Interim Report designated
by China Securities
Regulatory Commission : <http://www.sse.com.cn>
- Website publishing
the Interim Report : <http://dfem.wsfg.hk>
- Address for inspection
of the Interim Report : Office of the Board of Directors of the
Company

(II) Major Financial Data and Indicators

1. Major Accounting Data and Indicators

Unit: RMB

	As at the end of the reporting period	As at the end of last year	Change compared with the end of last year (%)
Total assets	9,607,545,835.90	9,636,050,022.13	(0.30)
Shareholders' equity	2,751,155,999.32	2,314,491,214.68	18.87
Net assets per share	6.11	5.14	18.87

	Reporting period (Jan - Jun)	Corresponding period last year	Change as compared with the same period last year (%)
Operating profit	485,784,491.09	421,059,347.82	15.37
Total profit	503,568,933.29	445,321,878.78	13.08
Net profit	436,664,784.64	396,204,485.43	10.21
Net profit after deducting extraordinary profit and loss items	419,237,852.81	372,728,728.85	12.48
Basic earnings per share	0.97	0.88	10.23
Diluted earnings per share	0.97	0.88	10.23
Return on net assets (%)	15.87	17.12	Decreased by 1.25 percentage point
Net cash flow from operating activities	(667,493,215.20)	(622,544,238.64)	(7.22)
Net cash flow per share from operating activities	(1.48)	(1.38)	(7.25)

2. Non-recurring items and amount

Unit: RMB

Non-recurring items	Amount
Gain and loss from disposal of non-current assets	173,204.99
Net amount of other deductible non-operating income and expenses	1,787,239.40
Governmental subsidies	15,823,997.81
Effects of income tax of non-recurring gains/losses	(357,510.37)
Total	17,426,931.83

3. Reconciliation for financial statements prepared in accordance with Hong Kong financial Reporting Standards (“HKFRSs”) and New Accounting Standards for Business Enterprises of PRC (“PRC GAAP”)

Unit: RMB

Item	Net profit	Net assets
Prepared under PRC GAAP	436,838,690.38	2,752,967,751.17
Adjustments under HKFRSs:		
Retirement benefit costs	(29,219,470.37)	—
Related deferred tax assets	5,578,159.06	—
Prepared under HKFRSs	413,197,379.07	2,752,967,751.17

Since 1 January 2007, the Group has implemented the new Accounting Standards for Business Enterprises promulgated on 15 February 2006 by the Ministry of Finance. In preparing the financial statements in accordance with the new Accounting Standards for Business Enterprises, the retirement benefit costs of RMB29,219,470.37 and the corresponding deferred tax asset of RMB5,578,159.06 (total difference is RMB23,641,311.31) have been recognised as prior period adjustments in accordance with ‘the Accounting Standards for Business Enterprises No. 38 — First Implementation of the Accounting Standards for Business Enterprises’.

III. CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

1. CHANGES OF SHARE CAPITAL

Unit: share

	Before the change		Increase(+) / decrease(-)					After the change	
	Number	Percentage (%)	Issue of new shares	Bonus new share	Conversion of surplus capital into shares	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium									
1. State-owned shares									
2. State-owned legal person shares	203,800,000	45.29				(22,500,000)	(22,500,000)	181,300,000	40.29
3. Other domestic shares:									
Including: domestic non-state-owned legal person shares									
domestic natural person shares									
4. Foreign invested shares:									
Shares owned by Overseas Legal Person									
Shares owned by Overseas natural person									
II. Shares not subject to trading moratorium									
1. RMB ordinary shares	76,200,000	16.93				22,500,000	2,500,000	98,700,000	21.93
2. Domestic listed foreign investment shares									
3. Overseas listed foreign investment shares	170,000,000	37.78						170,000,000	37.78
4. Others									
III Total number of shares	450,000,000	100						450,000,000	100

(II) Particulars of Shareholders

1. Number of shareholders and their shareholdings

Unit: share

Total number of shareholders at the end of
the reporting period 11,859

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 reporting period	Number of non-circulating shares held	Number of shares pledged or frozen
Dongfang Electric Corporation	State-owned shareholder	45.29	203,800,000	0	181,300,000	Unknown
HKSCC Nominees Limited	Unknown	37.558	169,103,399	186,000		Unknown
Bank of Communications-Fuguo Tianyi Value Securities Investment Fund	Unknown	0.91	4,080,000	(600,036)		
China Construction Bank-Huaan Hongli Share-type Securities Investment Fund	Unknown	0.68	3,059,959	559,981		Unknown
Bank of Communications-Greatwall Jiufu Core Growth Stock Fund (LOF)	Unknown	0.57	2,567,215			Unknown
Bank Of China- Yinhua Advanced Enterprises (Balance) Securities Investment Fund	Unknown	0.56	2,533,458			Unknown
Bank of Communications-Hai Fu Tong Selection Securities Investment Fund	Unknown	0.53	2,400,000	(606,637)		Unknown
China Construction Bank-First State Cinda Leading Growth Stock Fund	Unknown	0.51	2,295,072			Unknown
China Construction Bank-Hai Fu Tong Style Advantage Stock Fund	Unknown	0.50	2,232,962			Unknown
Bank of Communications -Edged Securities Investment Fund	Unknown	0.49	2,200,000	(530,065)		Unknown

Top ten holders of circulating shares of the Company and their respective shareholdings

Name of shareholder	No. of circulating shares held	Class of shares
HKSCC Nominees Limited	169,103,399	Overseas listed foreign investment shares
Dongfang Electric Corporation	22,500,000	RMB ordinary shares
Bank of Communications- Fuguo Tianyi Value Securities Investment Fund	4,080,000	RMB ordinary shares
China Constructuon Bank-Huaan Hongli Share-type Securities Investment Fund	3,059,959	RMB ordinary shares
Bank of Communications- Greatwall Jiufu Core Growth Stock Fund (LOF)	2,567,215	RMB ordinary shares
Bank Of China- Yinhua Advanced Enterprises (Balance) Securities Investment Fund	2,533,458	RMB ordinary shares
Bank of Communications- Hai Fu Tong Selection Securities Investment Fund	2,400,000	RMB ordinary shares
China Construction Bank-First State Cinda Leading Growth Stock Fund	2,295,072	RMB ordinary shares
China Construction Bank-Hai Fu Tong Style Advantage Stock Fund	2,232,962	RMB ordinary shares
Bank of Communications -Edged Securities Investment Fund	2,200,000	RMB ordinary shares

Statement on connected party relationship or act in concert among the above shareholders:

The Company is not aware of any connection or any act in concert among the above shareholders.





Number of shares held by the top ten holders of shares subject to trading moratorium and trading moratorium

Unit: Share

No.	Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium held	Date on which shares subject to trading moratorium can be traded	Increase in number of shares available for trading	Trading moratorium
1	Dongfang Electric Corporation	181,300,000	24 April 2007	22,500,000	The Company undertakes that it will not trade on the Shanghai Stock Exchange or transfer its noncirculating shares within 12 months from the date of the implementation of the share segregation reform. Upon the expiry 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 noncirculating 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.

- (1) Dongfang Electric Corporation is the authorized holder of 203,800,000 domestic legal person shares (State-owned legal person shares). None of the shares held by it was pledged, frozen or under custody during the reporting period.
- (2) Shares held by HKSCC Nominees Limited are shares held on behalf of its customers. The Company has not received any information as to any holder of H shares holding more than 10% of the total issued share capital of the Company. Particulars of shareholders holding over 5% of the total H share capital were as follows:

Name	Type of shareholders	No. of shares held	Percentage of total issued shares (%)	Percentage of total issued H shares (%)
INVESCO Hong Kong Limited (previously known as INVESCO Asia Limited) in its capacity as manager / adviser of various accounts	H share	11,984,000	2.7	7.04
JPMorgan Chase & Co.	H share	11,756,000 (Lending Pool)	2.6	6.92 (Lending Pool)
Government of Singapore Investment Corporation Pte Ltd	H share	11,537,573	2.6	6.79
Fidelity International Limited	H share	10,230,000	2.3	6.02
Cheah Cheng Hye	H share	8,780,000	2.0	5.16
Value Partners Limited	H share	8,780,000	2.0	5.16

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- (3) 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 notified 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.
 - (4) Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the reporting period.
 - (5) There is no provision for pre-emptive rights under the relevant PRC laws and the Company’s Articles of Association.
 - (6) As at 30 June 2007, the Company had not issued any convertible securities, options, warrants or any other similar rights.

2. Changes in controlling shareholder and of de facto controller

There was no change in the controlling shareholder and the de facto controller during the reporting period.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no change in the shareholding of directors, supervisors and senior management during the reporting period.

(II) Shareholding of Directors, Supervisors and Senior Management

Name	Number of shares held at the beginning of the period	Number of shares held at the end of the period	Increase/decrease in shares	Reason for the change
Si Zefu	0	0	—	—
Han Zhiqiao	1270	1270	0	—
Gong Dan	1270	1270	0	—
Liu Shigang	0	0	—	—
Li Hongdong	1270	1270	0	—
Chen Xingyou	0	0	—	—
Chen Zhangwu	0	0	—	—
Zheng Peimin	0	0	—	—
Xie Songlin	0	0	—	—
Wen Bingyou	0	0	—	—
Wang Wanling	0	0	—	—
Fang Yunfu	0	0	—	—
Zhang Tiande	1270	1270	0	—
He Jianhua	1270	1270	0	—
Xia Xiaoqiang	0	0	—	—
Li Yunjun	0	0	—	—

- (1) Save as disclosed above, none of the directors, supervisors and senior management of the Company, as at 30 June 2007, had any interest or short positions in the shares, underlying shares and debentures of the Company or its associate corporations (within the meaning of the SFO), which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or to be notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”).
- (2) None of the directors, supervisors and senior management or their respective associates was granted by the Company or its subsidiaries any right to acquire or sell shares or debentures of the Company nor had they exercised any such right as at 30 June 2007.
- (3) Save for those set out in the register required to be maintained by directors and supervisors under Section 352 of the SFO, during the reporting period, the Company did not engage in any arrangement which would enable the directors or supervisors of the Company or their respective associates to acquire any interest in any shares or debentures of the Company, nor did the directors or supervisors had any interest which was required to be recorded in the register under Section 352 of the SFO.

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

On 4 January 2007, Mr. Zhu Yuanchao was approved by the Sixth Meeting of the Fifth Board to be transferred to Dongfang Electric Corporation and to cease holding the positions of the Director and Chairman of the Company due to work requirement; Also, Mr. Fu Haibo was approved to cease holding the directorship of the Company due to work requirement.

On 27 February 2007, Mr. Si Zefu and Mr. Chen Xinyou were elected as the directors of the Fifth Board in the Company's First EGM in 2007 and Mr. Si Zefu was elected as the Chairman of the Company in the Seventh Meeting of the Fifth Board.

On 2 April 2007, as considered and approved by the Eighth Meeting of the Fifth Board, Mr. Liu Hui was transferred to Dongfang Electric Corporation and ceased holding the position of the Deputy General Manager of the Company due to work requirement.

Mr. Li Yunjun was appointed as the Deputy General Manager of the Company as considered and approved by the Twelfth Meeting of the Fifth Board on 14 June 2007.

V. REPORT OF THE BOARD

(I) Management discussion and analysis on the overall operating status during the reporting period

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

In the first half of 2007, closely following the Company's work directions and targets for the year, all the employees of the Company cooperated with one another with an aim to achieving better results. By speeding up various works and overcoming numerous difficulties, the Company has reached phased production and sales target smoothly, thus laying a solid foundation for the achievement of the targets for the whole year.

During the reporting period, the Company produced 17 units of hydro turbine generators, with a total capacity of 2211.5MW, 27 units of steam turbine generators, with a total capacity of 11,950MW, 15 units of AC and DC motors, with a total capacity of 55.8MW, and 165 sets of ancillary machines. In accordance with the PRC GAAP, the Company achieved sales income of RMB2,723 million, representing an increase of 31.85% as compared with that of the same period last year. Net profit amounted to RMB437 million, representing an increase of 10.25% over that of the same period last year. Earnings per share amounted to RMB0.97, representing an increase of RMB0.09 as compared with earnings per share of RMB0.88 in the same period last year. In accordance with the HKFRS, the Company achieved a turnover of RMB2,723 million, representing an increase of 35.28% as compared with that of the same period last year. Profit after tax amounted to RMB413 million, representing an increase of 8.11% over the same period last year. Earnings per share amounted to RMB0.92, representing an increase of RMB0.07 per share as compared with earnings per share of RMB0.85 in the same period last year. New orders amounted to RMB3.6 billion. Orders at hand amounted to RMB18.4 billion.

(II) PRINCIPAL OPERATIONS AND THE OPERATING STATUS

1. Principal operations by business and product

Unit: RMB'000

By business or product	Operating revenue	Operating cost	Gross margin (%)	Increase/ (decrease) of operating revenue as compared with the corresponding period last year (%)	increase/ (decrease) of operating cost as compared with the corresponding period last year (%)	increase/ (decrease) of gross margin as compared with the corresponding period last year (%)
By business						
Machinery manufacturing	2,723,050	2,033,197	25.33	31.85	38.73	A decrease of 3.70 percentage points
By product						
Electric power-generating equipment	2,635,372	1,979,593	24.88	31.87	37.78	A decrease of 3.23 percentage points
Technological renovation, provision of services and others	87,678	53,604	38.86	31.46	85.78	A decrease of 31.86 percentage points

Including: the connected transactions for sale of products and provision of services to controlling shareholder and its subsidiaries amounted to RMB250,420,000 during the reporting period.

2. Principal operations by region

Unit: RMB'000

By region	Operating revenue	Increase/(decrease) of operating revenue as compared with the corresponding period last year (%)
The PRC	2,723,050	31.85

3. Explanations for material changes of the profitability (gross margin) comparing with the previous year

In the reporting period, the gross margin of the Company was 25.33%, representing a slight decrease from 29.03% of the same period last year, mainly due to: First, to meet the heavy production workload and alleviate the pressure from delivery, the Company increased its subcontract arrangement which in turn increased the production cost; second, the rising raw material prices contribute to the decrease in gross margin.

4. Problems and obstacles in operation

For the Company, the key problems are to complete the heavy task of production and ensure the delivery on time. Therefore, the Company strengthened the control and appraisal on each step in project implementation, enhanced the organization and management during the whole process of production, tackled bottle-neck problems while exploring the internal potentials and smoothing the cooperation and connection between production stages to improve efficiency. On the other hand, it strengthened the supply of raw material and made professional subcontracting while adjusting proactively the mode of product production. As such, the Company expanded its production scale and reached the target for production and operation.

5. Outlook for the second half of 2007

Based on the production plan and orders at hand, production task of the Company for the second half of 2007 will be even heavier. To arrive at the annual target, the Company will focus on the following aspects in the second half of the year:

Firstly, the Company will adopt more effective production management mode, speed up the adjustment of production method, solve the bottleneck problem in the production, to ensure fulfillment of the production targets of the whole year and meet the market demand to the greatest extent.

Secondly, the Company will attach great importance to the quality of its products, strengthen the work flows of the quality assurance system, maintaining a good production order based on good quality so as to establish a good corporate image.

Thirdly, the Company will speed up its technological research and innovation, aiming to achieve full self-reliance in development and research, design, manufacture and services for core products and core technologies and sharpening its competitive edge in core technology.

Fourthly, the Company will put more efforts in expanding its market by strengthening the domestic market and exploring international market to secure sufficient orders for the Company's sustainable development.

(III). FINANCIAL ANALYSIS (prepared under HKFRS)

1. Financial status

As at 30 June 2007, the current assets of the Company amounted to RMB8,645,137,000 (31 December 2006: RMB8,786,083,000). The items with relatively significant changes comparing with last year and the reasons are as follows:

- (1) Cash and bank balances amounted to RMB2,493,830,000, representing a decrease of 23.91% compared with RMB3,277,378,000 as at 31 December 2006. The decrease was mainly due to the additional procurement of raw materials and outsourcing business in order to cater for the heavy production need.
- (2) Trade and other receivables amounted to RMB2,919,989,000, representing an increase of 16.05% compared with RMB2,516,145,000 as at 31 December 2006, which was mainly attributable to increase in sales revenue of the Company driven by favorable market conditions for electricity generating equipment.
- (3) Amounts due from the customers for contract works amounted to RMB662,287,000 (2006: RMB569,812,000), an increase of 16.23% from last year, mainly due to the significant increase in the investment for the Company's hydro power generating products.

As at 30 June 2007, the current liability of the Company amounted to RMB6,647,349,000 (as at 31 December 2006: RMB7,149,981,000), among which, trade and other payables represented relatively significant change, amounting to RMB4,294,650,000, down 12.13% compared with RMB4,887,435,000 as at 31 December 2006. The decrease was mainly attributable to the decrease in amounts due to customers.

2. Capital Structure

As at 30 June 2007, the equity-to-debt ratio of the Company was 249.15% (31 December 2006: 311.81%), dropped 62.66 percentage points as compared with that of last year. The decrease was mainly attributable to the increase in profit in last year, leading to a significant increase in the shareholders' interest. At present, the Company has no bank borrowings.

3. Gearing Ratio

As at the end of the reporting period, the total assets and total liabilities amounted to RMB9,607,543,000 and RMB6,854,576,000 respectively. The gearing ratio was 71.35%, representing a decrease of 4.35 percentage points compared with 75.70% as at the end of last year.

4. During the reporting period, the Company did not pledge any of its assets.

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

The amount of deposit in foreign currency was minimal and therefore the Company was less susceptible to exchange rate fluctuation.

During the year, an increase in net loss arising from translation of currency is recorded when compared with the preceding year, which was mainly due to appreciation of Renminbi. Since the Company's raw material procurement costs was mainly denominated in foreign currencies, the prepayment and trade payable would be subject to foreign exchange fluctuation. The amount of loss arising from translation of foreign currencies was higher than the gain due to the fact that the amount of prepayment denominated in foreign currencies is higher than trade payable denominated in foreign currencies.



6. Contingent liability

During the reporting period, the Company did not incur any contingent liability.

(IV). INVESTMENT OF THE COMPANY

1. Use of raised proceeds

During the reporting period, the Company had no proceeds raised or funds brought forward from previous periods.

2. Projects invested with non-raised proceeds

The Company's investment in the reporting period was RMB116.41 million, comprising mainly the investment in infrastructure amounting to RMB17.16 million, investment in technological renovation amounting to RMB77.62 million, investment in technology measures amounting to RMB14.18 million, and investment amounting to RMB7.45 million in renewal and renovation of equipment and electric instrument and apparatus.

VI. SIGNIFICANT EVENTS

(I) Corporate Governance

The Company has been strictly complied with the state's Company Law, Securities Law, the relevant rules and regulations required by China Securities Regulatory Commission ("CSRC"), the Listing Rules of Shanghai Stock Exchange and Hong Kong Stock Exchange since its inception. The Company continued to actively improve its corporate governance by building a modern corporate system and regulating its operations in compliance with relevant requirements by CSRC. The Company has established Strategic Development Committee, Assets Management Committee, Audit and Review Committee and Remuneration Committee. The various specialized committees are accountable to the Board, and all members of these Committees are directors of the Company. For the Audit and Review Committee and Remuneration Committee, independent directors represented the majority of the members and the committees were chaired by independent directors. The Company has formulated a series of corporate governance systems including Articles of Association, the Rules of Procedures for Shareholders' General Meeting, the Rules of Procedures for the Board of Directors, the Rules of Procedures for the Supervisory Committee, the Rules of Procedures for the General Manager, the Rules of Procedures for independent non-executive directors and the terms of references for respective special committees.

In accordance with the direction on special campaigns for the purpose of the corporate governance of listed companies from the documents Zheng Jian Gong Si Zi (2007) NO.28 issued by China Securities Regulatory Commission and the document Chuan Zheng Jian Shang Shi (2007 NO.12 issued 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, specific plan aiming at the activity was made and self-inspection was carefully conducted as scheduled. The Board considered and approved the self-inspection report and rectification plan of Dongfang Electrical Machinery Company Limited for the purpose of special corporate governance activities, which was announced on 28 June 2007.



DEC



(II) Profit distribution plan implemented during the reporting period

The profit distribution plan of the Company in 2006 was to appropriate cash bonus of RMB2.00 (A Shares inclusive of tax) per 10 shares to all its shareholders. The profit distribution plan was considered and passed in the Company's Annual General Meeting held on 3 July 2007. The Company has appropriated cash bonus to shareholders whose names were registered in the H Shares registrar of the Company on 11 May 2007 and shareholders whose names were registered in the A Shares registrar of the Company on 24 July 2007.

(III) The Company had no profit distribution plan and proposal for transfer of capital reserve to share capital for the first half of 2007.

(IV) The Company had no material litigation and arbitration during the reporting period.

(V) There was no acquisition and disposal of assets or merger during the reporting period.

(VI) MATERIAL CONNECTED TRANSACTIONS DURING THE REPORTING PERIOD.

1. Connected transaction relating to daily operation

- (1) Material connected transactions of purchase of goods, receipt of services and other outflows

Unit: RMB'000

Connected party	Connected transaction	Pricing principle	Price	Amount	Percentage	Way of settlement	Impact on the Company's profit
					in the amount of similar transactions (%)		
Dongfang Electrical Machinery Works and its Subsidiaries	Service contract fee	On market price basis	Market price	9,684	100.00	Settled by quarter and year	Beneficial for the Company's steady operation and cost
Dongdian Insulation Materials Company Limited	Purchase of relevant ancillary parts	On market price basis	Market price	15,810	1.59	As contracted	reduction and in line with the development strategy and sustainable
Dongdian Ancillary Machine Company Limited	Purchase of relevant ancillary parts	On market price basis	Market price	45,083	4.53	As contracted	growth of the Company.
Dongdian General Equipment Company Limited	Purchase of relevant ancillary parts	On market price basis	Market price	12,259	1.23	As contracted	
Dongfang Electrical Machinery Works	Receipt of services	On market price basis	Market price	52,324	40.21	As contracted	
Dongdian Metal Structure Parts Company Limited	Receipt of services	On market price basis	Market price	20,958	16.11	As contracted	
Dongdian General Equipment Company Limited	Receipt of services	On market price basis	Market price	1,813	1.39	As contracted	

(2) Material connected transactions of sales of goods, provision of services and other inflows

Unit: RMB'000

Connected party	Connected transaction	Pricing principle	Price	Amount	Percentage	Way of settlement	Impact on the Company's profit
					in the amount of similar transactions (%)		
Dongfang Electrical Machinery Works and its Subsidiaries	Sale of products and raw materials	On market price basis	Market price	26,572	1.73	As contracted	Beneficial for the Company's steady operation and cost
	Provision of services and power	On market price basis	Market price	3,385	11.03	As contracted	reduction with slight impact on the profit
Dongfang Electric Corporation and its Subsidiaries	Sale of products and raw materials	On market price basis	Market price	220,118	14.31	As contracted	Beneficial for the Company's market expansion
	Provision of services and power	On market price basis	Market price	329	1.06	As contracted	

2. Non-operating credit and indebtedness with connected parties

Unit: RMB'000

Connected party	Relationship	Provision of capital to the		Provision of capital to the	
		connected party		Company by the connected party	
		Amount incurred		Amount incurred	
		in the period	Balance	in the period	Balance
Dongle Heavy Piece Handling Co.,Ltd.	Associate	(716.5)	0		
Total	—				

During the reporting period, fund provided by the Company to its controlling shareholder and its subsidiaries was nil and the balance of such funds provided by the Company to its controlling shareholder and its subsidiaries was nil as at the end of the reporting period.

(VII) For the reporting period, the Company had no entrusting, contracting, leasing, guarantee and asset management on trust.

(VIII) Performance of undertakings

Undertakings provided by the original holder of non-circulating shares of the Company during the course of Share Segregation Reform and its subsequent performance

Name of shareholder	Undertaking	Performance	Note
Dongfang Electric Corporation	Dongfang Electric Corporation undertakes that, within twelve months from the date of implementation of the Share Segregation Reform, it will not trade on the Shanghai Stock Exchange or transfer its Non-circulating shares. Upon the expiry 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 share capital of the Company for twelve months of trading and not exceed 10% for twenty four months of trading respectively; and that the selling price of the shares shall not be lower than 150% of the closing price of the A Shares on the trading day immediately preceding the date of the announcement of 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.	The undertaking has been diligently performed and there has been no breach	

(IX) During the reporting period, none of the Company, its directors, supervisors, senior management members, shareholders and de factor controller was a subject of inspection, administrative punishment or criticism by CSRC or public censure by any securities exchange.

(X) Analysis of other significant events and its impact and resolutions.

1. Shares of other listing companies held by the Company and securities investment

No.	Stock code	Abbreviation	Number of shares held (shares)	Percentage in the share capital of such company	Initial investment cost (RMB)	Accounting title
1	000584	Sichuan Sofora Special-Typed Fiber Co.,Ltd	46,602	0.013	20,000	Tradable financial assets
		Other security investment held at the end of reporting period	—	—	—	
		Total	—	—	—	

(XI) EMPLOYEES

As at 30 June 2007, the Company employed 6,949 staff. The Company adopted a remuneration system linked with performance and paid the employees in accordance with their performance.

(XII) AS AT THE END OF THE REPORTING PERIOD, THE COMPANY, ITS SUBSIDIARIES OR ENTITIES JOINTLY CONTROLLED BY THE COMPANY DID NOT PURCHASE, SELL OR REDEEM ANY OF THE SHARES OF THE COMPANY.

(XIII) COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

During the reporting period, the Directors were not aware of any information which can reasonably indicate that the Company was not in compliance with the requirements of the Code on Corporate Governance Practices under Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules") at all times, except that the Company had not appointed a qualified accountant in accordance with Rule 3.24 of the Listing Rules. The Company is actively recruiting an accountant with the required qualification as specified under Rule 3.24 of the Listing Rules.

(XIV) COMPLIANCE WITH THE MODEL CODE

During the reporting period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong. Having made specific enquiry to all directors of the Company, all directors confirmed they had complied with the requirements set out under the Model Code.

(XV) AUDIT COMMITTEE

The Board of the Company had set up an Audit Committee in accordance with the requirements of Rule 3.21 of the Listing Rules. The Audit Committee had reviewed the financial statement and the interim results of the Company for the six months ended 30 June 2007.

(XVI) OTHER SIGNIFICANT EVENTS

1. On 3 July 2007, the Company held the Second Extraordinary General Meeting for 2007 and considered and passed the Proposals in Relation to Private Placement of Shares to and Assets Acquisition from DEC.
2. On 6 August 2007, the Company received the "Guo Zi Chan Quan [2007] No.705 Approval for issues in respect of the transfer by agreement of the state-owned equity interest in Dongfang Turbine Co., Ltd." (「國資產權 [2007]705號」《關於東方電氣集團東方汽輪機有限公司國有股權協議轉讓有關問題的批復》) signed and issued by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China (中國國務院國有資產監督管理委員會) and forwarded to the Company by DEC. SASAC approved the transfer by agreement of its 100% equity interest in Dongfang Turbine Co., Ltd. ("Dongfang Turbine") by DEC to the Company.
3. The Applications for non-public A share issuing and purchasing relevant assets from China Dongfang Electric Corporation have been conditionally approved by the Reorganization Committee of China Securities Regulatory Commission on 27 August 2007.
4. On 29 August 2007, Dongfang Electrical Machinery Company Limited (the "Company") received a document named Chuan Guo Shui Han Fa [2007] No. 243. It was stated in the document that pursuant to the provisions of the Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on the Preferential Tax Policies on Development of the Western Region and the Notice of the State Administration of Taxation on Opinions Regarding the Implementation of Taxation Policies on the Development of the Western Region, the Company could, from 2004 onwards, pay its enterprise income tax at a rate of 15%.

The Company has been paying enterprise income tax as per 15% tax rate since 2004.

(XVII) INFORMATION DISCLOSURE INDEX

Items	Newspaper name for publication and page number	Date	Website for publication and retrieve path
DFEM management measures on information disclosure	China Securities Journal, Shanghai Securities News, Hong Kong Economic Times and The Standard (English)	30 June 2007	http://www.sse.com.cn
Self-inspection report and rectification plan regarding the special campaign to enhance corporate governance of DFEM		28 June 2007	
Announcement of postponement of 2006 annual general meeting of DFEM		30 May 2007	
Announcement of the resolution of board of supervisors of DFEM		17 May 2007	
Announcement of the resolution of the board of directors of DFEM		17 May 2007	
Report concerning issue shares to a special target for purchase assets and the connected transactions (draft)		17 May 2007	

Items	Newspaper name for publication and page number	Date	Website for publication and retrieve path
Notice of general meeting of DFEM		17 May 2007	
2007 first quarterly report of DFEM		27 April 2007	
Announcement of the board meeting of DFEM		27 April 2007	
Notice of 2006 annual general meeting of DFEM		27 April 2007	
Warning announcement of uplift restrict condition for circulating shares subject to trading moratorium		19 April 2007	
Announcement of the resolution of board of directors of DFEM		11 April 2007	
Occupation of capital by the controlling shareholders and other connected parties of DFEM		3 April 2007	
Summary of 2006 annual report of DFEM		3 April 2007	
2006 annual report of DFEM		3 April 2007	
Announcement of the Supervisors Committee of DFEM		3 April 2007	
Announcement of the board meeting of DFEM		3 April 2007	

Items	Newspaper name for publication and page number	Date	Website for publication and retrieve path
Announcement on results of the first 2007 extraordinary general meeting of DFEM		28 February 2007	
Announcement of the board meeting of DFEM		28 February 2007	
Legal opinion letter on the first 2007 extraordinary general meeting of DFEM		28 February 2007	
Announcement of unusual movement of share price of DFEM		8 February 2007	
Announcement of the resolution of board of directors of DFEM		5 February 2007	
Announcement of the board meeting of DFEM		5 February 2007	
Announcement of the board meeting of DFEM		11 January 2007	
Notice of the first 2007 extraordinary general meeting of DFEM		11 January 2007	

7 FINANCIAL STATEMENT (UNAUDITED)

(1) The unaudited financial statements prepared in accordance with PRC Accounting Standards

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Group		Company	
	30 June 2007 RMB	31 December 2006 RMB (Restated)	30 June 2007 RMB	31 December 2006 RMB (Restated)
Assets				
Current assets				
Bank balance and cash	2,493,830,315.06	3,277,378,752.01	2,429,789,824.50	3,211,978,362.88
Tradable financial assets	44,263.24	44,263.24	44,263.24	44,263.24
Notes receivable	28,179,052.28	45,930,000.00	24,719,052.28	43,280,000.00
Trade receivable	1,390,813,538.11	1,025,946,017.13	1,483,884,722.73	1,120,853,375.49
Prepayments	1,415,663,228.15	1,371,298,563.77	1,398,124,890.57	1,347,501,870.69
Other receivables	85,241,029.57	73,921,113.15	114,251,917.28	120,022,615.38
Inventories	3,229,135,233.32	2,990,694,541.56	3,055,517,091.11	2,787,089,563.67
Amounts due from customers for contract work	662,287,404.59	580,865,392.24	662,287,404.59	580,865,392.24
Total current assets	8,642,906,659.73	8,785,213,250.86	8,506,331,761.71	8,630,770,051.35
Non-current assets				
Long-term equity investment	45,490,948.10	24,830,373.41	127,945,288.12	107,284,713.43
Properties held for investment	25,471,006.53	26,029,234.15	25,471,006.53	26,029,234.15
Fixed assets	640,660,826.37	665,235,258.36	631,069,402.40	651,522,289.97
Construction in progress	163,744,944.58	49,417,842.37	162,278,790.06	48,659,793.17
Intangible assets	30,238,623.06	30,929,441.85	30,238,031.36	30,922,779.99
Deferred income tax assets	59,032,827.53	54,394,621.13	57,650,587.39	53,711,182.68
Total non-current assets	964,639,176.17	850,836,771.27	1,034,653,105.86	918,129,993.39
Total assets	9,607,545,835.90	9,636,050,022.13	9,540,984,867.57	9,548,900,044.74



CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2007

	Group		Company	
	30 June 2007 RMB	31 December 2006 RMB (Restated)	30 June 2007 RMB	31 December 2006 RMB (Restated)
Liabilities and owner's equity				
Current liabilities				
Notes payable	408,564,315.91	315,298,480.74	407,564,315.91	315,298,480.74
Trade payable	721,990,932.30	699,860,623.98	692,065,936.73	659,678,776.11
Prepayments	5,030,190,093.82	5,508,404,966.15	5,011,635,266.72	5,489,841,411.39
Including: amounts settled but still under construction	2,140,376,906.54	1,971,851,421.68	2,140,376,906.54	1,971,851,421.68
Salaries and wages payable	206,233,778.61	232,670,170.84	200,406,616.17	225,668,219.56
Taxes payable	132,294,742.99	225,941,167.64	124,587,612.81	223,694,051.00
Other payables	68,048,191.57	46,807,943.41	87,564,723.23	44,540,448.49
Total current liabilities	6,567,322,055.20	7,028,983,352.76	6,523,824,471.57	6,958,721,387.29
Non-current liabilities				
Long-term payables	685,252.84	685,252.84	685,252.84	685,252.84
Provisions	50,006,165.74	38,045,913.65	50,006,165.74	38,045,913.65
Other non-current liabilities	236,564,610.95	252,206,442.09	232,037,381.30	247,077,649.14
Total non-current liabilities	287,256,029.53	290,937,608.58	282,728,799.88	285,808,815.63
Total liabilities	6,854,578,084.73	7,319,920,961.34	6,806,553,271.45	7,244,530,202.92
Shareholders' equity				
Share capital	450,000,000.00	450,000,000.00	450,000,000.00	450,000,000.00
Capital reserve	602,984,059.24	602,984,059.24	602,984,059.24	602,984,059.24
Surplus reserves	226,978,540.29	226,978,540.29	225,000,000.00	225,000,000.00
Undistributed profit	1,471,193,399.79	1,034,528,615.15	1,456,447,536.88	1,026,385,782.58
Total equity attributable to the shareholders of the parent company	2,751,155,999.32	2,314,491,214.68	—	—
Minority interests	1,811,751.85	1,637,846.11	—	—
Total shareholders' equity	2,752,967,751.17	2,316,129,060.79	2,734,431,596.12	2,304,369,841.82
Total liabilities and shareholders' equity	9,607,545,835.90	9,636,050,022.13	9,540,984,867.57	9,548,900,044.74

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Item	Group		Company	
	2007.1.1-6.30	2006.1.1-6.30	2007.1.1-6.30	2006.1.1-6.30
	RMB	RMB (Restated)	RMB	RMB (Restated)
1. Operating Revenue	2,723,050,068.52	2,065,224,221.69	2,746,383,667.14	2,082,020,402.75
Less: Operating cost	2,033,196,907.68	1,465,617,381.66	2,090,033,630.41	1,514,408,859.75
Sales tax and surcharge	8,969,787.07	1,822,137.73	8,378,385.16	631,227.06
Sales expenses	32,918,053.63	35,036,035.81	31,125,754.43	33,299,204.13
Administrative expenses	164,268,543.85	154,854,507.88	146,011,015.25	138,186,727.77
Finance costs	(13,667,447.33)	(29,101,401.38)	(14,896,457.44)	(29,352,120.78)
Loss of assets impairment	13,115,307.22	15,936,212.17	9,989,858.46	8,182,763.06
Add: Investment income	1,535,574.69	—	1,535,574.69	—
Including: Investment income from associated enterprises and joint ventures	1,535,574.69	—	1,535,574.69	—
2. Operating profit	485,784,491.09	421,059,347.82	477,277,055.56	416,663,741.76
Add: Non-operating income	18,559,445.52	25,562,156.41	18,120,321.02	22,119,704.03
Less: Non-operating expenses	775,003.32	1,299,625.45	767,267.57	1,299,267.66
3. Total Profit	503,568,933.29	445,321,878.78	494,630,109.01	437,484,178.13
Less: Income tax fee	66,730,242.91	49,079,248.19	64,568,354.71	47,990,467.77
4. Net profit	436,838,690.38	396,242,630.59	430,061,754.30	389,493,710.36
Including: Net profit attributable to the shareholders of the parent company	436,664,784.64	396,204,485.43	—	—
Minority interest	173,905.74	38,145.16	—	—
5. Earnings per share				
(1) Basic earnings per share	0.97	0.88	0.96	0.87
(2) Diluted earnings per share	0.97	0.88	0.96	0.87

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Item	Group		Company	
	2007.1.1-6.30	2006.1.1-6.30	2007.1.1-6.30	2006.1.1-6.30
	RMB	RMB Restated	RMB	RMB Restated
1. Cash Flow from Operating Activities				
Cash received from sales				
of goods or rendering services	2,041,269,934.33	1,847,309,308.35	2,036,963,824.39	1,851,047,518.91
Other cash received relating				
to operating activities	58,586,545.11	45,179,929.26	96,263,939.06	45,693,714.53
Sub-total of cash inflows from				
operating activities	2,099,856,479.44	1,892,489,237.61	2,133,227,763.45	1,896,741,233.44
Cash paid for goods and services	2,144,652,276.51	2,080,175,771.13	2,196,878,277.71	2,097,520,453.03
Cash paid to and on behalf of employees	298,923,822.89	218,247,909.80	278,656,282.07	198,207,618.00
Tax payments	261,201,335.45	166,167,385.46	256,003,916.32	139,184,460.19
Cash paid relating to other				
operating activities	62,572,259.79	50,442,409.86	70,132,747.78	51,707,300.50
Sub-total of cash outflows from				
operating activities	2,767,349,694.64	2,515,033,476.25	2,801,671,223.88	2,486,619,831.72
Net cash flow from operating activities	(667,493,215.20)	(622,544,238.64)	(668,443,460.43)	(589,878,598.28)
2. Cash Flow from Investing Activities				
Net cash receipts from disposal of				
fixed assets, intangible assets and				
other long term assets	1,244,400.80	1,655,220.00	1,244,400.80	1,655,220.00
Sub-total of cash inflows from				
investing activities	1,244,400.80	1,655,220.00	1,244,400.80	1,655,220.00
Cash paid for acquisition of fixes				
assets, intangible assets and				
other long term assets	99,716,770.38	99,324,741.57	96,801,747.17	99,724,970.18
Cash paid for investments	19,125,000.00	8,500,000.00	19,125,000.00	8,500,000.00
Sub-total of cash outflows for				
investing activities	118,841,770.38	107,824,741.57	115,926,747.17	108,224,970.18
Net cash flows from investing activities	(117,597,369.58)	(106,169,521.57)	(114,682,346.37)	(106,569,750.18)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Item	Group		Company	
	2007.1.1-6.30 RMB	2006.1.1-6.30 RMB Restated	2007.1.1-6.30 RMB	2006.1.1-6.30 RMB Restated
3. Cash Flow from Financing Activities				
Cash received from borrowing		10,000,000.00		10,000,000.00
Sub-total of cash inflows from financing activities		10,000,000.00		10,000,000.00
Cash paid for repayments of borrowings	—	10,000,000.00		10,000,000.00
Cash paid for dividends , profit distribution or interest		225,360.00		225,360.00
Cash paid relating to other financing activities				
Sub-total of cash outflows for financing activities		10,225,360.00		10,225,360.00
Net cash flows from financing activities		(225,360.00)		(225,360.00)
4. Effect of foreign exchange rate changes on cash and cash equivalents	(160,987.24)	(177,152.43)	(160,987.24)	(177,152.43)
5. Net Increase (decrease) in cash and cash equivalents	(785,251,572.02)	(729,116,272.64)	(783,286,794.04)	(696,850,860.89)
Add: Cash and cash equivalents at the beginning of the period	3,141,807,892.22	3,873,239,670.04	3,085,916,286.59	3,783,648,560.35
6. Cash and cash equivalents at the end of the period	2,356,556,320.20	3,144,123,397.40	2,302,629,492.55	3,086,797,699.46



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Group							Company					
	Share capital	Capital reserve	Surplus reserves	Undistributed profit	Attributable to the parent company		Minority interests	Shareholders' equity	Share capital	Capital reserve	Surplus reserves	Undistributed profit	Shareholders' equity
					Shareholders' equity	Shareholders' equity							
(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	
I. Balance at													
31 December 2005	450,000,000.00	753,283,467.94	151,239,144.70	478,888,093.30	1,833,410,705.94	1,274,298.89	1,834,685,004.83	450,000,000.00	753,283,467.94	150,223,984.04	493,593,536.44	1,847,100,886.42	
1. Accounting policy changes	—	(150,299,408.70)	—	(10,684,053.91)	(160,983,482.61)	—	(160,983,482.61)	—	(150,299,408.70)	—	(14,886,965.89)	(165,286,374.59)	
2. Correction to errors for prior periods	—	—	—	—	—	—	—	—	—	—	—	—	
II. Balance at													
1 January 2006	450,000,000.00	602,984,059.24	151,239,144.70	468,204,039.39	1,672,427,243.33	1,274,298.89	1,673,701,542.22	450,000,000.00	602,984,059.24	150,223,984.04	478,606,570.55	1,681,814,613.83	
III. Amount increase/decrease during this year													
(i) Net profit	—	—	—	867,063,971.35	867,063,971.35	383,547.22	867,427,518.57	—	—	—	847,555,227.99	847,555,227.99	
(ii) Gains and losses directly included into shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	
Subtotal of the above (i) and (ii)	—	—	—	867,063,971.35	867,063,971.35	383,547.22	867,427,518.57	—	—	—	847,555,227.99	847,555,227.99	
(iii) Owners input and capital decrease	—	—	—	—	—	—	—	—	—	—	—	—	
(iv) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	
1. Transfer of surplus reserve	—	—	75,739,395.59	(75,739,395.59)	—	—	—	—	—	74,776,015.96	(74,776,015.96)	—	
2. Distribution to shareholders	—	—	—	(225,000,000.00)	(225,000,000.00)	—	(225,000,000.00)	—	—	—	(225,000,000.00)	(225,000,000.00)	
(v) Internal carryforward of shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	—	
IV. Balance at													
31 December 2006	450,000,000.00	602,984,059.24	226,978,540.29	1,034,528,615.15	2,314,491,214.68	1,637,846.11	2,316,129,060.79	450,000,000.00	602,984,059.24	225,000,000.00	1,026,365,782.58	2,304,369,841.82	
1. Accounting policy change	—	—	—	—	—	—	—	—	—	—	—	—	
2. Correction to errors for prior periods	—	—	—	—	—	—	—	—	—	—	—	—	
V. Balance at													
1 January 2007	450,000,000.00	602,984,059.24	226,978,540.29	1,034,528,615.15	2,314,491,214.68	1,637,846.11	2,316,129,060.79	450,000,000.00	602,984,059.24	225,000,000.00	1,026,365,782.58	2,304,369,841.82	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Group							Company				
	Share capital	Capital reserve	Surplus reserves	Undistributed profit	Attributable to the parent company		Shareholders' equity	Share capital	Capital reserve	Surplus reserves	Undistributed profit	Shareholders' equity
					Shareholders' equity	Minority interests						
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
VI. Balance from the increase/decrease for the period												
(i) Net profit	-	-	-	436,664,784.64	436,664,784.64	173,905.74	436,838,690.38	-	-	-	430,061,754.30	430,061,754.30
(ii) Gains and losses directly included into owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal of the above (i) and (ii)	-	-	-	436,664,784.64	436,664,784.64	173,905.74	436,838,690.38	-	-	-	430,061,754.30	430,061,754.30
(iii) Owners input and capital decrease	-	-	-	-	-	-	-	-	-	-	-	-
(iv) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-
(v) Internal carryforward of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
VII. Balance at 30 June 2007	450,000,000.00	602,984,059.24	226,978,540.29	1,471,193,399.79	2,751,155,999.32	1,811,751.85	2,752,967,751.17	450,000,000.00	602,984,059.24	225,000,000.00	1,456,447,536.88	2,734,431,566.12

(2) UNAUDITED FINANCIAL STATEMENT PREPARED UNDER HKFRSS

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	<i>Notes</i>	30 June 2007 <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
Turnover	3	2,723,050	2,012,966
Cost of sales		(2,033,197)	(1,448,244)
Gross profit		689,853	564,722
Other income		45,498	74,311
Selling and distribution costs		(32,918)	(12,668)
Administrative expenses		(228,084)	(176,581)
Finance costs		—	(225)
Profit before taxation		474,349	449,559
Income tax expense	4	(61,152)	(67,363)
Profit for the period	5	413,197	382,196
Including:			
Profit attributable to the shareholders of the Company		412,990	382,152
Minority interests		207	44
		413,197	382,196
Dividend	6	—	—
Basic earnings per share	7	RMB0.92	RMB0.85

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Notes	30 June 2007 RMB'000	31 December 2006 RMB'000
Non-current assets			
Property, plant and equipment	8	640,660	665,234
Construction in progress		163,745	49,652
Prepaid lease payments for land use rights		27,780	27,745
Investment properties		25,471	26,029
Intangible assets		1,719	2,040
Interest in a jointly controlled entity		42,500	23,375
Available-for-sale investments		1,499	1,499
Deferred tax assets	9	59,032	48,816
		962,406	844,390
Current assets			
Inventories		2,566,847	2,420,883
Amount due from an associate		—	717
Trade and other receivables	10	2,919,898	2,516,145
Interest in an associate		1,536	—
Prepaid lease payments for land use rights		739	1,148
Amounts due from customers for contract works		662,287	569,812
Bank deposits with maturity over three months		1,260,000	1,215,341
Pledged bank deposits		137,274	135,571
Bank balances and cash		1,096,556	1,926,466
		8,645,137	8,786,083



CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2007

		30 June 2007	31 December 2006
	Notes	RMB'000	RMB'000
Current liabilities			
Amounts due to customers			
for contract works		2,140,376	1,971,852
Trade and other payables	11	4,294,650	4,887,435
Enterprise income tax liabilities		58,364	149,743
Other tax liabilities		73,930	73,064
Provision		50,006	38,045
Deferred income		30,023	29,842
		<u>6,647,349</u>	<u>7,149,981</u>
Net current assets		<u>1,997,788</u>	<u>1,636,102</u>
Total assets less current liabilities		<u>2,960,194</u>	<u>2,480,492</u>
Non-current liabilities			
Deferred income		206,542	140,037
Long term liabilities		685	685
		<u>207,227</u>	<u>140,722</u>
Net assets		<u>2,752,967</u>	<u>2,339,770</u>

CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2007

		30 June 2007	31 December 2006
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital and reserves			
Share capital	12	450,000	450,000
Reserves		<u>2,301,155</u>	<u>1,888,165</u>
Equity attributable to equity holders of the Company		2,751,155	2,338,165
Minority interests		<u>1,812</u>	<u>1,605</u>
		<u>2,752,967</u>	<u>2,339,770</u>

Consolidated Statement of Changes in Equity

AS AT 30 JUNE 2006

	Equity attributable to equity holders of the Company									
	Share capital	Capital reserve	Statutory			Dividend reserve	Retained profits	Total	Minority interests	Total
			surplus reserve	public welfare fund						
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2007	450,000	636,061	226,979	—	90,000	935,125	2,338,165	1,605	2,339,770	
Profit for the period	—	—	—	—	—	412,990	412,990	207	413,197	
At 30 June 2007	<u>450,000</u>	<u>636,061</u>	<u>226,979</u>	<u>—</u>	<u>90,000</u>	<u>1,348,115</u>	<u>2,751,155</u>	<u>1,812</u>	<u>2,752,967</u>	
At 1 January 2006	450,000	636,061	92,692	58,547	225,000	236,157	1,698,457	1,272	1,699,729	
Profit for the period	—	—	—	—	—	382,152	382,152	44	382,196	
Contribution	—	392	—	—	—	—	392	—	392	
Dividend paid	—	—	—	—	(225,000)	—	(225,000)	—	(225,000)	
At 30 June 2006	<u>450,000</u>	<u>636,453</u>	<u>92,692</u>	<u>58,547</u>	<u>—</u>	<u>618,309</u>	<u>1,856,001</u>	<u>1,316</u>	<u>1,857,317</u>	

Consolidated Statement of Changes in Equity (Continued)

AS AT 30 JUNE 2006

In accordance with the PRC Company Law and relevant Articles of Association of the Company, capital surplus includes share premiums, gifts and donations received and others in accordance with the relevant regulations. Capital reserve shall only be used for capitalisation into share capital.

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% 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. 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.

The Company and its various subsidiaries no longer obtain statutory public welfare fund, and the accumulated balance is transferred to statutory surplus reserve under the new modification of the PRC Company Law in 2006.



Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	January~June 2007 RMB'000	January~June 2006 RMB'000
Net cash flow used in operating activities	(712,152)	(633,485)
Net cash flow (used in) from investing activities	(117,597)	499,014
Net cash flow used in financing activities	—	(184)
Net decrease in cash and cash equivalents	(829,749)	(134,655)
Effects of exchange rate changes on cash and cash equivalents	(161)	—
Cash and cash equivalents at the beginning of the period	1,926,466	1,916,230
Cash and cash equivalents at the end of the period	<u>1,096,556</u>	<u>1,781,575</u>
Analysis to the balance of cash and cash equivalents		
Cash and bank balances	1,095,601	1,505,163
Deposits in non-bank financial institutions	955	276,412
	<u>1,096,556</u>	<u>1,781,575</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. GENERAL

The Company was established on 28 December 1993 in Deyang, Sichuan, the PRC as a joint stock limited company. The Company assumed the manufacture and operation business 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 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 promulgated “Approval of certain issues in the transfer of state-owned shares of Dongfang Electrical Machinery Company Limited” (Guo Zi Chan Quan [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復》(國資產權 [2005]1604 號) to approve the transfer of 220,000,000 State-owned domestic shares, representing DFEW’s 48.89% equity interest in the Company, from DFEW to Dongfang Electric Corporation (“DEC”). Thus, DEC became the largest shareholder of the Company.

After the completion of the Share Segregation Reform of the Company on 17 April 2006, DEC, its only holder of non-circulating shares, obtained the circulating rights for its non-circulating shares by using part of its non-circulating shares as consideration to pay the holders of circulating A shares of the Company. Thus, DEC holds 45.29% of the Company’s shares, totalling 203,800,000 shares.

1. GENERAL (Continued)

The Company's ultimate holding entity is DEC.

The Company is principally engaged in the business of manufacture and sale of hydro power equipment, steam power generators, AC/DC motors as well as controlling devices.

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 AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standards ("HKAS") the 34th "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRS") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January 2007. The adoption of the new HKFRS had no material effect on how the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment and interpretation will have no material impact on the consolidated financial statements of the Group.

2. BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 23 (Revised)	Borrowing Costs ¹
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

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.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of power generators and other services. Revenue of the Group during the period is analyzed as follows:

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Sales of goods	1,479,900	1,086,666
Revenue from construction contracts	1,155,471	866,758
Revenue from other services	87,679	59,542
	<u>2,723,050</u>	<u>2,012,966</u>



3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments

The Group operates in three major segments as follows — main thermal power equipment, main hydro power equipment, AC/DC motors and other services.

Principal activities are as follows:

Main thermal power equipment	Manufacture and sale of main thermal power equipment.
Main hydro power equipment	Manufacture and sale of main hydro power equipment.
Others	Manufacture and sale of AC/DC motors and provision of other services.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segments Information

Information about the business segments are as follows:

For the period ended 30 June 2007

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
PRINCIPAL REVENUE					
External sales	1,484,179	1,093,780	145,091	—	2,723,050
Inter— segment sales	—	—	275,262	(275,262)	—
Total revenue	<u>1,484,179</u>	<u>1,093,780</u>	<u>420,353</u>	<u>(275,262)</u>	<u>2,723,050</u>
SEGMENT RESULTS	<u>555,492</u>	<u>101,965</u>	<u>32,396</u>	<u>—</u>	<u>689,853</u>
Other income					45,498
Distribution expenses					(32,918)
Administrative expenses					(228,084)
Finance costs					—
Profit before taxation					474,349
Income tax expense					(61,152)
Profit for the period					<u>413,197</u>

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segments Information *(Continued)*

For the period ended 30 June 2007

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	1,741,139	1,170,288	461,639	—	3,373,066
Unallocated corporate assets					<u>6,234,477</u>
Consolidated total assets					<u><u>9,607,543</u></u>
LIABILITIES					
Segment liabilities	2,723,115	2,132,333	174,741	—	5,030,189
Unallocated corporate liabilities					<u>1,824,387</u>
Consolidated total liabilities					<u><u>6,854,576</u></u>
OTHER INFORMATION					
Allowance for bad and doubtful debts	6,115	4,265	2,135	—	<u><u>12,515</u></u>

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segments Information *(Continued)*

For the period ended 30 June 2006

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
PRINCIPAL REVENUE					
External sales	1,103,118	866,758	43,090	—	2,012,966
Inter— segment sales	—	—	249,411	(249,411)	—
Total revenue	<u>1,103,118</u>	<u>866,758</u>	<u>292,501</u>	<u>(249,411)</u>	<u>2,012,966</u>
SEGMENT RESULTS					
	<u>435,378</u>	<u>123,513</u>	<u>5,831</u>	<u>—</u>	<u>564,722</u>
Other income					74,311
Distribution expenses					(12,668)
Administrative expenses					(176,581)
Finance costs					(225)
Profit before taxation					449,559
Income tax expense					(67,363)
Profit for the period					<u>382,196</u>

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segments Information *(Continued)*

For the period ended 30 June 2006

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	1,457,244	740,296	414,770	—	2,612,310
Unallocated corporate assets					<u>7,018,163</u>
Consolidated total assets					<u><u>9,630,473</u></u>
LIABILITIES					
Segment liabilities	3,247,950	1,976,030	162,404	—	5,386,384
Unallocated corporate liabilities					<u>1,904,319</u>
Consolidated total liabilities					<u><u>7,290,703</u></u>
OTHER INFORMATION					
Allowance for bad and doubtful debts	3,769	2,713	1,325	—	<u><u>7,807</u></u>

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments

All of the Group's sales and provision of other services are in the PRC and all of the Group's manufacturing facilities are situated in the PRC. Accordingly, no segmental analysis of geographical segments is presented.

4. INCOME TAX EXPENSE

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
PRC enterprise income tax		
— Current year	71,368	67,363
— Current year deferred tax	(10,216)	—
	<u>61,152</u>	<u>67,363</u>

This charge mainly represents PRC enterprise income tax calculated at 15% of the estimated taxable income for the year.

The provision of PRC Enterprise Income Tax is based on the estimated taxable income of the companies under the Group for PRC taxation purposes at the rate applicable for the period.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following:

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Amortization of intangible assets included		
in administrative expenses	321	379
Allowance for bad and doubtful debts	12,515	7,807
Cost of inventories recognised as an expense	2,033,197	1,448,244
Amortization to prepaid lease payments		
of land use rights	370	356
Depreciation on property, plant and equipment	53,380	48,964
Depreciation on investment properties	558	558
(Gain) loss on disposals of property, plant and equipment	(173)	(2,512)
Increase/(reversal) of provision for inventories (Note a)	1,593	(437)
Rental expense	1,731	1,824
Foreign exchange losses	13,130	12,264
Foreign exchange gains	(5,562)	(10,097)
Rental income from investment properties	435	310
Less: direct operating expenses from investment properties that generated rental income	(558)	(17)
	<u>(123)</u>	<u>293</u>

(a) *Reversal of provision for inventories was made when the net realizable value of those inventories on which allowance had previously been made is greater than cost.*

6. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007. No interim dividend was declared for the same period last year.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended	
	30 June 2007	30 June 2006
	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>		
Earnings		
Earnings (profit attributable to shareholders of the Company)	<u><u>412,990</u></u>	<u><u>382,152</u></u>
Number of shares		
Average number of shares	<u><u>450,000</u></u>	<u><u>450,000</u></u>

No diluted earnings per share are calculated as there were no potentially dilutive shares in the relevant periods.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB99,716,000 (six months ended 30 June 2006: RMB152,334,000) on the acquisition of property, plant and equipment.

9. DEFERRED TAX ASSETS

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

	Trade and other payables <i>RMB'000</i>	Trade and other receivables <i>RMB'000</i>	Provisions <i>RMB'000</i>	Inventories <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred tax asset					
At 1 January 2007	20,995	20,107	7,364	350	48,816
Credit to consolidated income statement	5,466	2,904	1,645	201	10,216
At 30 June 2007	<u>26,461</u>	<u>23,011</u>	<u>9,009</u>	<u>551</u>	<u>59,032</u>

10. TRADE AND OTHER RECEIVABLES

	30 June 2007 <i>RMB'000</i>	31 December 2006 <i>RMB'000</i>
Trade receivables	1,568,189	1,225,012
Less: provisions for bad debts	<u>(177,376)</u>	<u>(153,136)</u>
	1,390,813	1,071,876
Prepayment, deposits and other receivables	<u>1,529,085</u>	<u>1,444,269</u>
	<u>2,919,898</u>	<u>2,516,145</u>

The Group offers credit terms generally accepted in the power equipment manufacturing industry to its customers, which vary on the size of contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit of customers are evaluated periodically.

10. TRADE AND OTHER RECEIVABLES (Continued)

The following is an ageing analysis of trade receivables:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 1 year	909,350	715,795
1 — 2 years	363,834	239,506
2 — 3 years	85,768	87,264
More than 3 years	31,861	29,311
	<u>1,390,813</u>	<u>1,071,876</u>

The directors consider the fair value of the Group's trade receivables at 30 June 2007 and 31 December 2006 approximates the corresponding carrying amount.

Included in the trade receivables is bills receivables amounted to RMB28,179,052 (2006: RMB45,930,000) aged within 1 year.

11. TRADE PAYABLES AND OTHER PAYABLES

The following is an ageing analysis of the Group's trade payables:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 1 year	638,264	892,179
1 — 2 years	62,063	53,020
2 — 3 years	20,216	8,964
More than 3 years	1,448	820
	<u>721,991</u>	<u>954,983</u>
Other payables and accruals	<u>3,572,659</u>	<u>3,932,452</u>
	<u><u>4,294,650</u></u>	<u><u>4,887,435</u></u>

The fair value of the Group's trade payables at 30 June 2007 and 31 December 2006 approximates the corresponding carrying amount.

Included in the trade payables is bills payables amounted to RMB408,564,000 (2006: RMB315,298,000) aged within 1 year.

12. SHARE CAPITAL

	1 January 2007	Number of shares Changes for the period	30 June 2007
	<i>shares</i>	<i>Shares</i>	<i>shares</i>
Authorised, issued and fully paid:			
Shares subject to trading moratorium			
Domestic legal person shares	203,800,000	(22,500,000)	181,300,000
Shares not subject to trading moratorium			
A shares	76,200,000	22,500,000	98,700,000
H shares	170,000,000	—	170,000,000
	<u>450,000,000</u>	<u>—</u>	<u>450,000,000</u>

12. SHARE CAPITAL *(Continued)*

	1 January 2007 <i>RMB'000</i>	Share capital Change for the period <i>RMB'000</i>	30 June 2007 <i>RMB'000</i>
Shares subject to trading mortarium			
Domestic legal person shares	203,800,000	(22,500,000)	181,300,000
Shares not subject to trading mortarium			
A shares	76,200,000	22,500,000	98,700,000
H shares	170,000,000	—	170,000,000
	<u>450,000,000</u>	<u>—</u>	<u>450,000,000</u>

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group entered into the following transactions with related parties:

(a) Transactions with DEC and its subsidiaries (other than transactions with Dongfang Electrical Machinery Works (“DFEW”) and its subsidiaries):

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Revenue		
— Sales of finished goods	220,118	215,794
Other income		
— Interest income	5,295	212
— Others	330	—
	<u>5,625</u>	<u>212</u>

(b) Transactions with DFEW and its subsidiaries:

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Expenditure		
— Purchase of raw materials	73,151	55,482
— Freight and maintenance	5,481	4,220
— Rental expenses	1,731	1,824
— Sub-contracting services	75,095	53,123
— Others	2,472	1,321
	<u>157,930</u>	<u>115,970</u>

13. RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with DFEW and its subsidiaries (continued):**

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Other income		
— Provision of power supply	3,385	1,106
— Proceeds on sales of raw materials and finished goods	26,572	20,477
— Others	9	1,089
	<u>29,966</u>	<u>22,672</u>

13. RELATED PARTY TRANSACTIONS *(Continued)*

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

Name of related company	Related balances	For the six months ended	
		30 June 2007 RMB'000	30 June 2006 RMB'000
DEC and its subsidiaries	Trade receivables	118,557	105,171
	Receipts in advance	594,226	484,184
	Prepayment	10,178	8,615
	Trade payable	2,344	1,759
	Other payables	969	201
	Bills payables	547	—
DEC Finance Company (subsidiary of DEC)	Deposits	955	217,660
DFEW and its subsidiaries	Trade receivables	89,227	70,940
	Other receivables	3,534	16,748
	Prepayment	19,000	13,859
	Trade payables	61,135	73,641
	Bills payables	36,883	13,874
	Receipts in advance	2,063	2,919
	Other payables	2,470	5,198

Balance with associate is unsecured, interest free and repayable on demand. Details of the balance with associate of the Group are set out in the consolidated balance sheet.

13. RELATED PARTY TRANSACTIONS *(Continued)*

(d) **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) and (b) 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:

Save for the above disclosure, the Board of Directors is of the view that transactions with other state-controlled entities are insignificant to the operation of the Group.

13. RELATED PARTY TRANSACTIONS (Continued)**(d) Transactions/balances with other state-controlled entities in the PRC: (Continued)**

	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	RMB'000
Sales	<u>2,600,167</u>	<u>1,908,311</u>
Purchases	<u>366,889</u>	<u>318,684</u>
	30 June 2007	31 December 2006
	RMB'000	RMB'000
Amounts due from other state-controlled entities	<u>1,604,704</u>	<u>1,038,609</u>
Amounts due to other state-controlled entities	<u>29,107</u>	<u>16,442</u>

13. RELATED PARTY TRANSACTIONS *(Continued)*

(e) Compensation of key management personnel

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

	For the six months ended	
	30 June 2007	30 June 2006
	<i>RMB'000</i>	<i>RMB'000</i>
Remuneration of key executives	<u>247</u>	<u>290</u>

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 some key executives was paid by DEC.

14. CONTINGENT EVENTS

During the reporting period, the Company had no contingent events required to be disclosed.

15. COMMITMENTS

(1) Capital Commitments

	30.6.2007	31.12.2006
	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>		
Contracted but not recognised in the financial statements		
— Commitments to purchasing long-term assets	137,513	99,226
— Commitments for external investments	—	19,125
	<hr/>	<hr/>
	137,513	118,351
	<hr/>	<hr/>

(2) Other Commitments

	30.6.2007	31.12.2006
	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>		
Issue of irrevocable Letter of Credit	985,522	917,004
Issue of Performance bond	1,766,397	1,606,231
	<hr/>	<hr/>
	1,766,397	1,606,231
	<hr/>	<hr/>

16. POST BALANCE SHEET EVENTS

- (1) On 3 July 2007, the Company held the 2006 Annual General Meeting, at which the proposal for distribution of profits after tax for 2006 was passed by resolution, namely, the withdrawal of RMB74,776,015.96 for the statutory common reserves, the distribution of a final dividend of RMB0.20 per share in cash (including tax in respect of A shares) for the year ended 31 December 2006 to holders of A shares of the Company and to holders of H shares whose names appeared on the register of members of the Company on 11 May 2007, which amounted to a total of RMB90,000,000.00.
- (2) On 3 July 2007, the Company held the Second Extraordinary General Meeting for 2007 and considered and passed the Proposals in Relation to Private Placement of Shares to and Assets Acquisition from DEC and the Proposal in relation to the Company's shareholders (existed before and after the private placement of shares to DEC) sharing the undistributed profits carried before the private placement.
- (3) On 6 August 2007, the Company received the "Guo Zi Chan Quan [2007] No.705 Approval for issues in respect of the transfer by agreement of the state-owned equity interest in Dongfang Turbine Co., Ltd." [(資產權[2007]705號)《關於東方電氣集團東方汽輪機有限公司國有股權協議轉讓有關問題的批復》] signed and issued by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China (中國國務院國有資產監督管理委員會) (hereinafter "SASAC") and forwarded to the Company by DEC. SASAC approved the transfer by agreement of its 100% equity interest in Dongfang Turbine Co., Ltd. (hereinafter "Dongfang Turbine") by DEC to the Company. The "Chuan Hua Heng Ping Bao [2007] No.51 Asset Valuation Report" (川華衡評報[2007]51號《資產評估報告書》) relating to such transfer of state-owned equity interest by agreement has been filed with and accepted by SASAC, with filing no. 20070099.



VIII. DOCUMENTS AVAILABLE FOR INSPECTION

1. 2007 Interim 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.

SiZefu

Chairman

Dongfang Electrical Machinery Company Limited

30 August 2007