



东方电气
DONGFANG ELECTRIC

Dongfang Electric Corporation Limited

(H Share Stock Code: 1072)

(A Share Stock Code: 600875)



2008 INTERIM REPORT

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I. IMPORTANT NOTICE

1. The board of directors (the “Board”), the supervisory committee and the directors, supervisors and senior management of Dongfang Electric Corporation 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, the Chief Accountant, and Mr. Zeng Yi, 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) : 東方電氣股份有限公司
Chinese abbreviation : 東方電氣
Company name (in English) : Dongfang Electric Corporation Limited

2. Place of listing of A share : Shanghai Stock Exchange
Abbreviation of A share : DONGFANG ELEC
of the Company
Stock code of A share : 600875
of the Company
Place of listing of H share : The Stock Exchange of
Hong Kong Limited
Abbreviation of H share : DONGFANG ELEC
of the Company
Stock code of H share : 1072
of the Company

3. Registered company address : 18 Xixin Road, High-Tech
District (Western District), Chengdu,
Sichuan Province, the PRC
Company business address : No. 333, Shuhan Road, Chengdu,
Sichuan Province, the PRC
Postal code : 610036
Website : <http://www.dongfang.com>
E-mail : dsb@dongfang.com

4. Legal representative of the Company : Si Zefu
5. Secretary to the Board : Gong Dan
Telephone : 8628-8758 3666
Fax : 8628-8758 3551
Contact address : No. 333, Shuhan Road, Chengdu,
Sichuan Province, the PRC
- Representative of securities affairs : Huang Yong
Telephone : 8628-8758 3666
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Contact address : No. 333, Shuhan Road, Chengdu,
Sichuan Province, the PRC

(II) MAJOR FINANCIAL DATA AND INDICATORS

1. Major Accounting Data and Indicators (prepared under the PRC accounting standards)

Unit: RMB

	As at the end of the reporting period	As at the end of the previous year	Changes compared with the end of the previous year (%)
Total assets	46,510,356,995.21	36,378,397,130.70	27.85
Shareholders' equity	1,203,290,064.14	3,007,506,977.87	(59.99)
Net assets per share (RMB)	1.47	3.68	(60.05)
	Reporting period (Jan - Jun)	Corresponding period last year	Changes as compared with the corresponding period last year (%)
Operating profit	824,508,452.69	1,384,249,352.16	(40.44)
Total profit	549,425,430.59	1,399,357,265.99	(60.74)
Net profit	442,955,345.32	1,086,464,582.53	(59.23)
Net profit after deducting extraordinary profit and loss	722,982,552.06	423,823,057.88	70.59
Basic earnings per share (RMB)	0.54	1.33	(59.40)
Basic earnings per share after deducting extraordinary profit and loss (RMB)	0.88	0.94	(6.38)
Diluted earnings per share (RMB)	0.54	1.33	(59.40)
Return on net assets (%)	36.81	16.71	Increased by 20.10 percentage points
Net cash flow from operating activities	4,523,957,603.49	(1,369,418,110.83)	430.36
Net cash flow per share from operating activities	5.54	(1.68)	429.76

Note: Shareholders' equity, net assets per share, net profit, net profit after deducting extraordinary profit and loss are set out in accordance with the data attributable to ordinary shareholders of the Company; and return on net assets is fully diluted.

2. Extraordinary items and amount (prepared under the PRC accounting standards)

Unit: RMB

Extraordinary item	Amount for the reporting period
Gain and loss from disposal of non-current assets	1,271,588.46
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 quota or quantity)	20,498,847.59
Other net non-operating income/expenses other than the above items	6,246,610.27
Write down of fixed assets due to earthquake	(308,044,253.06)
Total	(280,027,206.74)

3. Differences between the PRC Accounting Standards and HKFRS

Unit: RMB'000

	Net profit		Net assets	
	For the period	For the previous period	Opening balance	Closing balance
Under the PRC Accounting Standards Items and total amount	442,955	1,086,465	3,007,507	1,203,290
adjusted under HKFRS:				
Appreciation of the appraisal of Dongfang Turbine, coupled with the effect of government subsidies and relevant deferred income tax	9,499	146,238	(468,944)	(459,445)
Prepared under HKFRS	452,454	1,232,703	2,538,563	743,845

III. CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

(I) CHANGES IN 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	548,300,000	67.11				(152,637,383)		395,662,617	48.43
3. Other domestic shares Including: Domestic legal person shares Domestic natural person shares									
4. Foreign invested shares Including: Overseas Legal Person Shares Overseas natural person shares									
Total number of shares subject to trading moratorium	548,300,000	67.11				(152,637,383)		395,662,617	48.43
II. Shares not subject to trading moratorium									
1. RMB ordinary shares	98,700,000	12.08				152,637,383		251,337,383	30.76
2. Domestic listed foreign investment shares									
3. Overseas listed foreign investment shares	170,000,000	20.81						170,000,000	20.81
4. Others									
Total number of shares not subject to trading moratorium	268,700,000	32.89						421,337,383	51.57
III. Total number of shares	817,000,000	100						817,000,000	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 54,117

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 shares subject to trading moratorium held	Number of shares pledged or frozen
Dongfang Electric Corporation	State-owned shareholder	53.94	440,662,617	(130,137,383)	395,662,617	Nil
HKSCC Nominees Limited	Foreign investment shareholder	20.70	169,108,999	(22,400)		Unknown
Industrial and Commercial Bank — Nanfang Jiyou Growth Share-type Securities Investment Fund	Others	2.90	23,654,953	—		Unknown
China Construction Bank — Bosera Theme Sector Share-type Securities Investment Fund	Others	0.92	7,490,562	—		Unknown
Tongde Securities Investment Fund	Others	0.75	6,141,818	3,104,739		Unknown

Name of shareholder	Type of shareholder	Percentage (%)	Total number of shares held	Increase/decrease in the reporting period	Number of shares subject to trading moratorium held	Number of shares pledged or frozen
Industrial and Commercial Bank of China — Huan Small and Medium Caps Growth Equity Securities Investment Fund	Others	0.54	4,398,292	—		Unknown
Industrial and Commercial Bank of China — China Merchants Core Value Mixed Securities Investment Fund	Others	0.47	3,863,256	—		Unknown
Industrial and Commercial Bank of China — Bosera selective Equity Securities Investment Fund	Others	0.45	3,699,833	—		Unknown
China Construction Bank — Huabo Xinyeh Sector Selective Stock Securities Investment Fund	Others	0.42	3,405,334	—		Unknown
China Construction Bank — First State Cinda Leaders Growth Equity Fund	Others	0.37	3,051,918	0		Unknown

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 top ten shareholders or among the top ten holders of shares not subject to trading moratorium of the Company

- (1) China Dongfang Electric Corporation (“DEC” hereafter) is the authorized holder of 440,662,617 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 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 total H share capital were as follows:

Name	Type of shareholders	Number of shares held (Share)	Percentage in total issued shares (%)	Percentage in total issued H shares (%)
Fidelity International Limited	H share	15,278,000	1.87	8.99
Baring Asset Management Limited	H share	11,692,000	1.43	6.88
BNP Paribas Asset Management	H share	8,703,000	1.07	5.12

- (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 are no provisions for pre-emptive rights under the relevant PRC laws and the Company’s Articles of Association.
- (6) As at 30 June 2008, the Company had not issued any convertible securities, options, warrants or any other similar rights.

2. Changes in controlling shareholder and the ultimate controller

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

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Number of shares held at the beginning of the period	Increase in shareholding during the period	Decrease in shareholding during the period	Number of shares held at the end of the period	Reason for the change
Si Zefu	Chairman	0	—	—	0	
Zhang Xiaolun	Director	0	—	—	0	
Wen Shugang	Director and President	0	—	—	0	
Chen Xinyou	Director, Senior vice president (<i>Note</i>)	0	—	—	0	
Zhang Jilie	Director	0	—	—	0	
Li Hongdong	Director	1,270	—	—	1,270	
Chen Zhangwu	Independent Director	0	—	—	0	
Xie Songlin	Independent Director	0	—	—	0	
Zheng Peimin	Independent Director	0	—	—	0	
Wen Bingyou	Chairman of Supervisory Committee	0	4,119	—	4,119	Dongfang Boiler's share exchange
Wen Limin	Supervisor	0	—	—	0	
Ma Zongqiong	Supervisor	0	—	—	0	
Han Zhiqiao	Vice president	1,270	—	—	1,270	
Wu Huanqi	Vice president	0	—	—	0	
Zhang Zhiying	Vice president	0	—	—	0	
Gong Dan	Chief Accountant and Secretary to the Board	1,270	—	—	1,270	

Note: Mr. Chen Xinyou resigned as a director and senior vice president on 12 June 2008 due to job relocation that he has been assigned to work at Deyang Municipal Government.

- (1) Save as disclosed above, none of the directors, supervisors and senior management of the Company, as at 30 June 2008, 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 granted by the Company or its subsidiaries any right to sell or acquire shares or debentures of the Company nor had they exercised any such right as at 30 June 2008.
- (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 any other associate corporations 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.

(II) NEW APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

On 12 June 2008, as considered and approved by the 25th Meeting of the Fifth Board, Mr. Chen Xinyou ceased to hold the position of Director and Senior Vice President of the Company due to job relocation.

V. REPORT OF THE BOARD

(I) DISCUSSION AND ANALYSIS ON THE OVERALL OPERATING STATUS DURING THE REPORTING PERIOD

1. Production and operation

As a manufacturer of electric power generating equipment, the Company is one of the largest power generating equipment manufacturing bases in China. The principal operations of the Company include development, manufacture, sale and provision of service of thermal power, hydro power, wind power, nuclear power and gas-fired power generation equipment, as well as power station design, technological development for facilities package of power station, and sales and provision of service of a complete set of facilities.

During the reporting period, the Company overcome the price hikes in raw materials, energy sources and transportation, especially the aftermath of unpredictable serious "5.12" earthquake, which the Company has actively carried out quake relief work and resumed production. The Company overcame the difficulties in production management and coordination due to the frequent aftershock and resumption of production in different sites and overcame the difficulties in raw material supply and in excavation of ancillary resources. The Company made every effort to resume the entire production. Therefore, production and operation remained satisfactory.

During the reporting period, the Company accomplished output of power-generating equipment of 12,800MW. Among which, it produced 15 sets (3,265.5MW) of hydro-electric turbine generators, 22 sets (9,140MW) of steam turbine generators, 263 sets (394.5MW) of wind power generators, 34 sets (13,587MW) of power station boilers and 16 sets (6,330MW) of power station steam turbines. In accordance with the PRC Accounting Standards, the Company achieved operating income of RMB12,070 million, representing an increase of 2.52% over the same period last year. Net profit amounted to RMB448 million, representing a decrease of 62.38% from the same period last year. Earnings per share amounted to RMB0.54, representing a decrease of 59.40% as compared with the same period last year.

During the reporting period, the Company obtained a satisfactory amount of orders, among which new orders amounts to RMB45 billion and orders in hand amounts to RMB114 billion. Among the orders newly obtained by the Company, there was a substantial increase for order of nuclear power and wind power generating equipment, which represent 33% and 13% of the total new orders in the first half of the year. Obtaining the bid of Taishan 2 x 1,750MW nuclear power project demonstrated that the Company has successfully reached the third generation of nuclear power manufacturing.

2. Problems and Obstacles in Operation

(1) Material impact on production and operation due to earthquake disaster

The Company suffered serious casualties and property losses as a result of the “5.12” earthquake, in particular to the production base of Dongfang Steam Turbine Co. Ltd. (hereinafter referred as “Dongfang Turbine”) in Hanwang, a wholly owned subsidiary of the Company, which resulted in severe adverse impact on production of power station steam turbines in the Company’s thermal power operation. The delivery of steam turbine products was being postponed, which resulted in substantial liquidity pressure upon reconstruction work in other places. The earthquake caused a great difficulty for the Company in achieving the operational goals which was set at the beginning of this year.

(2) Adverse impact on production from undersupply in outsourced products and raw materials

Due to the “5.12” earthquake and electricity shortage caused by snowstorm early in this year, some of the Company’s major production enterprises and most of the outsourcing manufacturers experienced suspension or insufficient production capacity. As a result, the production of the Company’s major products for the first half of this year is not satisfactory. Moreover, the severe shortage in raw materials including guard ring for 600MW steam turbine generator rotors and rotors for power station steam turbines continues to restrict the Company’s production for this year. The Company is in the course of adjusting its production plan and optimizing workflows in accordance with the condition of raw materials and outsourced products, and aims to ensure the punctual delivery of product.

- (3) Decline of Profitability as a result of the rapid increase of the costs and other expenses of the raw material

Since this year, due to hikes in raw material prices, increase of transportation expenses and the rise in labour costs, the Company faces great pressure in relation to its profitability.

3. Outlook for the second half of the year

- (1) The Company will enhance planning management to guarantee the coordination among technology, material and production plan. By developing, specifying and implementing production plan in key projects, accelerate the manufacture of key components, cause the organization and production efficient. Fully developing internal potential, strengthening and widening the supervision in production and delivery, following the completion plans strictly in order to meet the targets for the whole year.
- (2) Pursuant to the Company's overall aim of "Helping each other, rebuilding home" and "Increase revenues and cut expenditures", the Company will adopt effective measures to actively increase profits. The Company will strictly control production costs and expenses, so as to fulfil the target of cutting cost and enhancing efficiency.
- (3) The Company will set up new marketing strategy in order to strengthen customers' confidence in it; secure orders from the new power generation and resources market, including wind power and nuclear power, which are not affected by the earthquake, so as to fulfil the need of continuous development after re-construction.
- (4) The Company shall launch a plan for rebuilding Dongfang Turbine, obtain assistance in funding and policies so as to promote the construction of Dongfang Turbine's new production base in Deyang step by step.

(II) PRINCIPAL OPERATIONS AND THE OPERATING STATUS

1. Principal operations by business and product

Unit: RMB0'000

By business	Principal operating revenue	Principal operating cost	Gross profit margin (%)	Increase/ (decrease) in principal operating revenue as compared with the corresponding period last year (%)	Increase/ (decrease) in principal operating cost as compared with the corresponding period last year (%)	Increase/ (decrease) in gross profit margin as compared with the corresponding period last year (%)
Machinery manufacturing	1,178,546.98	995,810.55	15.51	2.88	9.81	(25.54)

By product	Principal operating revenue	Principal operating cost	Gross profit margin (%)	Increase/ decrease in principal operating revenue (%)	Increase/ decrease in principal operating cost (%)	Increase/ decrease in gross profit margin (%)
Main thermal power equipment	904,246.24	754,559.81	16.55	(7.26)	0.85	(28.85)
Main hydro power equipment	112,831.10	100,199.53	11.20	3.16	(0.33)	38.44
Wind power generation sets	139,707.15	119,183.16	14.69	291.52	250.85	206.04
Others	21,762.49	21,868.05	(0.49)	(14.51)	(9.25)	(109.16)

2. Principal operations by region

Unit: RMB0'000

By region	Principal operating revenue	Increase/(decrease) in principal operating revenue as compared with the corresponding period last year (%)
The PRC	1,178,546.98	2.88

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

In terms of the consolidated gross profit margin, the overall gross profit margin was 15.51% during the period, representing a decrease of 5.32 percentage points from 20.83% in the corresponding period last year. In terms of product analysis, the gross profit margin for thermal power products decreased significantly while the gross profit margin for wind power and hydro power products increased substantially. The major factors are as follows:

- (1) The gross profit margin for thermal power products during the period was 16.55%, representing a decrease of 6.71 percentage points from 23.26% in the corresponding period last year. The decrease was mainly due to the surging prices of materials such as key components, especially large-scale casting and forging pieces, steel and non-ferrous components (有色件), which either increased rapidly or remained high. The accumulated effect of surging prices on the cost of products was significantly exemplified in 2008. Meanwhile, to deliver products to customers on time amidst limited production capacity of national material suppliers, the Company redoubled its efforts in seeking foreign strategic partners, therefore expanded outsourcing production and the manufacturing cost of products rocketed. Besides, as the Company adjusted its product structure, new products and certain products with a large capacity and high parameter soon represented a larger share in the Company's total sales structure. The relatively low gross profit for these products resulted in an overall decrease of gross profit margin of thermal power products. Besides, the earthquake had to a certain extent affected the economy of scale of the Company's production of thermal power products;
- (2) The gross profit margin for wind power products was 14.69% for the period, representing an increase of 9.89 percentage points from 4.80% in the corresponding period last year. The main reason for the growth was that with rapid increase in batch production capacity of wind power production products and nationalization, the fixed cost per unit of product fell significantly. Meanwhile, the sales of wind power products accounted for approximately 12% of the revenue and resulted in the realization of economy of scale;

- (3) The gross profit margin for hydro power products was 11.20%, representing an increase of 3.11 percentage points from 8.09% in the corresponding period last year. The growth was mainly attributable to the Company's adjustment of product structure, which, in a more reasonable format, boosted efficiencies.

(III) FINANCIAL ANALYSIS

1. Prepared under PRC Accounting Standards:

Items in the balance sheet

Unit: RMB0'000

Items	Closing balance	Opening balance	Increase/ (decrease) (%)
Bank balance and cash	937,660.92	502,027.01	86.77
Prepayments	832,334.85	528,558.80	57.47
Account payables	573,873.49	342,604.07	67.50
Fixed assets	210,001.52	250,661.90	(16.22)
Taxes payable	8,751.44	34,408.69	(74.57)
Long-term payables	408,859.26	184,868.53	121.16
Current liabilities due			
within one year	104,247.68	48,250.00	116.06
Surplus reserve	—	40,552.60	(100.00)
Undistributed profit	38,629.01	178,498.10	(78.36)

- (1) Closing balance of bank balance and cash increased by 86.77% as compared with the opening balance, the main reasons are (i) the Company has increased efforts to collect sales receivables in view of its liquidity shortage, and (ii) certain customers showed their support to the Company after the "5.12" earthquake by taking the initiative to pay retention receivables or project progress payments;

- (2) Closing balance of prepayment and accounts payable increased by 57.47% and 67.50% respectively as compared with the opening balance, mainly attributable to the increase in the Company's prepayment of raw materials and accounts payable to suppliers, as the Company procured more raw material to meet its arduous production target so as to maintain its high output and also due to the key resources constraint in the global market;
- (3) Closing balance of fixed assets of the Company amounting to RMB308.0442 million decreased by 16.22% as compared with the opening balance, mainly attributable to the recognition of loss from abandonment of fixed assets caused by the earthquake during the period;
- (4) The closing balance of taxes payable decreased by 74.57% as compared with the opening balance, the main reasons are (i) the input tax increased noticeably due to the aforesaid significant increase in procurement, and (ii) Dongfang Turbine provided no income tax according to "The State Council's Opinion in Respect of Rehabilitation Policies and Measures after Wenchuan 5.12 Earthquake" (《國務院關於支持汶川地震災後恢復重建政策措施的意見》) (Guo Fa [2008] No. 21 Wen) issued by the State Council, stating that enterprises which suffered a huge loss in disaster areas are exempted from the enterprise income tax for the year 2008;
- (5) The closing balance of long-term payables and current liabilities due within one year increased by 121.16% and 116.06% respectively as compared with the opening balances, mainly attributable to consideration payable for the acquisition of remaining 31.61% equity interest in Dongfang Boiler (Group) Co. Limited (hereinafter referred as "Dongfang Boiler") under the Acquisition Agreement and the Supplementary Agreement of Acquisition Agreement;

- (6) The closing balance of surplus reserve decreased by 100% as compared with the opening balance, the main reason is the Company's acquisition of 31.61% equity in Dongfang Boiler reduced the surplus reserve according to the requirements on treatment to acquisition of minority interests in a subsidiary under the New Accounting Standard;
- (7) The closing balance of undistributed profit decreased by 78.36% as compared with the opening balance, the main reasons are (i) the net profit recorded a substantial decrease year on year, and (ii) the Company's acquisition of 31.61% equity in Dongfang Boiler reduced the undistributed profit according to the requirements on treatment to acquisition of minority interests in a subsidiary under the New Accounting Standard.

Items in income statement

Unit: RMB'000

Items	Amount for the corresponding		
	Closing balance	period last year	Increase/ (decrease) (%)
Finance costs	9,506.63	(3,104.11)	406.26
Operating profit	82,450.85	138,424.94	(40.44)
Non-operating expenses	32,021.15	1,205.77	2,555.65

- (1) Finance costs for the period increased by 406.26% over the corresponding period last year, mainly attributable to the provision made by the Company for the interest for the first half of 2008 on the residual consideration of acquiring equity interest in Dongfang Turbine and Dongfang Boiler;

- (2) Operating profit for the period decreased by 40.44% from the beginning of the year, mainly attributable to low gross profit margin and rapid increase in interest expenditure during the period;
- (3) Non-operating expenses increased by 2,555.65% over the corresponding period last year, mainly attributable to the recognized loss of approximately RMB308 million for abandonment of fixed assets arising from the loss sustained by Dongfang Turbine in the "5.12" Earthquake;

Items in cash flow statement

Unit: RMB0'000

Items	Amount for the period	Amount for the corresponding period last year	Increase/ (decrease) (%)
Net cash flow from operating activities	452,395.76	(136,941.81)	430.36
Net cash flow from investment activities	(39,256.66)	(22,337.26)	(75.75)

- (1) Net cash flow from operating activities increased by 430.36% over the corresponding period last year, mainly attributable to the prompt collection of sales payment and deferred payment for most raw materials procurement after the earthquake.
- (2) Net cash flow from investment activities decreased by 75.75% from the corresponding period last year, mainly attributable to an increase of 89.61% in cash payment for acquisition or construction of fixed assets, intangible assets and other long-term assets, as the Company increased investment in updating equipments to enhance its competitiveness in the future market.

2. Prepared under HKFRS

(1) Financial status

As at 30 June 2008, the current assets of the Company amounted to RMB42,991,244,000 (December 2007: RMB32,506,752,000) and the non-current assets amounted to RMB3,455,612,000 (December 2007: RMB3,611,129,000). Items with relatively significant changes comparing with the beginning of the year and the reasons are as follows:

- a. Cash and bank deposits amounted to RMB9,376,609,000 (December 2007: RMB5,020,270,000), increasing by 86.77% over the beginning of the year. The main reason is that the Company has increased efforts to collect sales receivables in view of its liquidity shortage. Meanwhile, certain customers showed their support to the Company after the “5.12” earthquake by taking the initiative to pay retention receivables or project progress payments;
- b. Trade and other receivables amounted to RMB17,446,509,000 (December 2007: RMB13,993,166,000), representing an increase of 24.68% over the beginning of the year. This was primarily attributable to an increase of 89.50% in prepayment of raw materials by the Company over the beginning of the year, as the Company procured more raw materials to meet its arduous production target so as to maintain its high output and also due to the key resources constraint in the global market;
- c. Inventories amounted to RMB13,921,584,000 (December 2007: RMB12,040,057,000), increasing by 15.63% over the beginning of the year, which is mainly due to the increased inventories of raw materials as well as semi-finished products for long-term production plan in the Company’s expansion into the new energy business;

- d. Property, plant and equipment amounted to RMB1,920,073,000 (December 2007: RMB2,337,910,000), decreased by 17.87% from the beginning of the year, which was mainly due to the recognition of loss from abandonment of fixed assets caused by the earthquake during the period;
- e. Construction in progress amounted to RMB557,775,000 (December 2007: RMB312,086,000), representing an increase of 78.72% over the beginning of the year, which was mainly due to the new acquisition of production equipment for enlarged production capacity, and additional investment in infrastructure and equipment for localization and bulk production of new products;

As at 30 June 2008, the total liabilities of the Company amounted to RMB45,593,671,000 (December 2007: RMB32,718,717,000). Items with relatively significant changes and the reasons are as follows: (1) trade and other payables amounted to RMB36,188,966,000 (December 2007: RMB21,978,211,000), grew by 64.66% over the beginning of the year, which was primarily attributable to the consolidation of consideration payable for the acquisition of residual 31.61% equity interest in Dongfang Boiler during the period; (2) provision was made in the period for the interest for 2008 on the residual consideration of acquiring 100% equity interest in Dongfang Turbine and 99.66% equity interest in Dongfang Boiler pursuant to the Acquisition Agreement and the Supplementary Agreement of Acquisition Agreement; (3) trade payables to the parent company amounted to RMB4,088,593,000, increased by 121.24% over the beginning of the year, which was mainly composed of residual consideration for the aforesaid acquisition of 31.61% equity interest in Dongfang Boiler.

(2) Cash Flows

As at 30 June 2008, the cash and cash equivalents of the Company recorded a net increase of RMB3,284,179,000 as compared with that of the beginning of the year, which was primarily attributable to an increase in cash inflow due to prompt collection of sales payment and deferred payment for most raw materials procurement after the earthquake.

(3) Borrowings

As at 30 June 2008, the Company held short-term bank loan of RMB247,060,000 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. The Company also held a bank loan of RMB5,820,000 due over one year but within two years. All loans, cash and cash equivalents are denominated in RMB. Such loans attract interest rates ranged from 2.55% to 6.39%.

(4) Gearing Ratio

As at the end of the reporting period, gearing ratio was 98.16%. The relatively high gearing ratio is mainly attributable to prepayment from customers of the Company (62.51% of total liabilities). Moreover, for the listing of the Company's entire assets, the residual payment and interest accrued thereon amounting to RMB6,052,906,000 payable for the acquisition of equity interest of Dongfang Turbine and Dongfang Boiler remained outstanding, accounting for 13.28% of the total liabilities. Gearing ratios of individual statements of the parent company and the subsidiary ranged from 75% to 85%. Shareholdings and net assets of Dongfang Turbine and Dongfang Boiler in long-term investment are offset in the consolidated financial statements which lead to decrease in net assets and therefore the rise in gearing ratio.

- (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 for imported raw material and equipment including letter of credit, collection, cash against delivery. Payments were made in various currencies, including: U.S. dollar, Japanese Yen, Euro, Swiss Franc and so on, thus minimize the risks of Renminbi appreciation or depreciation against certain currency and the impact on profit of the Company. Given the overall environment of Renminbi appreciation, the management considers risk of exchange rate fluctuation is minimal. 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.

(IV) INVESTMENT OF THE COMPANY

The Company did not undertake any significant investment which was not financed by proceeds raised during the reporting period, nor had it raised proceeds or funds brought forward from previous periods.

VI. SIGNIFICANT EVENTS

(I) CORPORATE GOVERNANCE

The Company has 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 The Stock Exchange of Hong Kong Limited 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 Supervisory Meeting, Work Rules for the Strategic Development Committee, Work Rules for the Audit and Review Committee, Work Rules for the Remuneration and Nomination Committee, Work Rules for Independent Directors, Management Method for Raised Proceeds and Management Method for Internal Reporting of Significant Events. Meanwhile, in line with the new organization structure after overall listing, the Company revised the Management Method for Information Disclosure, Management Method for Investors Relationship and Management Method for Connected Transactions.

According to the [2008] No. 27 Announcement by CSRC and “Notice of Further Promoting Special Campaigns on Corporate Governance of Listed Companies” (Chuan Zheng Jian Shang Shi Zi [2008] No. 38), the Company prudently carried out rectification on matters listed in the self-inspection and rectification report for the 2007 special campaigns on corporate governance and further promoted such campaigns in 2008. The Board considered and approved the rectification report on matters listed in the self-inspection and rectification report for special campaigns on corporate governance and made relevant announcement on the website of the Shanghai Stock Exchange on 16 July 2008.

(II) PROFIT DISTRIBUTION PLAN IMPLEMENTED DURING THE REPORTING PERIOD

The profit distribution plan of the Company in 2007 was to appropriate cash bonus of RMB2.40 (A Shares inclusive of tax) per 10 shares to all its shareholders. The profit distribution plan was considered and passed in the Company’s 2007 Annual General Meeting held on 16 May 2008. The Company has appropriated cash bonus to shareholders whose names were registered in the A Shares registrar of the Company on 4 July 2008 and shareholders whose names were registered in the H Shares registrar of the Company on 15 April 2008.

(III) THE COMPANY’S PROPOSAL FOR PROFIT DISTRIBUTION AND PROPOSAL FOR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL FOR THE FIRST HALF OF 2008

During the reporting period, the Company had no profit distribution plan and proposal for transfer of capital reserve to share capital.

(IV) MATERIAL LITIGATION AND ARBITRATION

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

(V) ASSETS TRANSACTION

Acquisition of assets

Pursuant to the Acquisition Agreement entered into between DEC and the Company on 16 May 2007, upon expiry of the offer acquisition period for DEC to acquire all tradable shares of Dongfang Boiler not subject to trading moratorium held by Dongfang Boiler shareholders, DEC will transfer not more than 128,250,000 shares of Dongfang Boiler acquired upon expiry of the offer acquisition period (representing not more than 31.95% of the total issued shares of Dongfang Boiler) to the Company.

Upon the expiry of this offer acquisition period on 26 January 2008, the total number of acquired shares confirmed by the Shanghai branch of China Securities Depository and Clearing Corporation Limited is 126,905,730 shares. As at 29 February 2008, such number of shares of Dongfang Boiler had been transferred to DEC.

On 22 March 2008, DEC and the Company signed the Confirmation Letter on the Number and Consideration of Shares Settled under the Second Completion to confirm that (1) DEC shall transfer 126,905,730 shares of Dongfang Boiler to the Company subsequently under the Acquisition Agreement, representing approximately 31.61% of Dongfang Boiler's total issued shares; (2) the acquisition consideration payable by the Company for such shares is RMB2,799,884,194. Accordingly, the Company completed the acquisition of Dongfang Boiler shares acquired by DEC at the expiry of this offer acquisition period.

(VI) MATERIAL CONNECTED TRANSACTIONS

1. Connected transaction relating to daily operation

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

Unit: RMB0'000

Connected party	Connected transaction	Pricing principle	Amount	Percentage in the amount of similar transactions (%)	Way of settlement	Impact on the Company's profit
DEC and its subsidiaries	Purchase of goods and receipt of services	Market price	15,894.05	1.11	As contracted	Beneficial for the Company's steady operation and sustainable growth
Subsidiaries of Dongqi Investment Company	Purchase of goods and receipt of services	Market price	70,056.59	4.91	As contracted	As stated above
Subsidiaries of Dongfang Electrical Machinery Works	Purchase of goods and receipt of services	Market price	18,101.95	1.22	As contracted	As stated above

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

Unit: RMB0'000

Connected party	Connected transaction	Pricing principle	Percentage in the amount		Way of settlement	Impact on the Company's profit
			Amount	of similar transactions (%)		
DEC and its subsidiaries	Sales of goods and provision of services	Market price	114,196.80	9.46	As contracted	Beneficial for the Company's market expansion
Subsidiaries of Dongqi Investment Company	Sales of goods and provision of services	Market price	15,113.53	1.25	As contracted	Beneficial for the Company's steady operation with slight impact on the profit
Subsidiaries of Dongfang Electrical Machinery Works	Sales of goods and provision of services	Market price	2,328.86	0.19	As contracted	As stated above
Joint ventures	Sales of goods and provision of services	Market price	1.46	0	As contracted	As stated above
Associates	Sales of goods and provision of services	Market price	3.36	0	As contracted	As stated above
Invested companies	Sales of goods and provision of services	Market price	0.02	0	As contracted	As stated above

(VII) 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 shares of the Company for 12 months of trading and 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 share). If there is any profit distribution or capitalization of capital reserve, which results in changes in shares or shareholding structure of the Company or payment of cash bonus, such price will be calculated on an ex-rights basis.

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

(VIII) ANALYSIS OF OTHER SIGNIFICANT EVENTS AND ITS IMPACT AND RESOLUTIONS

1. Explanations to the significant events

An earthquake with a magnitude of 8.0 on the Richter scale struck Wenchuan area of Sichuan Province on 12 May 2008, in which, the production base of Dongfang Steam Turbine Co. Ltd., (a wholly-owned subsidiary of the Company) in Hanwang Town of Mianzhu, Sichuan Province were seriously damaged with heavy losses to staff, production premises, machineries and equipments. The earthquake adversely affected the Company's operating results. The Company estimated the earthquake has caused the Company a direct property loss of no more than RMB1.6 billion and recognized fixed assets losses of RMB308,044,253.06. Recognition of the other losses will be made upon the completion of property checking and losses confirmation, which is expected to completed before 31 December 2008.

2. The Company's application for issuing not more than 65,000,000 A Shares to non-targeted public subscribers was conditionally approved by the CSRC Securities Issuance Review Committee on 18 July 2008.

(IX) EMPLOYEES

As at 30 June 2008, the Company employed 18,041 staff. The Company adopted a remuneration system linked with performance and paid the employees in accordance with their performance.

(X) PURCHASE, SALE OR REDEMPTION OF SHARES

As at the end of the reporting period, the Company and its subsidiaries or entities jointly controlled by the company did not purchase, sell any shares of the Company.

(XI) COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

During the reporting period, the Directors of the Company were not aware of any information which can reasonably indicate that the Company has, at anytime during the period, not complied 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"), 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 requisite qualification as specified under Rule 3.24 of the Listing Rules.

(XII) COMPLIANCE WITH THE MODEL CODE

During the reporting period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms not below the required standard in the “Model Code for Securities Transactions by Directors of Listed Companies” in Appendix 10 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 under the Model Code.

(XIII) 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 report and the interim results report of the Company for the six months ended 30 June 2008.

VII. FINANCIAL STATEMENT (UNAUDITED)

1. THE UNAUDITED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

Unit: RMB

Items	30 June 2008	31 December 2007
Current assets:		
Bank balance and cash	9,376,609,234.79	5,020,270,063.60
Clearing provision		
Interbank lending		
Tradable financial assets	316,893.60	885,904.02
Notes receivable	604,736,344.59	755,264,420.90
Accounts receivable	8,331,897,925.46	7,776,081,054.89
Prepayments	8,323,348,472.57	5,285,587,991.11
Premiums receivable		
Reinsurance accounts receivable		
Reinsurance contracts provision receivable		
Interest receivable		
Dividend receivable		
Other receivables	186,526,310.26	175,838,074.92
Purchases of resold financial assets		
Inventory	16,050,371,755.74	13,525,874,727.87
Non-current assets due within one year		
Other current assets		
Total current assets	42,873,806,937.01	32,539,802,237.31

CONSOLIDATED BALANCE SHEET (Continued)

Items	30 June 2008	31 December 2007
Non-current assets:		
Loans and advances		
Financial assets available for sale		
Held-to-maturity investment		
Long-term receivables		
Long-term investment in equity	343,905,007.29	351,499,670.86
Investment properties	34,863,620.29	35,681,586.19
Fixed assets	2,100,015,173.17	2,506,618,981.28
Construction in progress	557,363,664.42	311,851,600.57
Construction materials	121,664.96	121,664.96
Disposals of fixed assets	177,475.74	0
Biological assets for production		
Fuel assets		
Intangible assets	345,564,978.52	348,472,241.17
Development expenditure		
Goodwill		
Long-term deferred expenses		
Deferred income tax assets	254,538,473.81	284,349,148.36
Other non-current assets		
Total non-current assets	3,636,550,058.20	3,838,594,893.39
Total assets	46,510,356,995.21	36,378,397,130.70

CONSOLIDATED BALANCE SHEET (Continued)

Items	30 June 2008	31 December 2007
Current liabilities:		
Short-term borrowings	247,060,000.00	392,528,000.00
Borrowing from PBOC		
Customer and interbank deposits		
Interbank borrowing		
Financial liabilities held for trading		
Notes payable	1,776,312,228.18	1,591,486,937.85
Account payables	5,738,734,928.92	3,426,040,657.01
Payments received in advance	28,500,997,702.09	21,699,570,822.34
Sales of repurchased financial assets		
Fees and commissions payable		
Staff remuneration payables	347,624,186.17	377,287,439.20
Taxes payable	87,514,361.57	344,086,857.58
Interest payable	139,748,533.04	21,457,333.33
Dividend payable	196,084,275.00	4,275.00
Other payables	1,685,294,543.21	1,347,536,178.71
Reinsurance accounts payable		
Insurance contract reserve		
Payment for agent of trading securities		
Payment for agent of underwriting securities		
Non-current liabilities		
due within one year	1,042,476,838.80	482,500,000.00
Other current liabilities		
Total current liabilities	39,761,847,596.98	29,682,498,501.02

CONSOLIDATED BALANCE SHEET (Continued)

Items	30 June 2008	31 December 2007
Non-current liabilities:		
Long-term borrowing	5,820,000.00	5,820,000.00
Bonds payable		
Long-term payables	4,088,592,608.04	1,848,685,252.84
Special payables		
Accrued Liabilities	285,131,308.93	228,377,931.14
Deferred income tax liabilities	27,988,173.58	45,120,569.93
Other non-current liabilities	1,028,347,264.59	699,787,210.76
Total non-current liabilities	5,435,879,355.14	2,827,790,964.67
Total liabilities	45,197,726,952.12	32,510,289,465.69
Owner's equity (shareholders' equity):		
Paid-up capital (share capital)	817,000,000.00	817,000,000.00
Capital reserve	0	0
Less: Treasury stock		
Surplus reserve	0	405,525,983.43
Preparations for general risks		
Undistributed profit	386,290,064.14	1,784,980,994.44
Difference from translation of foreign currency statement		
Total equity attributable to the equity holders of the Company	1,203,290,064.14	3,007,506,977.87
Minority interests	109,339,978.95	860,600,687.14
Total owner's equity	1,312,630,043.09	3,868,107,665.01
Total liabilities and owner's equity	46,510,356,995.21	36,378,397,130.70

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD BETWEEN 1 JANUARY AND 30 JUNE 2008
Unit: RMB

Items	1 January to 30 June 2008	1 January to 30 June 2007
I. Total revenue from operations	12,069,762,820.31	11,772,667,383.57
Including: revenue from operations	12,069,762,820.31	11,772,667,383.57
Interest income		
Premiums earned		
Income from fee and commission		
II. Total cost of operations	10,185,360,302.86	9,321,495,173.86
Including: cost of operations	10,185,360,302.86	9,321,495,173.86
Interest payments		
Fee and commission expenses		
Surrender value		
Net expenditure for compensation payments		
Net drawing on provision for insurance contracts		
Expenditures for insurance policy dividend		
Reinsurance costs		
Business tax and surcharge	22,879,561.70	29,778,036.18
Selling expenses	200,051,693.03	232,357,913.54
Administrative expenses	615,622,988.86	636,103,971.19
Finance costs	95,066,318.14	(31,041,129.08)
Impairment loss of assets	117,970,416.26	200,239,710.91
Add: Gain from change in fair value (loss is represented by "-")	(569,010.42)	0
Gain from investment (loss is represented by "-")	(7,734,076.35)	515,645.19
Including: Gains from investment in associates and joint venture	(7,734,076.35)	515,645.19
Gains from foreign currencies exchange (loss is represented by "-")		

CONSOLIDATED INCOME STATEMENT (Continued)

Items	1 January to 30 June 2008	1 January to 30 June 2007
III. Operating profit		
(loss is represented by "-")	824,508,452.69	1,384,249,352.16
Add: Non-operating income	45,128,481.85	27,165,641.74
Less: Non-operating expenses	320,211,503.95	12,057,727.91
Including: Net loss from disposal of non-current assets	309,651,550.03	3,185,789.27
IV. Total profit (loss is represented by "-")	549,425,430.59	1,399,357,265.99
Less: Income tax	101,626,521.46	209,163,528.67
V. Net profit (loss is represented by "-")	447,798,909.13	1,190,193,737.32
Net profit attributable to the Company	442,955,345.32	1,086,464,582.53
Minority interests	4,843,563.81	103,729,154.79
VI. Earnings per share:		
(i) Basic earnings per share (RMB/share)	0.54	1.33
(ii) Diluted earnings per share (RMB/share)	0.54	1.33

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD BETWEEN 1 JANUARY AND 30 JUNE 2008

Unit: RMB

Items	1 January to 30 June 2008	1 January to 30 June 2007
I. Cash flow from operating activities:		
Cash received from sale of goods and provision of services	19,708,983,189.21	10,609,188,452.63
Net increase in customer and interbank deposits		
Net increase in borrowings from PBOC		
Net increase in borrowings from other financial institutions		
Cash received from premiums under original insurance contract		
Net cash received from reinsurance business		
Net increase in deposits of policy holders and investment		
Net increase in disposal of trading financial assets		
Cash received from interest, fees and commissions		
Net increase in borrowings		
Net increase in income from repurchase business		
Tax rebates	38,083,842.08	1,867,445.29
Other cash received from activities related to operation	914,187,722.90	115,476,013.78
Sub-total of cash inflow from operating activities	20,661,254,754.19	10,726,531,911.70
Cash paid for goods purchased and service rendered	14,255,771,478.49	9,961,757,182.76
Net increase in customer loans and advances		
Net increase in deposit in PBOC and interbank deposits		
Cash paid for compensation payments under original insurance contract		
Cash paid for interest, fee and commission		
Cash paid for insurance policy dividend		
Cash paid to and on behalf of employee	691,174,672.49	684,764,208.58
Taxes payments	503,625,390.26	746,352,344.69
Other cash paid for activities related to operation	686,725,609.46	703,076,286.50
Sub-total of cash outflow from operating activities	16,137,297,150.70	12,095,950,022.53
Net cash flow from operating activities	4,523,957,603.49	(1,369,418,110.83)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

Items	1 January to 30 June 2008	1 January to 30 June 2007
II. Cash flow from investment activities:		
Cash received from investment	796,263.23	320,332.46
Cash received from gains in investment	28,000.00	
Net cash received from disposal of fixed assets, intangible assets and other long term assets	3,238,342.60	4,751,676.11
Net cash received from disposal of subsidiaries and other operating entities		
Other cash received from activities related to investment	260,000.00	
Sub-total of cash inflow from investment activities	4,322,605.83	5,072,008.57
Cash paid for purchase of fixed assets, intangible assets and other long term assets	396,889,241.88	209,319,570.91
Cash paid for investment		19,125,000.00
Net increase in pledged loans		
Net cash paid for acquiring subsidiaries and other operating entities		
Other cash paid for activities related to investment		
Sub-total of cash outflow from investment activities	396,889,241.88	228,444,570.91
Net cash flow from investment activities	(392,566,636.05)	(223,372,562.34)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

Items	1 January to 30 June 2008	1 January to 30 June 2007
III. Cash flow from financing activities:		
Proceeds received from investments	189,014.50	9,811,371.97
Including: Proceeds received by subsidiaries from minority shareholders' investment		
Cash received from borrowings	378,030,000.00	460,592,000.00
Cash received from issuing bonds		
Other cash received from financing-related activities		
Sub-total of cash inflow from financing activities	378,219,014.50	470,403,371.97
Cash paid for repayment	130,970,000.00	211,680,000.00
Cash paid for dividend and profit distribution or interest repayment	4,902,035.96	31,115,351.57
Including: Dividend and profit paid by subsidiaries to minority shareholders		
Other cash paid for financing-related activities	90.00	
Sub-total of cash outflow from financing activities	135,872,125.96	242,795,351.57
Net cash flow from financing activities	242,346,888.54	227,608,020.40
IV. Impact of fluctuations in exchange rates on cash and cash equivalents	(3,061,257.78)	(261,229.58)
V. Net increase in cash and cash equivalents	4,370,676,598.20	(1,365,443,882.35)
Add: Balance of cash and cash equivalents at the beginning of the period	4,827,380,712.67	6,926,194,176.42
VI. Balance of cash and cash equivalents at the end of the period	9,198,057,310.87	5,560,750,294.07

2. UNAUDITED FINANCIAL STATEMENT PREPARED UNDER HKFRS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2008

	Note	January to June 2008 RMB'000 (unaudited)	January to June 2007 RMB'000 (unaudited)
Turnover	4	11,785,470	11,455,245
Cost of sales		<u>(9,965,670)</u>	<u>(8,941,557)</u>
Gross profit		1,819,800	2,513,688
Other income		153,326	140,521
Distribution expenses		(200,052)	(232,358)
Administrative expenses		(758,160)	(858,660)
Other expenses	5	(308,044)	—
Share profit of associated companies		(13,182)	(6,800)
Share profit of jointly controlled entities		5,448	7,316
Financial expenses		<u>(123,164)</u>	<u>(1,619)</u>
Profit before taxation		575,972	1,562,088
Income tax expenses	6	<u>(118,674)</u>	<u>(225,656)</u>
Profit for the period	7	<u><u>457,298</u></u>	<u><u>1,336,432</u></u>
Attributable to:			
the shareholders of the Company		452,454	1,232,703
minority interests		<u>4,844</u>	<u>103,729</u>
		<u><u>457,298</u></u>	<u><u>1,336,432</u></u>
Dividend	8	<u>—</u>	<u>—</u>
Earnings per share			
Basic	9	<u><u>RMB0.55</u></u>	<u><u>RMB1.51</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2008

		30 June	31 December
		2008	2007
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	10	1,920,073	2,337,910
Construction in progress		557,775	312,086
Prepaid lease payments		180,884	181,486
Investment properties		34,864	35,682
Intangible assets		163,574	108,201
Interest in associated companies		162,033	175,074
Interest in a jointly controlled entity		126,816	121,368
Available-for-sale investments		55,055	55,099
Deferred tax assets		254,538	284,223
		3,455,612	3,611,129
Current assets			
Stocks		13,921,584	12,040,057
Trade and other			
accounts receivables	11	17,446,509	13,993,166
Prepaid lease payments		1,107	10,419
Amount receivables from			
construction contract		2,076,183	1,442,840
Other tax receivables		169,252	—
Bank deposits with maturity			
over three months		2,003,000	900,000
Pledged bank deposits		178,552	206,331
Bank balances and cash		7,195,057	3,913,939
		42,991,244	32,506,752

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		30 June 2008	31 December 2007
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Current liabilities			
Amounts due for construction contract		2,962,449	6,921,204
Trade and other accounts payables	12	36,188,966	21,978,211
Enterprise income tax liabilities		247,636	271,058
Other tax liabilities		9,134	73,029
Bank borrowings with maturity within one year		247,060	413,028
Estimated debts		285,131	228,378
Deferred income		88,232	86,438
Compensation in Termination of labour contract		26,704	16,472
Dividend Payable		196,080	—
		40,251,392	29,987,818
Net current assets		2,739,852	2,518,934
Total assets less current liabilities		6,195,464	6,130,063

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		30 June	31 December
		2008	2007
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Non-current liabilities			
Deferred income		1,194,111	811,421
Bank borrowings with maturity over one year		5,820	5,820
Long term liabilities		685	685
Compensation in Terminating labour contract		53,070	64,973
Amounts due to parent company	12	4,088,593	1,848,000
		5,342,279	2,730,899
Net assets		853,185	3,399,164
Capital and reserves			
Share capital	13	817,000	817,000
Reserves		(73,155)	1,721,563
Equity attributable to the shareholders of the Company		743,845	2,538,563
Minority interests		109,340	860,601
		853,185	3,399,164

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2008

	Equity attributable to equity holders of the Company									
	Share Capital	Merger reserve	Other reserves	Statutory			Total		Minority	
				Capital surplus	surplus reserve	Dividend reserve	retained earnings	Total	interests	Total
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note c)	(Note d)	(Note a)	(Note b)					
At 1 January 2007	817,000	811,074	—	732,388	503,979	90,000	1,701,983	4,656,424	667,187	5,323,611
Profit for the period	—	—	—	—	—	—	1,232,703	1,232,703	103,729	1,336,432
Proposed final 2006 dividend	—	—	—	—	—	(90,000)	(90,000)	—	(90,000)	—
At 30 June 2007	817,000	811,074	—	732,388	503,979	—	2,934,686	5,799,127	770,916	6,570,043
At 1 January 2008	817,000	(2,500,173)	—	126,310	711,263	196,080	3,188,083	2,538,563	860,601	3,399,164
Profit for the period	—	—	—	—	—	—	452,454	452,454	4,844	457,298
Transfers	—	—	—	—	—	—	—	—	—	—
Acquisition of minority interests	—	—	(2,051,092)	—	—	—	—	(2,051,092)	(756,105)	(2,807,197)
Proposed final 2007 dividend	—	—	—	—	—	(196,080)	—	(196,080)	—	(196,080)
At 30 June 2008	817,000	(2,500,173)	(2,051,092)	126,310	711,263	—	3,640,537	743,845	109,340	853,185

Notes:

- (a) *Capital surplus includes share premium and donation received. 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. During the period of 2000 to 31 December 2007, there is a share premium in the sum of RMB9,147,000 which is not distributable.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Notes: (Continued)

- (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% respectively of their profit as determined in accordance with the PRC accounting standards to each of the statutory surplus reserve 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 losses, to increase production and business operations or to increase capital by means of conversion and to adjust against the difference between the cash consideration and the acquired net assets arising from business reorganization. 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.

- (c) *Merger reserve represents the difference between the par value of the 367,000,000 domestic shares (A shares) issued and the registered share capital of Dongfang Turbine and Dongfang Boiler.*

- (d) *Other reserves refers to 126,905,730 shares of Dongfang Boiler (representing approximately 31.61% of total issued shares of Dongfang Boiler) transferred by DEC to the Company, which were acquired by DEC upon expiry of the offer period. Consideration actually paid was different from book value of net assets of relevant shares of acquired subsidiary.*

In 2008, pursuant to the Acquisition Agreement, upon expiry of the offer period, DEC transferred 126,905,730 shares of Dongfang Boiler (representing approximately 31.61% of total issued shares of Dongfang Boiler) to the Company, which were acquired by DEC upon expiry of the offer period. Difference between consideration actually paid and book value of net assets of relevant shares of acquired subsidiary amounting to approximately RMB2.051 billion was deducted from interests.

Fair value assessment relating to acquisition was affected by the "5.12" Earthquake. Fair value of acquisition cost is temporarily confirmed for the time being. The Company will make further assessment for the fair value of assets, liability and contingent liability or fair value of combination cost of acquired party with reference to the subsequent assessment result.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	January to June 2008 RMB'000	January to June 2007 RMB'000
Net cash flow used in operating activities	4,523,958	(1,369,418)
Net cash flow (used in) from investing activities	(1,482,126)	(223,373)
Net cash flow used in financing activities	242,347	227,608
Net increase (decrease) in cash and cash equivalents	3,284,179	(1,365,183)
Effects of exchange rate changes on cash and cash equivalents	(3,061)	(261)
Cash and cash equivalents at the beginning of the period	3,913,939	5,303,543
Cash and cash equivalents at the end of the period	<u>7,195,057</u>	<u>3,938,099</u>
Analysis to the balance of cash and cash equivalents		
Cash and bank balances	6,618,462	3,741,751
Deposits with non-bank financial institutions	576,595	196,348
	<u>7,195,057</u>	<u>3,938,099</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 June 2008

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 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” (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覆》(國資產權[2005]1604號)) approving 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”), which is a state-owned enterprise established in the PRC and is directly supervised by SASAC. Since then, DEC becomes the first major shareholder of the Company.

The Company is principally engaged in the business of manufacture and sale of thermal power equipment, hydro power equipment and AC/DC motors, large-scale coal-fired and gasfired steam turbine, nuclear reactor equipment, wind power generation sets, as well as provision of researching, designing, installing and testing, 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).

1. GENERAL (Continued)

The Company and DEC entered into an Acquisition Agreement and the related supplementary agreement, of which the Company intended to acquire 100% equity interest in Dongfang Steam Turbine Co., Ltd. (hereinafter referred as “Dongfang Turbine”) and 68.05% interest in Dongfang Boiler (Group) Co., Ltd. (hereinafter referred as “Dongfang Boiler”) which were currently held by DEC. The Agreement has been approved by CSRC on 18 October 2007. Pursuant to the Acquisition Agreement, upon expiry of the offer acquisition period for Dongfang Electric Corporation to acquire all shares of Dongfang Boiler (Group) Co. Ltd held by Dongfang Boilers unrestricted shareholders, DEC will transfer not more than 128,250,000 shares of Dongfang Boiler (representing not more than 31.95% shares of Dongfang Boiler) to the Company. Upon the expiry of this offer acquisition period on 26 January 2008, the total number of acquired shares confirmed by the Shanghai branch of China Securities Depository and Clearing Corporation Limited is 126,905,730 shares, representing approximately 31.61% of the total issued shares of Dongfang Boiler. As at 29 February 2008, such amount of shares had been transferred to DEC. Dongfang Turbine is principally engaged in the business of design, manufacture and sale of turbines, the related large-scale coal-fired, gas-fired, nuclear and wind power generation equipments. Dongfang Boiler is principally engaged in the business of design, manufacture and sale of boilers for large scale coal-fired, oil-fired power generation plants, pressure vessels for non-electrical generation industrial use as well as auxiliary equipment and environmental protection products for electrical power industry, which is the manufacturer of nuclear island equipment (mainly the reaction pressure vessels and steam generators) and conventional island equipment (mainly the dehydration re-heaters) of DEC.

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

2. BASIS OF PREPARATION

Since the Company, Dongfang Turbine and Dongfang Boiler are under the common control of DEC, the present restructure is simply a business re-organisation under the same control. The Group's financial statements are prepared in accordance with the accounting standards as if the Group came into existence on 1 January 2007, and by applying the principles of the Accounting Guideline 5 "Merger Accounting under Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants. As a result, in preparing the consolidated income statements and the consolidated cash flow statements, the Group applies the accounting standard as if the Group came into existence on 1 January 2007 or the respective date of incorporation of each company (whichever is the shortest). Whereas the consolidated balance sheets of the Group as at 1 January 2007 and 31 December 2007 are prepared in accordance with the accounting standard as if the Group came into existence on 18 October 2007 and as if the Group has already acquired the assets, liabilities and consolidated interests. The 367,000,000 ordinary shares issued for the purpose of this restructure are treated as if they were issued at the earlier part of this period. All of the significant intragroup balances and transactions of the Company, Dongfang Turbine and Dongfang Boiler had been set off at time of the merger.

In December 1996, 54,000,000 public shares of Dongfang Boiler which were approved by the China Securities Regulatory Commission ("CSRC") were listed on the Shanghai Stock Exchange.

2. BASIS OF PREPARATION *(Continued)*

Dongfang Turbine was established on 27 December 2006 in the PRC under the Company Law of the PRC. It took over the core business of the manufacture and sale of turbines and related power generation equipment (the “Turbine Business”) of Dongfang Steam Turbine Works (“DSTW”). DSTW is a state-owned enterprise and wholly-owned subsidiary of DEC, another state-owned enterprise incorporated in April 1993. Prior to the incorporation of Dongfang Turbine, DSTW carried out the Turbine Business and other ancillary businesses (“Ancillary Businesses” was not injected into Dongfang Turbine and the Group).

The consolidated financial statements include all the revenue of the Turbine Business and related cost of operations. Since 1 January 2006, all major costs are allocated to related businesses and the ancillary business with reference to their nature. For those expenses which cannot be allocated, they would be allocated between the related businesses and ancillary business with reference to the total number of staff. The management of Dongfang Turbine has accepted this basis of allocation is reasonable.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with 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”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

During the period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter referred as the “new HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group’s financial year beginning on 1 January 2008. The application of the new HKFRS had no material impact on the results or financial position of the Group’s current or previous accounting periods. Therefore, it is not necessary for the Group to adjust the previous periods.

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 financial statements of the Group.

HK(IFRIC) — Int 11	“HKFRS 2 — Group and Treasury Shares Transactions”;
HK(IFRIC) — Int 12	“Service concession arrangements”; and
HK(IFRIC) — Int 14	“HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction”.

The following new standards, amendments to standards and interpretations are mandatory but not yet effective for the financial year beginning 1 January 2008 and which have not been adopted in advance:

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (*Continued*)

HKFRS 8, “Operating segments”, effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, “Segment reporting”, and requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes;

HKAS 23 (amendment), “Borrowing costs”, effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalizing borrowing costs;

HKFRS 2 (amendment), “Share-based payment”, effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group’s operation as the Group has no relevant plan at present;

HKFRS 3 (amendment), “Business combination” and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates” and HKAS 31, “Interests in joint ventures”, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009;

HKAS 1 (amendment), “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard;

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (*Continued*)

HKAS 32 (amendment), “Financial instruments: presentation”, and consequential amendments to HKAS 1, “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2009;

HK(IFRIC) Int 13, “Customer loyalty programmes”, effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of power generation equipments and other services. The Group’s revenue during the period is analyzed as follows:

	January to June 2008	January to June 2007
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from sales of goods	5,027,948	5,108,695
Revenue from construction contracts	6,728,183	6,315,902
Revenue from other services	29,339	30,648
	11,785,470	11,455,245

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments

The Group operates in four major segments as follows: main thermal power equipment, main hydro power equipment, power generation equipment, wind power generation sets and AC/DC motors, nuclear power plants, oil-fired power plants, nuclear reaction facilities, environmental production and other services:

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
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 and providing engineering, repairing services for power stations, environmental products and others

4. REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

Segment information is set out as follows:

Segment information about these businesses is presented below:

For the period ended 30 June 2008

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Wind power generation sets RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue						
External sales	9,042,462	1,128,311	1,397,071	217,626	—	11,785,470
Inter-segment sales	64,037	—	—	153,677	(217,714)	—
Total revenue	9,106,499	1,128,311	1,397,071	371,303	(217,714)	11,785,470
Segment results	1,494,624	124,125	202,527	(1,476)	—	1,819,800

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information is set out as follows: *(Continued)*

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Wind power generation sets RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Other income						153,326
Distribution expenses						(200,052)
Administrative expenses						(758,160)
Other expenses						(308,044)
Share result of associate						(13,182)
Share result of jointly controlled entities						5,448
Finance costs						(123,164)
Profit before taxation						575,972
Income tax expense						(118,674)
Profit for the year						457,298
Other information						
Allowance for bad and doubtful debts	55,932	1,425	—	18,270	—	75,627
Amortisation	13,689	—	—	—	—	13,689

4. REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

Segment information is set out as follows: (Continued)

For the period ended 30 June 2007

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Wind power generation sets RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Revenue						
External sales	9,750,053	1,093,780	356,836	254,576	—	11,455,245
Inter-segment sales	75,479	—	—	238,303	(313,782)	—
Total revenue	<u>9,825,532</u>	<u>1,093,780</u>	<u>356,836</u>	<u>492,879</u>	<u>(313,782)</u>	<u>11,455,245</u>
Segment results	<u>2,398,901</u>	<u>85,620</u>	<u>16,213</u>	<u>12,954</u>	<u>—</u>	<u>2,513,688</u>

4. REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

Segment information is set out as follows: (Continued)

For the period ended 30 June 2007

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Wind power generation sets RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Other income						140,521
Distribution expenses						(232,358)
Administrative expenses						(858,660)
Share result of associate						(6,800)
Share result of jointly controlled entities						7,316
Finance costs						(1,619)
Profit before taxation						1,562,088
Income tax expense						(225,656)
Profit for the year						1,336,432
Other information						
Allowance for bad and doubtful debts	144,076	4,265	—	4,812	—	153,153
Amortisation	12,467	—	—	—	—	12,467

4. REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

Since more than 90% of the Group's sales and provision of other services and all of the Group's manufacturing equipments are located in the PRC, no segmental analysis of geographical segment is presented.

5. OTHER EXPENSES

	January to June 2008 RMB'000	January to June 2007 RMB'000
Write down of properties and plants and loss of equipment due to earthquake (Note)	308,044	—

Note: "5.12" Wenchuan Earthquake brought serious loss of staff and assets to the Company. In particular, the production base of Dongfang Steam Turbine Co. Ltd, a wholly-owned subsidiary of the Company, in Hanwang Town was severely damaged. The Company estimates the Earthquake caused the Company a direct loss of no more than RMB1.6 billion and confirms a loss of fixed asset of RMB308 million for this period. All the checks and assessment of the remaining amount of loss of assets is expected to be completed before 31 December 2008 and the amount of loss will be confirmed upon completion.

6. INCOME TAX EXPENSE

	January to June 2008 RMB'000	January to June 2007 RMB'000
PRC enterprise income tax		
— Current period	88,948	264,360
— Current period deferred tax	29,726	(38,704)
	<u>118,674</u>	<u>225,656</u>

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

- (a) The income tax rate of the major entities of the Group, the Company, Dongfang Boiler, Dongfang Electrical and Dongfang Turbine are 15%. However, pursuant to “The State Council’s Opinion in Respect of Rehabilitation Policies and Measures After Wenchuan 5.12 Earthquake” (《國務院關於支持汶川地震災後恢復重建政策措施的意見》) (Guo Fa [2008] No. 21 Wen) issued by the State Council, enterprises which suffered a huge loss in disaster areas are exempted from income tax for the year 2008. For any quake relief payment or revenue that are exempted from taxation or entitled to tax reduction, the enterprises in disaster areas are exempted from paying enterprise income tax. As such, Dongfang Turbine is entitled to the benefit under this policy in 2008.

6. INCOME TAX EXPENSE (Continued)

- (b) Under the tax laws, expenses incurred in relation to technological development by profit-making industrial enterprises which are under all kinds of ownership, have sound financial auditing and subject to levy of enterprise income tax by means of audit collection should be set out as per the actual circumstances, and enjoy a 50% discount.

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

Shenzhen Controlling Company (深圳控制公司), the Company's subsidiary, situated in Shenzhen Special Economic Zone. With the approval granted under the "Notice of Approval of Tax Reduction and Exemption" (減、免稅批准通知書) (Shen Guo Shiu Nan Jian Mian [2005] No. 0015) from the Office of SAT of Shenzhen Nanshan District in Shenzhen Municipal, Shenzhen Controlling Company was exempted from paying income tax for the 1st and the 2nd year of operation since the year in which profit was recorded. The income tax to be levied from the 3rd year to the 5th year is to be reduced by 50%. Shenzhen Controlling Company began to make profit in year 2004. According to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (Guo Fa [2007] No. 39), enterprises are subject to half income tax rate at 9% in 2008.

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

7. PROFIT FOR THE PERIOD

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

	January to June 2008 <i>RMB'000</i>	January to June 2007 <i>RMB'000</i>
Amortisation of intangible assets included in administrative expenses	13,689	12,467
Write-off and allowance for bad and doubtful debts	75,627	153,153
Cost of inventories recognised as an expense	9,965,670	8,941,557
Amortisation of prepaid lease payments	2,811	8,440
Depreciation on property, plant and equipment	180,584	200,369
Depreciation on investment properties	818	558
Loss (gain) on disposal of property, plant and equipment and construction in progress	306,548	(1,083)
Increase in written-off of inventories	40,249	65,240
Rental expenses	1,948	1,731
Foreign exchange losses	24,274	13,449
Foreign exchange gains	<u>(20,060)</u>	<u>(5,564)</u>
Rental income from investment properties	—	—
Less: direct operating expenses from investment properties that generated rental income	<u>(818)</u>	<u>(813)</u>
	<u>(818)</u>	<u>(813)</u>

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend. No interim dividend was declared for the same period last year.

9. EARNINGS PER SHARE

The basic and diluted earnings per share is calculated on the basis of the following data:

	January to June 2008 RMB'000	January to June 2007 RMB'000
Earnings		
Earnings (profit attributable to shareholders of the Company)	<u>452,454</u>	<u>1,232,703</u>
Number of shares		
Average number of shares	<u>817,000</u>	<u>817,000</u>

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

10. PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group spent approximately RMB80,075,000 (January to June 2007: RMB38,637,000) on acquisition of properties, plants and equipment.

11. TRADE AND OTHER RECEIVABLES

Part 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. For those long standing customers or those with good repayment history, they are entitled to a longer credit period, say two to three years.

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

	30 June 2008 RMB'000	31 December 2007 RMB'000
Trade receivables	9,811,049	10,246,004
Less: allowance for bad debts	(874,415)	(802,117)
	8,936,634	9,443,887
Prepayment for raw materials	8,323,348	4,392,496
Deposits and other receivables	186,527	156,783
	17,446,509	13,993,166

11. TRADE AND OTHER RECEIVABLES *(Continued)*

The above trade receivables include bills receivables in the sum of RMB604,736,000 (December 2007: RMB755,264,000) aged within one year.

The following is an aging analysis of net trade receivables based on invoice date after deduction of allowance for bad debts:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Within 1 year	5,670,734	6,618,959
1-2 years	2,246,271	1,990,857
2-3 years	758,440	691,570
More than 3 years	261,189	142,501
	<u>8,936,634</u>	<u>9,443,887</u>

12. TRADE PAYABLES AND OTHER PAYABLES

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

	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	7,159,144	3,626,794
1-2 years	189,722	183,068
More than 2 years	166,181	12,055
	7,515,047	3,821,917
Receipt in advance	25,538,548	16,400,804
Cash consideration for the Group Restructure	6,052,220	3,252,336
Other payables and accruals	1,171,744	351,154
	<u>40,277,559</u>	<u>23,826,211</u>
Analysed for reporting purpose:		
Current liabilities	36,188,966	21,978,211
Long term liabilities	4,088,593	1,848,000
	<u>40,277,559</u>	<u>23,826,211</u>

The above trade payables include bills payables in the sum of RMB1,776,312,000 (December 2007: RMB1,591,487,000) aged within one year.

12. TRADE PAYABLES AND OTHER PAYABLES (Continued)

Cash consideration payable to DEC arising from the Group restructuring is RMB6,052,220,000 of which RMB942,336,000 were paid to DEC directly while RMB5,109,884,000 were paid to the Group by way of instalments within 5 years upon completion of the Group restructuring and attracts interest at 6.08% per annum. Accordingly, RMB4,088,000,000 is payable after one year from the balance sheet date.

13. SHARE CAPITAL

From 1 January 2008 to 30 June 2008, the changes in the Company's share capital structure is as follow:

	Opening balance Shares	Number of shares increase/ decrease during the period Shares	Closing balance Shares
Authorised, issued and fully paid:			
Shares subject to trading moratorium			
Domestic legal person Shares	548,300,000	(152,637,383)	395,662,617
A Shares	98,700,000	152,637,383	251,337,383
H Shares	170,000,000	—	170,000,000
	<u>817,000,000</u>	<u>—</u>	<u>817,000,000</u>

13. SHARE CAPITAL *(Continued)*

From 1 January 2007 to 30 June 2007, the changes in the Company's share capital structure is as follow:

	Opening balance <i>shares</i>	Share capital Increase/decrease during the period <i>shares</i>	Closing balance <i>shares</i>
Shares subject to trading moratorium			
Domestic legal person Shares	570,800,000	(22,500,000)	548,300,000
A Shares	76,200,000	22,500,000	98,700,000
H Shares	170,000,000	—	170,000,000
	<u>817,000,000</u>	<u>—</u>	<u>817,000,000</u>

14. CAPITAL COMMITMENTS

As at the date of balance sheet, the Group had the following capital commitments:

	30 June 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
Capital expenditure for the acquisition of construction in progress contracted for but not provided in the consolidated financial statements	<u>495,192</u>	<u>485,837</u>
	<u>495,192</u>	<u>485,837</u>

15. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in above notes, the Group entered into the following major transactions with related parties in normal course of business:

- (a) Transactions with DEC and its subsidiaries (other than transactions with DFEW and its subsidiaries in Note b):

	January to June 2008 RMB'000	January to June 2007 RMB'000
Expenditure		
— Purchase of raw materials	764,690	827,898
— Freight and maintenance	73,526	62,741
— Sub-contracting services	21,290	26,984
	<u>859,506</u>	<u>917,623</u>
Revenue		
— Sale of finished goods	<u>1,293,137</u>	<u>650,873</u>
Other income		
— Interest income	<u>3,774</u>	<u>8,608</u>

15. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with DFEW and its subsidiaries:

	January to June 2008 RMB'000	January to June 2007 RMB'000
Revenue		
— Sale of goods	<u>23,118</u>	<u>26,572</u>
Expenditure		
— Purchase of raw materials	64,041	73,151
— Freight and maintenance	62,826	57,805
— Rental expenses	1,948	1,731
— Sub-contracting services	49,878	22,771
— Others	<u>2,325</u>	<u>2,472</u>
	<u>181,018</u>	<u>157,930</u>
Other income		
— Provision of power supply and others	<u>185</u>	<u>3,724</u>

15. RELATED PARTY TRANSACTIONS (Continued)

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

Name of related company	Related balances	30 June 2008 RMB'000	31 December 2007 RMB'000
DEC and its subsidiaries	Trade receivables	<u>926,731</u>	<u>904,044</u>
	Receipts in advance	<u>2,443,493</u>	<u>2,545,372</u>
	Prepayment	<u>1,015,762</u>	<u>462,621</u>
	Trade payable	<u>460,860</u>	<u>292,591</u>
	Other payable	<u>2,176,213</u>	<u>1,036,171</u>
	Bills payables	<u>108,337</u>	<u>176,341</u>
	Other receivables	<u>596</u>	<u>20,767</u>
	Long term payables	<u>4,087,907</u>	<u>1,848,000</u>

15. RELATED PARTY TRANSACTIONS (Continued)

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

Name of related company	Related balances	30 June 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
DEC Finance Company (subsidiary of DEC)	Deposits	<u><u>576,595</u></u>	<u><u>360,818</u></u>
DFEW and its subsidiaries	Trade receivables	<u><u>100,172</u></u>	<u><u>98,234</u></u>
	Other receivables	<u><u>3,577</u></u>	<u><u>3,324</u></u>
	Prepayment	<u><u>11,389</u></u>	<u><u>14,389</u></u>
	Trade payables	<u><u>99,752</u></u>	<u><u>103,285</u></u>
	Bills payables	<u><u>—</u></u>	<u><u>8,006</u></u>
	Receipts in advance	<u><u>2,013</u></u>	<u><u>2,009</u></u>
	Other payables	<u><u>233</u></u>	<u><u>2,888</u></u>

15. 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 forms part of DEC, which is controlled by the PRC government. Apart from the transactions with DEC and its subsidiaries disclosed in (a), (b) and (c) above, the Group also conducts business with other state-controlled entities. Concerning the Group’s business transaction with those state-controlled entities, the directors consider them as independent third parties so far. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counterparty 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.

15. RELATED PARTY TRANSACTIONS (Continued)

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

	January to June 2008 RMB'000	January to June 2007 RMB'000
Sales	10,047,261	10,918,640
Purchases	1,374,818	1,478,719
Amounts due from other state-controlled entities	11,070,743	7,648,315
Amounts due to other state-controlled entities	28,535,498	6,200,236

- (e) Remuneration of key management personnel

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

	January to June 2008 RMB'000	January to June 2007 RMB'000
Remuneration of key management personnel	<u>506</u>	<u>366</u>

The remuneration of directors and key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

The remuneration of some key management personnel was paid by DEC.

16. POST BALANCE SHEET EVENTS

- (1) On 16 May 2008, in the 2007 Annual General Meeting of the Company, it was approved that the proposal for the distribution of profits after tax of the Company for the year 2007, namely, the withdrawal of RMB64,861,813.02 for the statutory common reserves, the distribution of a final dividend of RMB0.24 per share in cash (including tax for A shares) for the year ended 31 December 2007 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 15 April 2008, which amounts to RMB196,080,000.00 in total, and that the remaining undistributed profit will be carried forward to the year 2008. Dividend for holders of H shares was settled in Hong Kong dollar. The exchange rate adopted for payment of dividends in Hong Kong dollar was the average closing exchange rates of Renminbi against Hong Kong dollar announced by the People's Bank of China in a week prior to the date of declaration of dividends (excluding the date on which the dividends were declared). The Company paid the declared dividend for H shares to Bank of China (Hong Kong) Trustees Limited which, on 15 July 2008, dispatched the dividend receipts to holders of H Shares whose names appeared on the register of members of the Company on 15 April 2008.
- (2) On 10 June 2008, Dongfang Boiler announced that DEC proceeded with the procedure of acquisition of the remaining shares from Dongfang Boiler, through the service systems of stock exchange and securities depository and clearing company. The term of acquisition of the remaining shares expired on 11 July 2008. Besides, the settlement and transfer procedures of this acquisition of remaining shares had already been completed on 28 July 2008. Hence, the amount of A shares (i.e. Consideration Shares) of DEC to be issued and circulated is 84,371 shares. The Company's A shares exchanged in this acquisition of remaining shares by shareholders of the remaining shares of Dongfang Boiler will be listed and circulated on 4 August 2008.

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

1. 2008 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. This report has been prepared in both Chinese and English. Should there be any discrepancies between the two versions, the Chinese version shall prevail.

Dongfang Electric Corporation Limited
Si Zefu
Chairman

21 August 2008