DEC 东方电气
DONGFANG ELECTRIC

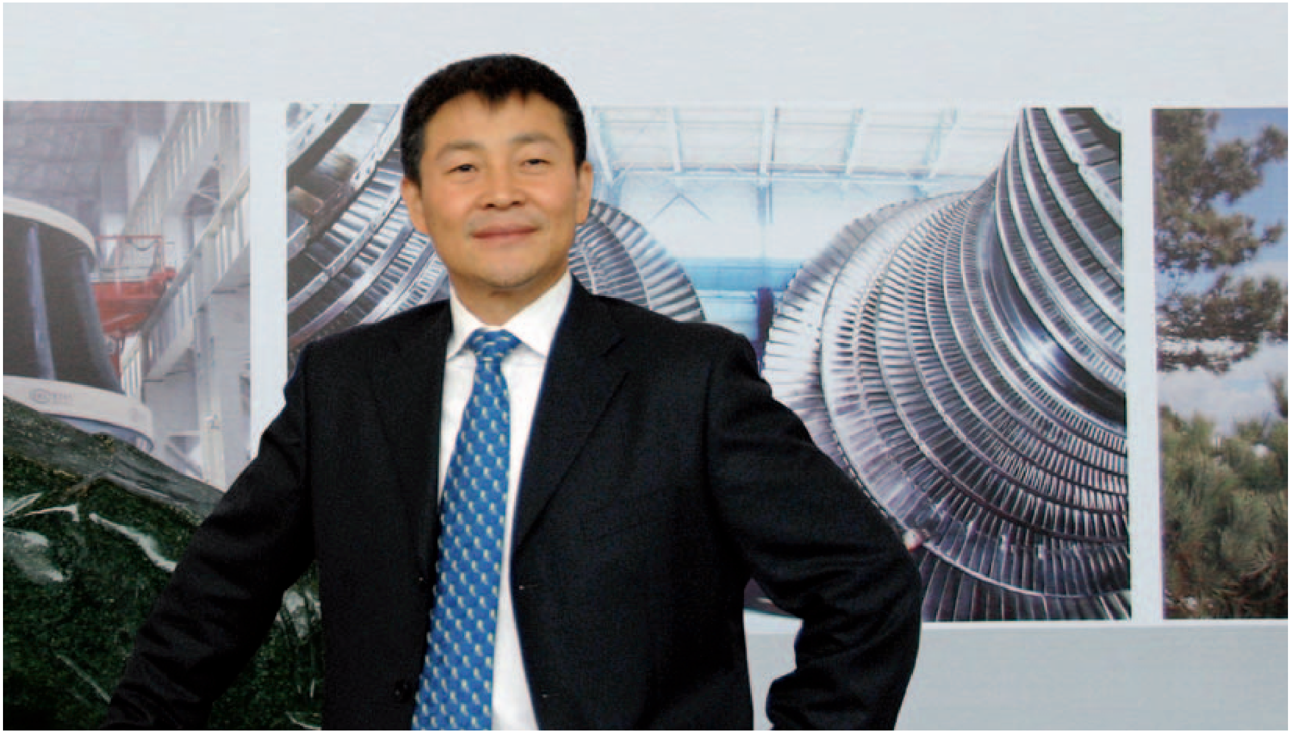
DONGFANG ELECTRIC CORPORATION LIMITED

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

2008 ANNUAL REPORT

CONTENTS

CHAIRMAN'S STATEMENT



To shareholders,

Year 2008 ended in our memory, though in a way of such an arduous and stirring odyssey. Facing the "5.12" earthquake havoc once in a blue moon, our staff as a whole dedicated themselves unremittingly in protecting investors' assets, leaving a mark in the heroic disaster-relief epic. It was also in 2008 that we challenged the continuously dismal capital market and succeeded in issuing 65,000,000 new A shares. In 2008, we calmly circumvented the adverse factors in business environment to accomplish operation tasks, and were awarded "Top 20 Competitive China Listed Companies in 2008". I am pleased to present the annual report of the Company for the year ended 31 December 2008.

On resisting the "5.12" earthquake disaster, all members of the Company were geared promptly to engage in unrelenting relief work, and did their best in salvaging lives, minimizing damage, recovering production loss and proceeding with relocation in light of the DEC Spirit.

On production, we overcame difficulties in the extremely adverse circumstance including the earthquake catastrophe and the financial crisis in 2008, and even Dongfang Steam Turbine Co. Ltd. which suffered the most achieved 88.88% of its annual operation targets. The Company managed to gain profit after writing off loss arising from the earthquake, with output and sales revenue of power generating equipment both record highs, fully protecting investors' interest.

On market expansion, the value of new contracts undertaken for the whole year exceeded RMB70 billion and the export orders amounted to US$1.3 billion. We obtained the contracts for hydroelectric turbine generators in Jinshajiang River

Xiluodu, wind power generating units in Jiuquan of Gansu Province, the circulation fluidised bed boiler project with the highest installed capacity and parameter of its kind in the world and an array of conventional island steam turbine generating units for the nuclear power station. Meanwhile, the Company successfully penetrated the international market with circulation fluidised bed boiler products, super-critical unit boiler, denitration device and seawater desulphurization products.

On product structure, the Company seized the opportunity to commence product restructuring in the industry. Heavy duty and high parameter super-critical thermal generating units, mammoth hydropower units, mega-watt nuclear power units and clean energy like wind power had become the mainstream products of the Company.

Despite challenges in the current international economic crisis, we have been prepared for the bad times. To live up to our investors' confidence, we are bound to take it as a adversity training to boost the Company's sustainable growth by furthering the DEC Spirit, turning challenges into opportunities and changing pressure into motivation.

Finally, I would like to take the opportunity to thank the public for their selfless assistance after the earthquake disaster, and our investors never sparing their trust and support to us. Also, I must express gratitude to members of the Board and Supervisory Committee for their sagacious contributions, and to all employees for their diligent work and dedication.

Chairman

Si Zefu

8 April 2009


工人先锋号


汽新基地设备安装启动仪式

Legal representative/Chairman

Mr. Si Zefu

Executive Director

Mr. Si Zefu

Mr. Wen Shugang

Mr. Zhu Yuanchao

Non-Executive Director

Mr. Zhang Xiaolun

Mr. Zhang Jilie

Mr. Li Hongdong

Independent non-executive Director

Mr. Chen Zhangwu

Mr. Xie Songlin

Mr. Si Zefu

Mr. Zheng Peimin

Supervisor

Mr. Wen Bingyou

Mr. Wen Limin

Ms. Ma Zongqiong

Secretary to the Board of Directors

Mr. Gong Dan

Representative of securities affairs

Mr. Huang Yong

Audit and Review Committee

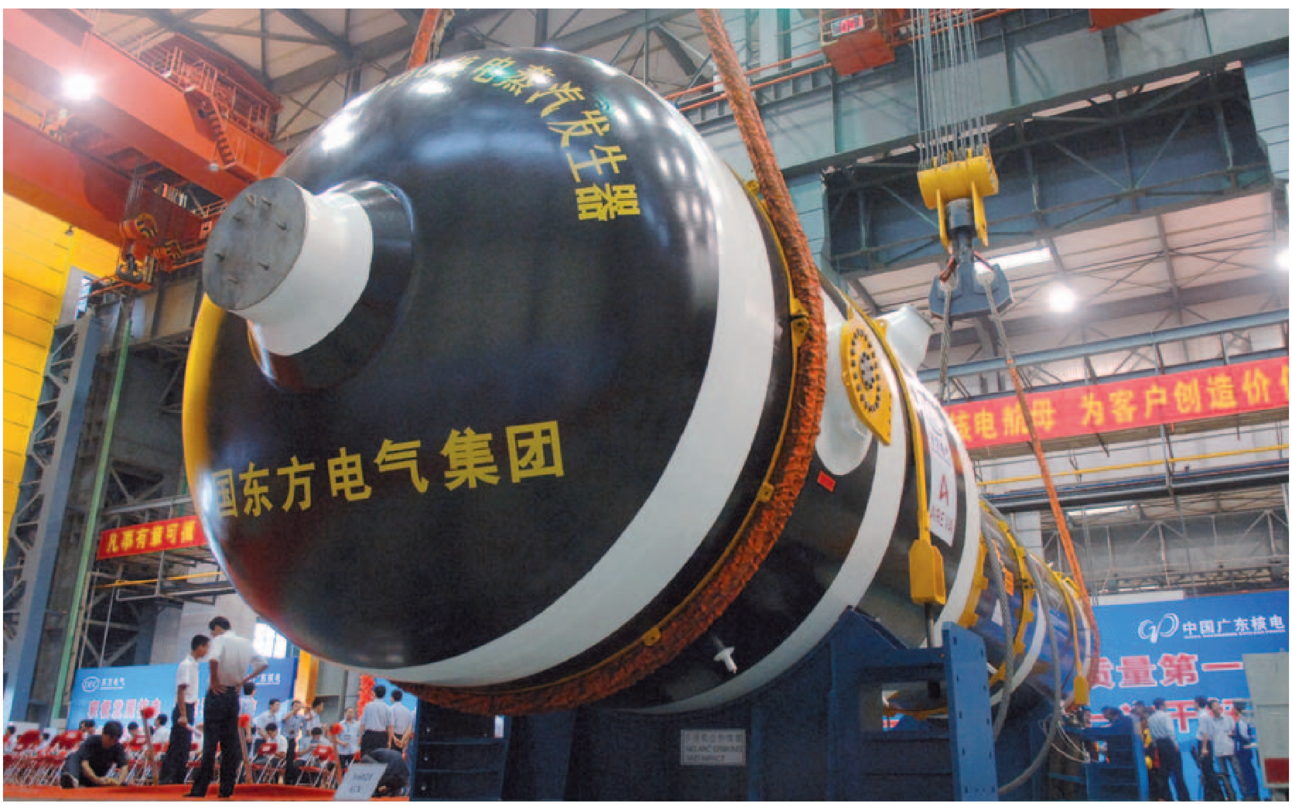
Mr. Chen Zhangwu

Mr. Xie Songlin

Mr. Zheng Peimin

Mr. Zhang Jilie

Mr. Li Hongdong



Strategic Development Committee

Mr. Si Zefu

Mr. Zhang Xiaolun

Mr. Wen Shugang

Mr. Xie Songlin

Remuneration and Nomination Committee

Mr. Chen Zhangwu

Mr. Xie Songlin

Mr. Zheng Peimin

Mr. Si Zefu

Mr. Zhang Xiaolun

Mr. Wen Shugang

Risk Management Committee

Mr. Si Zefu

Mr. Zhang Xiaolun

Mr. Wen Shugang

Mr. Zhang Jilie

Mr. Chen Zhangwu

Authorized Representative

Mr. Si Zefu

Mr. Gong Dan

Deputy Authorized Representative

Mr. Huang Yong

Domestic auditor

Deloitte Touche Tohmatsu CPA Ltd.

International auditor

Deloitte Touche Tohmatsu

Domestic and International Legal Adviser

Domestic: K&W PRC Lawyers Firm Int

International: PHILIP KH WONG, KENNEDY YH WONG & CO.

Domestic and International Financial Public Relations Company

Domestic: Ever Bloom Investment Consulting Co., Ltd.

International: Wonderful Sky Financial Group Limited

Share Registrars

A shares: China Securities Depository and Clearing Corporation Limited, Shanghai Branch

H shares: Hong Kong Securities Clearing Company Limited

Listing place of the Company

A shares: Shanghai Stock Exchange

Stock name: DEC

Stock code: 600875

H Shares: Stock Exchange of Hong Kong

Stock name: DEC

Stock code: 1072

Registered address

18 Xixin Road, High-Tech District (Western District), Chengdu

Taxation registration number

51098205115485

Company business address

No. 333, Shuhan Road, Chengdu City, Sichuan Province

Postal code: 610036

Company Website

http://www.dec-ltd.cn/

Address for inspection of the Annual Report

Office of the Board of Directors of the Company

Newspapers for disclosure of the Company's information

China Securities Journal

Shanghai Securities News

E-mail:

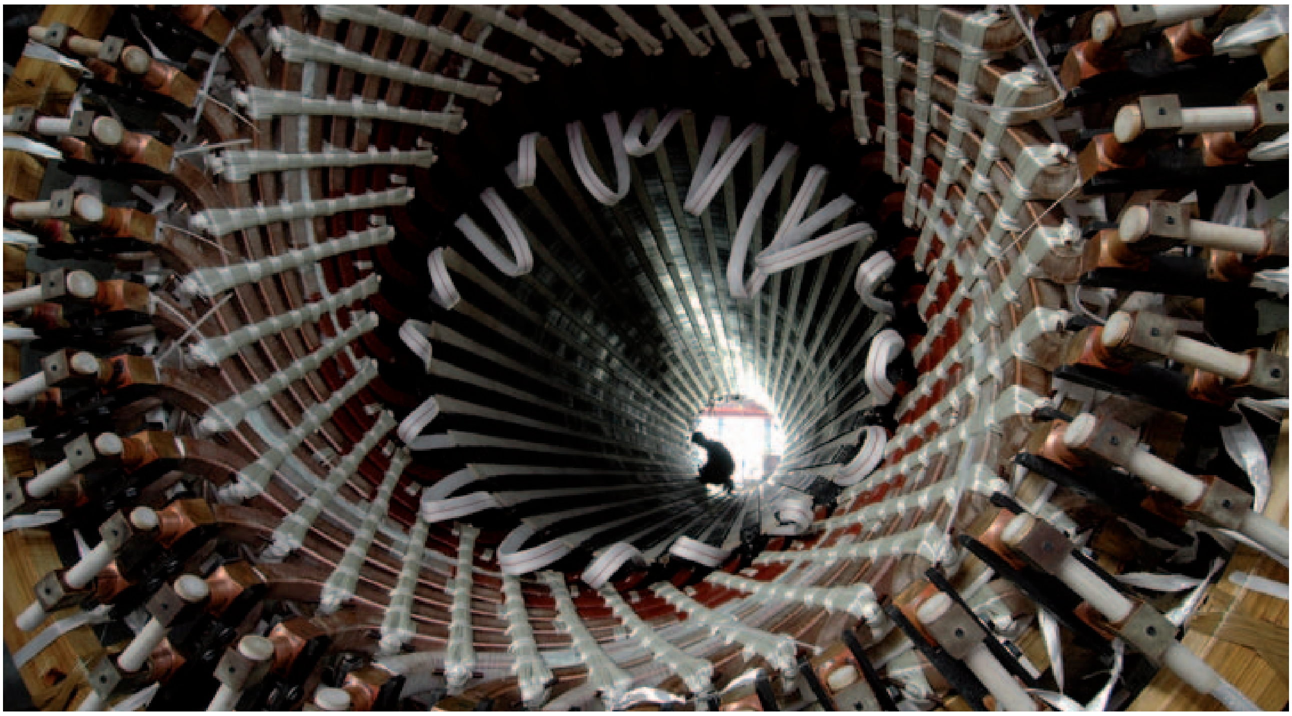
dsb@dongfang.com

Telephone:

+86 028 8758 3666

Fax:

+86 028 8758 3551



MAJOR ACCOUNTING DATA AND BUSINESS DATA

(1) MAJOR ACCOUNTING DATA

1. Prepared under PRC Accounting Standards

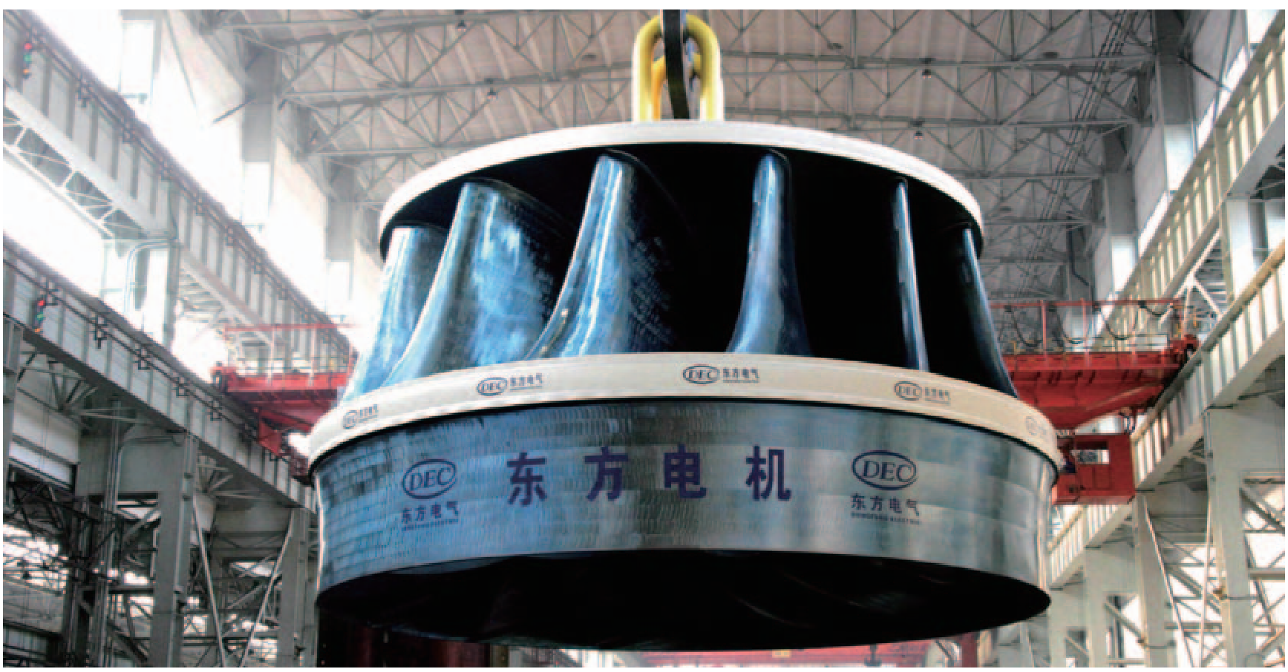
Unit: RMB0'000

Item	Amount
Operating profit	154,172.60
Total profit	7,327.40
Net profit attributable to shareholders of the Company	17,599.90
Net profit after non-recurring profit and loss attributable to shareholders of the Company	149,027.72
Net cash flow from operating activities	700,267.85

2. Prepared under HKFRS

Unit: RMB0'000

Item	Amount
Turnover	27,171,342
Profit for the year	514,529
Total assets	56,763,308
Earnings per share *(RMB)*	0.584
Net assets per share *(RMB)*	2.36



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

Unit: RMB0'000

Item	Net profit		Net assets	
			Opening	Closing
	2008	2007	balance	balance
Under the PRC accounting standards	17,599.90	198,985.60	300,750.70	224,466.39
Under HKFRS	47,990.40	222,447.52	253,856.39	207,962.50

The differences were mainly due to the revaluation surplus, government grants and the corresponding deferred income tax of Dongfang Turbine etc.

(3) MAJOR ACCOUNTING DATA AND FINANCIAL INDEXES FOR LAST 3 YEARS (UNDER THE PRC ACCOUNTING STANDARDS)

Unit: RMB0'000

	2008	2007	Year-on-year increase/ decrease (%)	2006
Operation revenue	**2,794,805.44**	2,488,677.66	12.30	2,307,726.07
Total profit	**7,327.40**	248,991.37	(97.06)	254,495.22
Net profit attributable to shareholders of the Company	**17,599.90**	198,985.60	(91.16)	207,051.06
Net profit attributable to shareholders of the Company after non-recurring profit and loss	**149,027.72**	85,794.76	73.70	83,000.30
Basic earnings per share (RMB/share)	**0.21**	2.44	(91.39)	2.53
Diluted earnings per share (RMB/share)	**0.21**	2.44	(91.39)	2.53
Basic earnings per share after non-recurring profit and loss (RMB/share)	**1.81**	1.68	7.74	1.84
Fully diluted return on net assets (%)	**7.84**	66.16	(88.15)	38.24
Weighted average return on net assets (%)	**5.86**	35.15	(83.33)	38.30

(3) MAJOR ACCOUNTING DATA AND FINANCIAL INDEXES FOR LAST 3 YEARS (UNDER THE PRC ACCOUNTING STANDARDS) (CONTINUED)

Unit: RMB0'000

	31 December 2008	31 December 2007	Year-on-year increase/ decrease (%)	31 December 2006
Fully diluted return on net assets after non-recurring profit and loss (%)	**66.39**	28.53	132.70	15.33
Weighted average return on net assets after non-recurring profit and loss (%)	**49.63**	31.79	56.12	41.63
Net cash flow from operating activities	**700,267.85**	(46,188.94)	1616.09	(440,856.16)
Net cash flow from operating activities per share (RMB/share)	**7.94**	(0.57)	1492.98	(5.40)
Total assets	**5,645,916.66**	3,637,839.71	55.20	3,142,977.36
Owner's equity (Shareholders' equity)	**224,466.39**	300,750.70	(25.36)	541,462.00
Net asset per share attributable to shareholders of the Company (RMB/share)	**2.54**	3.68	(30.98)	6.63

(1) SHARE CAPITAL

1. Share capital as at 31 December 2008

Unit: Share

		Numbers	Percentage (%)
I.	A Shares	712,000,000	80.73
	1. State-owned legal person shares	442,042,886	50.12
	2. Others	269,957,114	30.61
II.	H Shares	170,000,000	19.27
Total		882,000,000	100

(2) ISSUE AND LISTING OF SECURITIES

1. Issue of securities during last three years

Unit: Share Currency: RMB

Type of shares and its derivative securities	Date of issue	Issue price (RMB)	Issue number	Date of listing	Number of shares under listing approval
A Shares	7 November 2007	24.17	367,000,000	7 November 2007	367,000,000
A Shares	26 November 2008	20.50	65,000,000	2 December 2008	65,000,000

As approved by the document Zheng Jian Gong Si Zi [2007] No.172 of CSRC, the Company successfully issued 367,000,000 shares of Renminbi ordinary shares to its controlling shareholder China Dongfang Electric Corporation ("DEC") at a price of RMB24.17 per share with a nominal value of RMB1.00 each by way of non-public issue on 7 November 2007.

(2) ISSUE AND LISTING OF SECURITIES (CONTINUED)

1. Issue of securities during last three years

As approved by the document Zheng Jian Xu Ke Zi [2008] No.1100 of CSRC, the Company successfully issued 65,000,000 shares of Renminbi ordinary shares at a price of RMB20.50 per share with a nominal value of RMB1.00 each by way of public issue on 26 November 2008. Please refer to item 36 of Notes to the Consollidated Financial Statements of Financial Report prepared under HKFRS for details of issue.

2. Total shares and change in share capital structure

During the reporting period, the Company issued 65,000,000 shares of Renminbi ordinary shares by way of public issue. The total number of share increased from 817,000,000 shares to 882,000,000 shares. The shareholding in the Company held by the controlling shareholder DEC decreased from 69.87% to 50.12% due to the share exchange of unrestricted shares between DEC and Dongfang Boiler as well as the public issuance of A shares of the Company.

(3) INFORMATION OF SHAREHOLDERS AND DE FACTO CONTROLLER OF THE COMPANY

1. Number of shareholders and shareholding

Unit: Share

Total number of shareholders as at 31 December 2008	32,100

Shareholdings of the top ten shareholders:

Name of shareholder	Type of shareholder	Percentage (%)	Total number of shares held	Increase/ (decrease) in the year	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
China Dongfang Electric Corporation	State-owned shareholder	50.12	442,042,886	(128,757,114)	395,578,246	Nil
HKSCC Nominees Limited	Overseas investment shareholder	19.17	169,075,999	(55,400)		Unknown
Industrial and Commercial Bank – Nanfang Blue Chip Growth Share-type Securities Investment Fund (中國工商銀行－南方成份精選股票型證券投資基金)	Others	3.13	27,608,108	–		Unknown
China Construction Bank – Bosera Theme Sector Share-type Securities Investment Fund	Others	2.50	22,015,252	–		Unknown
Industrial and Commercial Bank of China – GF Jufeng Equity Securities Investment Fund (中國工商銀行－廣發聚豐股票型證券投資基金)	Others	1.48	13,085,779	–		Unknown

(3) INFORMATION OF SHAREHOLDERS AND DE FACTO CONTROLLER OF THE COMPANY (CONTINUED)

1. Number of shareholders and shareholding (Continued)

Shareholdings of the top ten shareholders: (Continued)

Name of shareholder	Type of shareholder	Percentage (%)	Total number of shares held	Increase/ (decrease) in the year	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Industrial and Commercial Bank of China – China Universal Balance Growth Equity Securities Investment Fund (中國工商銀行－匯添富均衡增長股票型證券投資基金)	Others	1.44	12,711,399	–		Unknown
Tongde Securities Investment Fund	Others	1.02	9,027,175	(5,990,096)		Unknown

(3) INFORMATION OF SHAREHOLDERS AND DE FACTO CONTROLLER OF THE COMPANY (CONTINUED)

1. Number of shareholders and shareholding (Continued)

Shareholdings of the top ten shareholders: (Continued)

Name of shareholder	Type of shareholder	Percentage (%)	Total number of shares held	Increase/ (decrease) in the year	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Industrial and Commercial Bank of China – China Sea Energy Strategy Prime Mixed Securities Investment Fund (中國工商銀行－中海能源策略混合型證券投資基金)	Others	0.71	6,303,454	–		Unknown
Portfolio 103, National Social Insurance Fund	Others	0.68	5,979,897	–		Unknown
China Construction Bank – Huaxia Open-ended Dividends Mixed Equity Securities Investment Fund	Others	0.53	4,649,171	–		Unknown

(3) INFORMATION OF SHAREHOLDERS AND DE FACTO CONTROLLER OF THE COMPANY (CONTINUED)

1. Number of shareholders and shareholding (Continued)

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 issued H share capital of the Company were as follows:

Name	Type of shareholders	Number of shares held (share)*	Percentage to total issued shares (%)	Percentage to total issued H shares (%)
JPMorgan Chase & Co.	H Shares	13,607,200(L)	1.54(L)	8.00(L)
		13,444,600(P)	1.52(P)	7.91(P)
Baring Asset Management Limited	H Shares	12,488,200(L)	1.42(L)	7.34(L)
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	12,304,800(L)	1.40(L)	7.23(L)
Government of Singapore Investment Corporation Pte Ltd	H Shares	12,098,400(L)	1.37(L)	7.12(L)
The Bank of New York Mellon Corporation	H Shares	11,887,100(L)	1.35(L)	6.99(L)
Barclays Global Investors UK Holdings Limited	H Shares	8,802,600(L)	1.0(L)	5.18(L)
		1,630,400(S)	0.18(S)	0.96(S)
Barclays PLC	H Shares	8,802,600(L)	1.0(L)	5.18(L)
		1,630,400(S)	0.18(S)	0.96(S)

* *Note:* The letters "L" and "S" denote a long position and short position in the Shares, respectively, and the letter "P" denotes a lending pool in the Shares.

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

(3) INFORMATION OF SHAREHOLDERS AND DE FACTO CONTROLLER OF THE COMPANY (CONTINUED)

1. Number of shareholders and shareholding (Continued)

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

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

As at 31December 2008, the Company had not issued any convertible securities, options, warrants or any other similar rights.

2. Controlling Shareholder and the de facto controller

Unit: RMB

Name	Legal representative	Registered capital	Establishment date	Principal business activities
China Dongfang Electric Corporation	Wang Ji	1,149,915,000	1984	Chief contracting and sub-contracting for projects of hydro, thermal and nuclear electricity station, technical development and technical enquiry for facilities package of electricity station, manufacturing of package of facilities and sales of facilities

(1) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit: Share

Name	Position	Sex	Age	Term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Options held in the Company	Number of shares held subject to trading moratorium	Changes of shares	Reason for changes	Whether receiving remuneration and allowance from the Company	Total emolument received from the Company in the reporting period (RMB0'000) (Before tax)	Whether receiving remuneration and allowance from shareholders or other associates
Si Zefu	Chairman	Male	50	From 27 February 2007 to 27 June 2009	0	0	0	0	0		Yes	49.0	No
Zhang Xiaolun	Non-executive Director	Male	44	From 11 December 2007 to 27 June 2009	0	0	0	0	0		Yes	44.1	No
Wen Shugang	Executive Director and President	Male	46	From 11 December 2007 to 27 June 2009	0	0	0	0	0		Yes	44.1	No
Zhu Yuanchao	Executive Director and Senior Vice President	Male	52	From 9 October 2008 to 27 June 2009	1,270	0	0	0	1,270	Decreased in February 2008	Yes	44.1	No
Zhang Jilie	Non-executive Director	Male	45	From 11 December 2007 to 27 June 2009	0	0	0	0	0		Yes	41.6	No
Li Hongdong	Non-executive Director	Male	59	From 28 December 2005 to 27 June 2009	1,270	1,270	0	0	0		Yes	56.1	No
Chen Zhangwu	Independent Non-executive Director	Male	62	From 28 December 2005 to 27 June 2009	0	0	0	0	0		Yes	5	No
Xie Songlin	Independent Non-exectuive Director	Male	67	From 28 December 2005 to 27 June 2009	0	0	0	0	0		Yes	5	No
Zheng Peimin	Independent Non-executive Director	Male	36	From 28 December 2005 to 27 June 2009	0	0	0	0	0		Yes	5	No
Wen Bingyou	Chairman of Supervisory Committee	Male	54	From 28 December 2005 to 27 June 2009	0	4,119	0	0	4,119	Share exchange with Dongfang Boiler	No	0	Yes
Wen Limin	Supervisor	Male	43	From 11 December 2007 to 27 June 2009	0	0	0	0	0		No	0	Yes
Ma Zongqiong	Supervisor	Female	45	From 30 October 2007 to 27 June 2009	0	0	0	0	0		No	0	Yes
Han Zhiqiao	Deputy President	Male	50	Began on 24 October 2007	1,270	1,270	0	0	0		Yes	56.5	No
Wu Huanqi	Deputy President	Male	43	Began on 24 October 2007	0	0	0	0	0		Yes	54.6	No
Zhang Zhiying	Deputy President	Male	48	Began on 24 October 2007	0	0	0	0	0		Yes	55.2	No
Gong Dan	Chief Accountant and Secretary to the Board of Directors	Male	46	Began on 24 October 2007	1,270	1,270	0	0	0		Yes	53.3	No
Total	/	/	/	/	/		/				/	513.6	/

(1) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Particulars of Directors, Supervisors and Senior Management:

Director

Mr. Si Zefu, aged 50, is currently the Chairman of the Company, deputy secretary of the Party Group, director and general manager of DEC. Mr. Si graduated from Xi'an University of Technology with a bachelor's degree in Engineering Materials and Heat Treatment and completed his postgraduate study in Management Science and Engineering (MBA) at Tsinghua University. In 1983, he joined Dong Fang Electrical Machinery Works ("DFEW") and has since held various positions including technician, deputy secretary and secretary of the Committee of Communist Youth League, deputy factory manager and factory manager, and secretary of the General Party Branch of the branch, secretary of the Party Branch and deputy head of the production department. From September 1995 to February 1998, Mr. Si had served as deputy factory manager of DFEW, director and deputy general manager of the Company. From February 1998 to June 1999, he was the deputy mayor of Deyang city, Sichuan province. From June 1999 to February 2003, he was the general manager, vice chairman, chairman, factory manager, and secretary of the Party Committee of DFEW. From February 2003 to April 2008, he had served as vice chairman, vice secretary of the Party Committee and General Manager of DEC. He has been vice secretary of the Party Committee, director and General Manager of DEC since April 2008. He holds the title of senior engineer.

Mr. Zhang Xiaolun, aged 44, is currently the non-executive Director of the Company, and deputy secretary of the Party Group and deputy general manager of General Affairs of DEC. He graduated from Huazhong Engineering College with a bachelor degree of Engineering, majoring in Electrical Engineering. Mr. Zhang completed his post-graduate study in South Western University of Finance and Economics with a MBA Degree, majoring in Business and Management. He joined DEC in 1986 and has since held various positions including Office Secretary, Deputy Section Head of Haikou Engineering Department, Deputy Section Head of office and Secretary to the League Party Committee. From July 1992 to July 2000, he had been the Deputy Head of office of DEC, Executive Deputy Factory Manager, Factory Manager, Factory Manager and Secretary to the Party Committee of ZhongZhou Steam Turbine Works, and Assistant to the General Manager of DEC and Deputy Manger of the Engineering Branch of DEC. From July 2000 to April 2008, he had been member of the Party Committee, Director and Vice General Manager of DEC. He has been Deputy Secretary to the Party Committee and Vice General Manager of DEC since April 2008. He holds the title of senior engineer.

Mr. Wen Shugang, aged 46, is currently executive Director and President of the Company, a member of Party Committee of DEC, and concurrently Chairman of DEC Dongfang Steam Turbine Co. Ltd, DEC Dongfang Electrical Machinery Company Limited, Dongfang Boiler (Group) Co. Limited, Dongfang Electric (Guangzhou) Heavy Duty Machinery Co. Ltd and Dongfang Electric (India) Private Limited. Mr. Wen graduated from Xi'an Jiaotong University specializing in Turbomachinery with a bachelor degree of Engineering and a master's degree of Engineering. He joined DEC in 1986 and had been technical head of computing center, Assistant Engineer and Assistant to The General Manager of Sichuan Dongfang Power Equipment Union Company Limited. From July 1992 to August 1996, he had been Deputy General Manager, General Manager, Deputy General Economist, assistant to General Manager of the Sichuan Dongfang Power Equipment Union Company Limited, and Assistant to the General Manager. From August 1996 to July 2000, he had been a member of Party Committee, Deputy General Manager of DEC. From August 1996 to January 2005 he also served as Chief Engineer of DEC. From July 2000 to March 2008, he had been Deputy General Manager of DEC. From January 2002 to March 2003, he also served as general manager of Engineering Branch Company of DEC. He has been a member of the Party Committee of DEC since September 2007. He holds the title of professor level senior engineer.

(1) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Particulars of Directors, Supervisors and Senior Management: (Continued)

Director (Continued)

Mr. Zhu Yuanchao, aged 52, is currently executive Director and senior vice president of the Company, a member of the Party Committee of DEC and Chairman of DEC (Wuhan) Nuclear Equipment Company Limited. He graduated from the faculty of Electrical Engineering of Hefei Industrial University and specialized in electrical engineering with a bachelor's degree in Engineering, and obtained a master's degree for Economics (Economic Management) of Central Party School. He joined Dongfang Electrical Machinery Works in 1982 and has been engaged in hydro-electric turbine generator design. Mr. Zhu served as Deputy Section Head of Electrical Equipment Department, Deputy Officer of the Chief Engineer Office and Deputy Chief Engineer in Dongfang Electrical Machinery Company Limited from April 1995 to December 1999. He also acted as Executive Director, Deputy General Manager, Chief Engineer, Vice Chairman, General Manager and Chairman of the Dongfang Electrical Machinery Company Limited, as well as Deputy Secretary, Deputy Factory Head, the Secretary to the Party Committee and Head of Dongfang Electrical Machinery Works from December 1999 to December 2006. He was appointed as Deputy General Manager of DEC from December 2006 to September 2008. He has been member of Party Committee of DEC since September 2007. From December 2006 to July 2008 he also served as Chairman of Dongfang Electric Investment Management Company Limited. He holds the title of senior engineer.

Mr. Zhang Jilie, aged 45, is currently a Non-executive Director of the Company and Chief Law Consultant, the head of Planning and Development Department and the Head of legal affairs department of DEC. He is also the Chairman of DEC Investment Management Company Limited. Mr. Zhang graduated from Wuhan Polytechnic University majoring in Industrial Business Management with a bachelor degree of engineering. He graduated from Southwest Jiaotong University with a MBA degree specializing in Business and Management. From March 1984 to November 2000, he had been Secretary to Factory Office, Deputy Section Head of Planning Department, Section Head of Planning Department, Deputy Officer of administrative office, Officer and Secretary to Party Branch Committee of DFEW, Assistant to the General Manager, Officer of General Manager Office and Secretary to Party Branch Committee, Manufacturing Head of Dongfang Electrical Machinery Company Limited. From November 2000 to January 2007, had been executive Deputy Factory Manager of DFEW, Assistant to General Manager and Section Head of Corporate Management Department of DEC. He concurrently acted as a director, General Manager, Secretary to Party Committee of DEC Investment Management Company Limited. From February 2004 to January 2006, he received on-the-job training in Honghe Prefecture of Yunnan Province, serving as a member of the standing committee and deputy head of the Prefecture. From January 2007 to July 2008, he had been Chief Law Consultant and the head of Legal Affairs Department of DEC, and General Manager of DEC Investment Management Company Limited. He has been Chief Law Consultant, the head of Planning and Development Department and the head of Legal Affairs Department of DEC, and Chairman of DEC Investment Management Company Limited since August 2008. He holds the title of senior economist.

Mr. Li Hongdong, aged 59, holds the position of Non-executive Director of the Company and the Secretary to the Party Committee and factory manager of DFEW. He graduated from Xian Jiaotong University specialising in welding. Between 1985 and 1988, he was enrolled in the Central Party College where he obtained a distance learning degree in Political Party Management. Between 1992 and 1994, he was enrolled in the Sichuan Party College where he obtained a distance learning undergraduate degree in Economics and Management. He joined DFEW in 1969 and was mainly engaged in welding workmanship and corporate management. He had been the Deputy Head and Head of the Organization Department and Deputy Chairman and Chairman of Labour Union, Deputy Secretary of Party Committee, Secretary of Disciplinary Committee and Chairman of Labour Union of DFEW and Chairman of Supervisory Committee of Dongfang Electrical Machinery Company Limited since March 1985. Currently, Mr. Li holds the title of Senior Engineer.

(1) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Particulars of Directors, Supervisors and Senior Management: (Continued)

Director (Continued)

Mr. Chen Zhangwu, aged 62, currently an independent Non-executive Director of the Company, a professor in economics of Tsinghua University. He graduated from the Engineering Physics Faculty of Tsinghua University where he specialized in engineering and obtained a master's degree in accelerator physics from Engineering Physics Faculty of Tsinghua University. He had been a member to the Party Committee of Engineering Physics Faculty of Tsinghua University, Secretary to the Group Committee, Deputy Secretary to the Party Committee of Modern Applied Physics Faculty of Tsinghua University, the Deputy Dean of the Economic Management Faculty, Deputy Secretary, Secretary to the Party Committee of Tsinghua University and a member of the Party Committee of Tsinghua University.

Mr. Xie Songlin, aged 67, currently an independent Non-executive Director of the Company, a member of the 10th National Committee of Chinese People's Political Consultative Conference, a senior consultant of State Power Grid Corporation, and a senior consultant of the Association of Chief Accountants in China. He graduated from Power Department in Xi'an Jiaotong University, majoring in Electricity Generation. He has been the Head of Electricity Bureau of Yiyang, Hunan Province, Deputy Head of Electricity Department of Hunan Province, Deputy Head of Power Administration Bureau of Central China, Deputy Head of Auditing Bureau of Energy Ministry, Chief Officer of Economic Department and Administration Department, Officer of the General Office of the Ministry of Electric Power, and Officer of Financial and Economic Department, General Economist, Chief Accountant, a member of Party Branch, and Deputy General Manager of State Power Corporation. He holds the title of Senior Accountant and Senior Economist.

Mr. Zheng Peimin, aged 36, is currently an Independent Non-executive Director of the Company, Chairman of Shanghai Realize Investment Consulting Company Limited, and Independent Director of Liaoning Times Garments I/E Inc., Black Peony (Group) Company Limited and Chengdu B-ray Media Co., Ltd. He graduated from the School of Economics and Management of Tsinghua University, where he majored in Management Information System and obtained a MBA. He has been a project manager in Trust & Investment Company of the People's Insurance Corporation of China.

Supervisors

Wen Bingyou, aged 54, is currently Chairman of Supervisory Committee of the Company, a member of Party Branch, Leader of Disciplinary Team, director, Secretary to the Department Party Committee of DEC. He graduated from Xi'an Jiaotong University majoring in boiler design and manufacturing. He joined Dongfang Boiler Factory in 1982 and had been Deputy Officer of Water-cooled Wall Workshop of Dongfang Boiler Factory, Deputy General Manager of Dongfang Boiler Industrial Company, Manufacturing Head and Secretary to Party Branch Committee of Dongfang Boiler (Group) Company Limited from August 1991 to August 1997. From August 1997 to February 2006, he had been Vice Chairman of Board of Directors and General Manager of Dongfang Boiler (Group) Company Limited, General Economist of DEC. He has been a member of Party Branch and Leader of Disciplinary Team since February 2006, and a director of DEC since April 2008. From December 2006 to January 2008, he had also been Chairman of the Supervisory Committee of Dongfang Steam Turbine Co. Ltd. He has been Secretary to the Department Party Committee of DEC since May 2006. He holds the title of Senior Engineer.

(1) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Particulars of Directors, Supervisors and Senior Management: (Continued)

Supervisors (Continued)

Mr. Wen Limin, aged 43, is currently a Supervisor of the Company. He is also the Chief Accountant and Chairman of DEC Finance Company. He graduated from North China Electric Power University where he specialized in accounting and obtained a bachelor degree of economics. From July 1990 to September 2005, he had acted as accountant of Finance Section of China Gezhouba (Group) Corporation No.9 Engineering Company Ltd., Accountant of the Finance Dept. subordinated to Three-Gorge Project Commanding Department of China Gezhouba (Group) Corporation, Section Head and Deputy Head of Finance and Asset Department of China Gezhouba Group Company Limited, Deputy Head and Head of Finance and Property Right Management Department China Gezhouba (Group) Corporation. He has been transferred to Finance Department of DEC as Chief Accountant up to present since September 2005. He has been Chairman of DEC Finance Company since June 2008. He holds a title of Senior Accountant and the Certified Public Account Certificate.

Ms. Ma Zongqiong, aged 45, is currently a Supervisor of the Company, the Deputy Head of Work Department of Party Committee of DEC, and concurrently the Part-time Supervisor of the Supervisory Committee for the State-owned Enterprise assigned to DEC by State-owned Assets Supervision and Administration Commission of the State Council on behalf of the State Council. Majored in Political Economics, Ms. Ma graduated from South Western University of Finance and Economics with a bachelor degree in Economics. From July 1985 to November 1996, Ms. Ma successively worked at the Team of Planning and Scheduling of Vane Sub-factory of Dongfang Steam Turbine Works, Economic Research Room of the Factory Office, and then acted as the positions including the Technician and Assistant Economist of Corporate Management Department, Assistant Economist in a school-run factory under DEC, Assistant Economist and Economist of Corporate Management Department, Deputy Section Head and Assistant to Officer of the Assets Committee Office; during the period from November 1996 to January 2007, she acted as the Deputy Director of Assets Committee Office of DEC, and Deputy Officer of the Strategic Development Committee, and concurrently acted as the Director of the Third Board of Directors of Chengdu Shudu Mansion Co., Ltd. (a listed company) and Director of Sichuan Dongfang Kaiqi Electric Company Limited (四川東方凱奇電氣有限責任公司). She has been acting as the Deputy Head of Work Department of Party Committee since January 2007, and concurrently acted as the Part-time Supervisor of the Supervisory Committee for the State-owned Enterprise assigned to DEC by State-owned Assets Supervision and Administration Commission of the State Council on behalf of the State Council in February 2007. She holds the title of economist.

Senior Management

Mr. Han Zhiqiao, aged 50, is currently a Vice President of the Company. He is also a Director and the General Manager of Dongfang Electrical Machinery Company Limited under DEC. He graduated from the faculty of Hydroworks of Xian University of Technology and specialized in hydroelectric power-generating equipment. He joined DFEW in 1983 and has long been engaging in product sales and technological service. He had been the Deputy Section Head, Section Head, Deputy Department Head, Assistant to the General Manager of the Sales Service Department from December 1992 to December 1999, and had been Executive Director and Deputy General Manager, Deputy General Manager (General Affairs), Vice Chairman and General Manager of Dongfang Electrical Machinery Company Limited since December 1999. He holds the title of Senior Engineer.

(1) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Particulars of Directors, Supervisors and Senior Management: (Continued)

Senior Management (Continued)

Mr. Wu Huanqi, aged 43, is currently a Vice President of the Company. He is also a General Manager of Engineering Branch Company of the Company. He graduated from Jiangsu Polytechnic University where he specialized in Machinery Design & Manufacture and obtained a bachelor degree of Engineering. He served as the designer, assistant to head and deputy head of Design Department, head of Product Project Management Department and head of Design Department of Dongfang Boiler Works from July 1988 to June 2001; deputy general manager of Dongfang Boiler (Group) Company Limited from June 2001 to June 2004; he had been a director and the general manager of Dongfang Boiler (Group) Company Limited from June 2004 to April 2008, and as a director and the general manager of Dongfang Electric (Guangzhou) Heavy Machinery Co., Ltd. from June 2007 to April 2008. He has been General Manager of Engineering Branch Company of the Company since April 2008. He holds the title of senior engineer.

Mr. Zhang Zhiying, aged 48, is currently a Vice President of the Company, a Director and the General Manager of Dongfang Steam Turbine Co. Ltd. Mr. Zhang graduated from Xi'an Jiaotong University with a bachelor's degree of Engineering in Turbine Machinery. From August 1982 to December 1999, he had been Assistant Engineer, Engineer and Team Leader of the main unit team of Design Department, Deputy Head of Service Division, Deputy Officer and Senior Engineer of Steam Turbine Office of Design Department, Deputy Head and Deputy Chief Economist of Operation Department of Dongfang Turbine Works; for the period from December 1999 to December 2006, he had been the Chief Economist of Dongfang Turbine Works; he has been a Director and General Manager of Dongfang Steam Turbine Co. Ltd. of DEC since December 2006. He holds the title of senior engineer of a professor level of qualification.

Mr. Gong Dan, aged 46, currently acts as Chief Accountant and Secretary to the Board of Directors of the Company and Head of Finance Department of the Company. He graduated from Hefei Industrial University specialising in casting. He attended the postgraduate program in the Faculty of Economic Management of Sichuan University where he specialised in modern economic management. He joined DFEW in 1983 and mainly involved in technological upgradesk, corporate and young workers management and organisation of work of departments. He had been Deputy Secretary and Secretary to the League Party Committee, Officer of the Young Workers' Office, Head of Organization Department. Since December 1999, he also worked as Director, Deputy General Manager and Secretary to the Board of Directors of the Company. He holds the title of Senior Engineer and Senior Accountant.

(2) PARTICULARS OF TENURE OF OFFICE IN SHAREHOLDERS

Name	Name of Shareholder Unit	Position held	Whether receiving remuneration or allowance
Si Zefu	China Dongfang Electric Corporation	Deputy Secretary to the Party Committee, Director and General Manager	No
Zhang Xiaolun	China Dongfang Electric Corporation	Deputy Secretary to the Party Committee, deputy general manager of General Affairs	No
Wen Shugang	China Dongfang Electric Corporation	Member of Party Committee	No
Zhu Yuanchao	China Dongfang Electric Corporation	Member of Party Committee	No
Zhang Jilie	China Dongfang Electric Corporation	Chief Law Consultant, Head of Planning and Development Department and Head of Legal Affairs Department	No
Wen Bingyou	China Dongfang Electric Corporation	Member of the Party Committee, Director, Leader of Disciplinary Team of Party Committee	Yes
Wen Limin	China Dongfang Electric Corporation	Chief Accountant	Yes
Ma Zongqiong	China Dongfang Electric Corporation	Deputy Head of Work Department of Party Committee	Yes

Particulars of tenure of office in other bodies

As at the end of the reporting period, save as disclosed above, none of the directors, supervisors and senior management held any position in other bodies.

(3) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Decision-making procedures for the remuneration of Directors, Supervisors and senior management

The annual remuneration is determined in accordance with the requirements of relevant policies in the PRC and with reference to the assessment on Company's assets, business results and individual duties and contributions in line with the principle that remuneration shall be linked with profit and assessment of work targets, subject to the required review and approval procedures.

(3) PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

2. Directors and supervisors receiving no remuneration from the Company

Name of director or supervisor receiving no remuneration from the Company	Whether receiving remuneration and allowance from shareholders or other associates
Wen Bingyou	Yes
Wen Limin	Yes
Ma Zongqiong	Yes

(4) CHANGES IN THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF THE COMPANY

The Board resolved at the 25th Meeting of the Fifth Board of Directors held on 12 June 2008 to accept the resignation of Mr. Chen Xinyou as director and senior vice president of the Company due to job relocation.

The 29th meeting of the fifth Board of Directors was held by the Company on 16 September 2008, at which Mr. Zhu Yuanchao was retained as Senior Vice President of the Company. The 2008 3rd EGM of the Company was held on 9 October 2008, at which Mr. Zhu Yuanchao were elected as a director of the Company.

(5) DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

(6) DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT's INTERESTS IN SUBSCRIPTION FOR SHARES OR DEBENTURES

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

(7) DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

(8) EMPLOYEES

The number of employees on register	18,469	The number of resigned or retired workers for whom the company was responsible for the pension	12,014

Structure of employees:

1. Professional structure

Category of professional structure	Headcount
Production employees	10,929
Sales employees	277
Technicians	3,131
Finance employees	335
Administrative employees	497

2. Education background

Category of education background	Headcount
Bachelor degree or above	3,867
Tertiary degree	3,883
Technical middle school and below	5,064

(8) EMPLOYEES (CONTINUED)

3. Staff remuneration and training

(1) Overall remuneration management. The Company implemented an "overall process " making overall remuneration budget at the beginning of the year and adjustment during the year, and settling based on performance and results at the end of the year. The "controlling overall amount" mode on enterprise-level has gradually changed to "controlling overall amount with reasonable income structure", in order to retain talents and maintain a reasonable level of talents turnover. During the reporting period, there was no share option scheme.

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

(3) Staff Training management. The Company implemented training courses for all staff. Based on employees' career plan, the Company established and improved non-leader position system, expert assessment system for each level and assignment eligibility system. A training management system for the purpose of "improving knowledge, skills and quality" has taken shape.

(1) CORPORATE GOVERNANCE

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

To improve the corporate governance structure, the Company established four special committees: the Strategic Development Committee, the Audit and Review Committee, the Remuneration and Nomination Committee and Risk Management Committee. The Company formulated and implemented corporate governance documents, including Articles of Association, Rules of Procedure in Shareholder's General Meeting, Rules of Procedure In Board Meeting, Rules of Procedure In Supervisory Meeting, Work Rules for the Chairman, Work Rules for Risk Management Committee, Work Rules for the Audit and Review Committee, Work Rules for Remuneration and Nomination Committee, Work Rules for Independent Directors, Regulations on Information Disclosure Management, Regulations on Investor Relations Management, Regulations on Connected Transactions Management Method for trading of shares of Directors, Supervisors and senior Management, Management Method for Raised Proceeds and Management measures of internal report for material matters.

The Company complied with the Code of Corporate Governance Practices. During the reporting period, the directors were not aware of any information which can reasonably indicate that the Company was not in compliance with the requirements of the Code of Corporate Governance Practices under Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited at all times during the reporting period.

According to the [2008] No. 27 Announcement by CSRC and "Notice of Further Promoting Special Campaigns on Corporate Governance of Listed Companies", 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) THE BOARD OF DIRECTORS

1. Responsibility

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

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

2. Composition

The Board consists of nine directors, of which three are independent directors. This is the fifth Board of Directors since the incorporation of the Company. Term of office of the Directors will expire on 27 June 2009.

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

In the fifth Board of Directors, three Directors undertake specific executive managerial duties, representing 1/3 in the total number of directors.

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

(II) THE BOARD OF DIRECTORS (CONTINUED)

3. Directors

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

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

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

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

Pursuant to Rule 3.13 of the Hong Kong Listing Rules the Company has received confirmation from its independent non-executive directors of their independence and the Company still considers the independent non-executive directors to be independent.

(II) THE BOARD OF DIRECTORS (CONTINUED)

4. Meetings of the Board

In 2008, twelve Board Meetings had been convened with the attendance rate of 100% (including attendance by proxy) to discuss the overall strategy, investment plan, operation and financial performance of the Company. Board Meetings could produce quick and prudent decision through fruitful discussion. Independent Directors of the Company had no objection to the Company's decisions.

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

Name	The fifth Board	Strategic Development Committee	Risk Management Committee	Audit and Review Committee	Remuneration and Nomination Committee
Directors					
Si Zefu	11/12	1/1	1/1		2/2
Zhang Xiaolun	8/12	1/1	1/1		2/2
Wen Shugang	9/12	1/1	1/1		1/2
Zhu Yuanchao	2/3				
Zhang Jilie	12/12		1/1	3/3	
Li Hongdong	12/12			3/3	
Independent Directors					
Chen Zhangwu	10/12		1/1	3/3	2/2
Xie Songlin	10/12	1/1		3/3	2/2
Zheng Peimin	10/12			3/3	2/2

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

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

(III) SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

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

1. Audit and Review Committee

The main duties of the Audit and Review Committee are:

(1) to propose the appointment or change of the external auditors;

(2) to supervise of the Company's internal audit system and its implementation;

(3) to take charge of the communication between the internal audit and the external audit;

(4) to audit the Company's financial information and its disclosure;

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

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

During 2008, the Audit and Review Committee convened 3 meetings. Details of the attendance are set out in the relevant table in this section. All matters passed at the meetings are well documented and maintained in accordance with the relevant rules. All the significant matters discussed by the Audit and Review Committee are also reported to the Board.

Work of the Audit and Review Committee during the year mainly include: requesting auditors to submit auditors' report for 2007, reviewing interim report for 2008 and annual financial statements for 2007, review auditors' work summary report and form the resolution to reappoint domestic and overseas auditors.

The Audit and Review Committee has reviewed the Company's audited 2008 Annual Results.

(III) SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS (CONTINUED)

2. Remuneration and Nomination Committee

The main duties of Remuneration and Nomination Committee are:

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

(2) to search qualified candidates for directors and managers extensively;

(3) to review the candidates for directors and managers and make recommendations;

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

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

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

The Remuneration and Nomination Committee convened 2 meetings in 2008. Work mainly includes: reviewing Work Rules of Remuneration and Nomination Committee, reviewing the report on annual remunerations of Directors, Supervisors and the Senior Management.

During the reporting period, the Company appointed Zhu Yuanchao as the Director according to the proposal by the substantial shareholder. The appointment was approved on the shareholders general meeting.

(III) SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS (CONTINUED)

3. Risk Management Committee

The main duties of the Risk Management Committee are:

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

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

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

In 2008, Risk Management Committee of the Fifth Board of Directors of the Company comprised Director Si Zefu (Chairmen), Director Zhang Xiaolun, Mr. Wen Shugang, Director Zhang Jilie and Independent Director Chen Zhangwu.

The Committee held one meeting in 2008.

4. Strategic Development Committee

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

In 2008, the Strategic Development Committee under the fifth Board of Director of the Company comprised Mr. Si Zefu (Chairman), Directors Mr. Zhang Xiaolun, Mr. Wen Shugang and Independent Director Mr. Xie Songlin.

The Committee held one meeting in 2008.

(IV) SUPERVISORY SYSTEM

1. Supervisory committee

The Supervisory Committee is the Company's standing supervisory institution. The Supervisory Committee is responsible for supervising over the Board of Directors and its members and senior management members, so as to prevent them from abusing their authorities and violating the lawful interests of shareholders, the Company and its staff. Number of supervisors and the composition of the Supervisory Committee are in compliance with the relevant laws and regulations. In 2008, the Supervisory Committee held 6 meetings altogether, each of which was attended by all supervisors (in person or their proxies). The Supervisors, on behalf of shareholders monitored the Company's finance and to ensure the directors and senior management have complied with relevant regulations. The members of Supervisory Committee attended all Board meetings and fulfilled their duties in an earnest manner.

2. Establishment and improvement of internal control system

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

3. Auditors

During the reporting period Deloitte Touche Tohmatsu CPA Ltd. was appointed as the domestic auditors and Deloitte Touche Tohmatsu was appointed as the international auditors of the Company. As at the end of the reporting period, Deloitte Touche Tohmatsu CPA Ltd. had provided 4 years of audit service and Deloitte Touche Tohmatsu had provided 3 years of audit service for the Company, their respective remuneration for year 2008 were RMB3,500,000 and HK$680,000.

(V) SHAREHOLDERS AND OTHER INTERESTED PARTIES

1. Shareholders' General Meeting

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

2. Independence of Operation, Personnel, Assets, Organisation and Finance of The Company from its Controlling Shareholder

The Company has independent business and operation ability within its registered business scope. The Company is independent from its controlling shareholder in operation, personnel, assets, organisation and finance.

3. Information disclosure and investor relation management

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

There were a large quantity of disclosures and new requirements for 2008. The Company made careful analysis on difficult points of information disclosure, designated responsibility for most difficult task and communicated timely with regulatory authorities, and thus completed preparation of regular reports and relevant disclosure in time and as required. Especially after "5.12" earthquake, the Company properly handled information disclosure in case of emergency, avoided abnormal fluctuation of our stock price and stabilized capital market.

(V) SHAREHOLDERS AND OTHER INTERESTED PARTIES (CONTINUED)

3. Information disclosure and investor relation management (Continued)

On investor relationship management, the Company held performance presentations and road shows in China, Hong Kong and Singapore. The Company has also received hundreds of visits from domestic and overseas investors, shareholders, fund managers and analysts through meetings and telephone conference. On average, we held investor conference 2-3 times and factory tours twice a week, and telephone conference once a day during the year. Investor Relationship page was opened on our website for investors for more understanding of the Company.

4. Other interested parties

Appraisal and incentives for senior management members. The annual remuneration is determined in accordance with the relevant rules and regulations of the PRC and with reference to the assessment on Company's assets, business results and individual duty and contribution in line with the principle that annual salaries shall be linked with profit and assessment of work object, subject to required review and approval procedures. The 28th and 31st meeting of the Fifth Board of Directors of the Company reviewed and approved Work Rules of Remuneration and Nomination Committee, Management Method (Provisional) for Senior Management Remuneration, Management Method (Provisional) for Position Related Consumption, which further completed incentive and binding mechanism on Senior Management.

The Company pursues legitimate and honest business. While seeking to maximize interests for shareholders, we actively protect lawful rights of investors, creditors and employees, treating clients and suppliers with integrity, enthusiastically develop new energy, and promote coordinated and harmonious development of the Company and society. The Board prepared Social Responsibility Report for 2008 as set out in Appendix II of the Annual Report.

(I) MANAGEMENT DISCUSSION AND ANALYSIS

1. Operation review for the Reporting Period

(1) Overall Operation Analysis

In 2008, the domestic and overseas markets of the Company have undergone substantial changes due to the devastating "5.12" earthquake and the global financial crisis triggered by the US sub-prime mortgage crisis, the business operating environment is in further deterioration.

The response to the mega earthquake, the Company has been actively engaged in quake relief work in 2008 and is progressively carrying out reconstruction. In response to the financial crisis, the Company took vigorous measures and further developed the strengths of project management in accordance with the principles set out at the beginning of the year to cope with the tremendous pressure on production and ensure delivery. The Company managed to gain profit after writing off loss arising from the earthquake, with output and sales revenue of power generating equipment both record highs. The year witnessed our further progress in market exploration, innovation capacity and pioneering business restructuring in the industry. On capital market, under deteriorating financial crisis, the Company seized the opportunity to issue 65,000,000 A shares against the dismal capital market, thus laid a solid foundation for the Company's sustainable development.

Analysis on operation income and profit change for reporting period

Unit: RMB100 million

Operation Indicators	Reporting Period	Amount for the same period last year	Growth (%)
Prepared under PRC Accounting Standards			
Operating Revenue	279.48	248.87	12.30
Net profit attributable to shareholders of the Company	1.76	19.90	(91.16)
Earnings per share (RMB)	0.21	2.44	(91.39)
Earnings per share after non-recurring profit and loss (RMB)	1.81	1.68	7.74
Prepared under HKFRS			
Turnover	271.71	240.99	12.75
Profit attributable to shareholders after tax and minority interests	4.80	22.24	(78.42)
Earnings per share (RMB)	0.584	2.723	(78.55)

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(1) Overall Operation Analysis (Continued)

The Company recorded operation revenue of RMB27.948 billion for year 2008, increased by 12.30% over the same period of last year. Consolidated gross profit margin of our principal operations decreased to 16.01% from 19.12%.

Reasons for changes in revenue: despite deferred recognition of sales for certain products due to the earthquake during the year, the Company took effective measures to overcome the impact of the earthquake. With the increase of output, sales revenue for 2008 has increased by 12.30% over 2007;

Reasons for changes in overall gross profit margin: gross profit margin of the principal business for the year decreased by 3.11 percentage points, which is mainly due to the increase in importing materials from overseas for securing prompt delivery to customers given the limited production capacity of domestic suppliers, and the increase in cost of product materials as a result of the accumulated impact of hiking prices of certain key parts on product cost which became the most obvious in 2008. On the other hand, proportion of new products and products with large capacity and high parameters in total sales rapidly increased as a result of product restructuring, pushing the overall gross profit margin downward due to their relatively lower gross margin. In addition, during reconstruction after the earthquake, the Company's expenses in restoring production and operation increased substantially, leading to an increase in manufacturing cost of products.

(2) Operation during the Reporting Period

— Output

The Company's output of power generating equipment for 2008 increased to 34,035MW, thus hit another record high. Among the total, we produced 38 hydroelectric turbine generator sets (6,605MW), 54 steam turbine generators (26,230MW), 800 wind power generating sets (1,200MW), 68 power station boilers (26,437MW) and 54 power station steam turbines (22,000MW).

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(2) Operation during the Reporting Period (Continued)

— Orders In 2008

As at the end of 2008, the Company's orders in hand amounted to RMB120 billion. The Company signed new contracts of over RMB70 billion, including US$1.3 billion from overseas.

- In domestic market, we obtained the contracts for 9x770MW hydroelectric turbine generators in Jinshajiang River Xiluodu right bank and 6x360MW hydro turbines in Ludila, as well as 900 wind power generating units in Jiuquan of Gansu Province. We undertook the 600MW super-critical circulation fluidised bed boiler project, a national exemplary project in Baima of Sichuan Province with the highest installed capacity and parameter of its kind in the world. Remarkable progress was made in nuclear sector. We signed contracts for conventional island steam turbine generating units for nuclear power stations in Hongyanhe, Ningde, Fangjiashan, Fuqing and Taishan. We won the bid for 2x1,750MW conventional island steam turbine generating units for Taishan nuclear power station, the largest of its kind in the world. The two AP1000 pressurizers in Haiyang nuclear station marked our entrance into the 3rd generation nuclear island equipment manufacturing.

- In the international market, the Company further explored export sector, signed EPC contracts for E-grade gas turbine generator combined cycle projects in Nandipu and Qiqiaomeilian in Pakistan and 5# unit in Minsk of Belarus which marked the entrance of China's 400MW gas turbine generator combined cycle unit into the European market. The Company successfully entered Turkey market with circulation fluidised bed boiler products. For the first time, complete package of 660MW supercritical unit boiler, denitration device and seawater desulphurization unit was exported to Turkey.

— Product Restructuring

With the government policy to encourage high parameter, large capacity thermal power and hydroelectric generation sets as well as nuclear power and new energy such as wind power and solar power, the Company seized the opportunity to commence product restructuring. As a result of the restructuring, heavy duty and high parameter super-critical thermal generating units, mammoth hydropower units, mega-watt nuclear power units and clean energy like wind power had become the mainstream products. Amongst the new contracts signed in 2008, thermal power accounted for 45.1%, nuclear power 23.5%, wind power 14.8%, hydropower 8.2%, gas turbines 7.9% and others 0.5%. The breakdown indicates that nuclear orders have increased dramatically, while thermal power, wind power and hydropower took more reasonable portion. The balanced order structure enhanced our resistance to the economic crisis triggered by the global financial crisis.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(2) Operation during the Reporting Period (Continued)

— Innovation Capacity

- During the reporting period, we gradually started to develop proprietary core technology for major products through learning imported technology, improving hydropower technology and in-house research in steam turbine and boiler.

- We developed and designed large scale hydro turbine units independently. Designed performance of Xiluodu hydropower project has paralleled international advanced level. We solved the Three-Gorge right bank unit vibration problem. The rebuild 15# unit recorded most stable operation in Three-Gorge power station.

- We also started to manufacture boilers independently. 600MW super-critical boiler and 300MW circulation fluidised bed boiler were developed and put into operation independently. 600MW super-critical w-shape flame boiler and 600MW supercritical circulation fluidised bed boiler are being developed independently.

- Large scale clean high efficiency super-critical units have become our mainstream product.

— New A Shares Public Offer

Against the deteriorating financial tsunami across the world and the market downturn in 2008, the Company seized the opportunity to launch A shares public offer, and actively started road show and promotion to boost investor's confidence. 39 institutional investors including 35 funds subscribed the new shares enthusiastically, which was unexpected. On 20 November 2008, we successfully completed the first new public issuance of 65,000,000 A shares since our overall listing and raised RMB1,332.5 million. The issuance demonstrates investors' recognition of our achievements and growth prospects.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(3) Overcome earthquake disaster with joint efforts

The Company sustained severe damages in "5.12" earthquake, especially Hanwang base of Dongfang Steam Turbine Co. Ltd., a subsidiary of the Company. Hanwang base suffered over 200 casualties. Its plant and living section collapsed, machines and equipment damaged, large quantity of products and semi-finished products, raw materials and production supplies destructed, and infrastructure like water, power, gas supply and transportation destroyed, resulting in direct economic loss of RMB1.536 billion.

The Company did not succumb to the disaster. We acted promptly in disaster relief and did our best to save lives, minimize damage, recover production loss and proceed with relocation. During the reporting period, in the spirit of DEC, we restored production rapidly. By the end of 2008, 80% of our production capacity was restored. To construct a "more advanced, safer and more sustainable base with first-class management, cutting-edge technology, best equipment and quality" as instructed by Premier Wen Jiabao, we decided to move the base to Bajiaojing Town in Economic & Technology Development Zone of Deyang city. The new base construction ceremony was held on 1 August 2008. Presently, reconstruction is going smoothly.

(4) Major awards during the Reporting Period

In 2008, Mr. Si Zhefu, the Chairman of the Company was honoured "Name of China's Economy 2008" by CCTV; the Company ranked the second in "Top 50 Equipment Manufacturer of China" by Equipment Manufacture Research Centre, and was honoured "the Tenth Gold Bull Prize for Top 100 Listed Companies in China (2007)" and "Top 100 Listed Companies in China 2007". The Company was selected as "Top 20 Competitive China Listed Companies in 2008" and was also honoured "2008 Best Listed Company for Investor Relation".

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(5) Principal Operations and Performance

Distribution of Principal operation

Unit: RMB100 million

By business or products	Operating Revenue	Operating Cost	Operating profit margin (%)	Increase/ (decrease) of operating revenue as compared to last year (%)	Increase/ (decrease) of operating cost as compared to last year (%)	Increase/ (decrease) of operating profit margin as compared to last year (%)
By business						
Machinery manufacturing	271.71	228.20	16.01	12.75	17.07	(16.27)
By product						
Main thermal power equipment	203.14	166.87	17.85	3.55	8.83	(18.27)
Main hydro power equipment	25.97	23.47	9.62	(1.93)	(2.50)	5.82
Wind power generation sets	26.17	23.17	11.46	374.09	357.00	40.61
Others	16.43	14.69	10.59	28.16	17.99	266.94

Analysis of major reasons for changes in revenue, cost and gross profit margin:

1. Due to a certain impact of the earthquake on scale merit of the Company's thermal power production, revenue from thermal power product for 2008 only increased by 3.55% over 2007, and its gross profit margin decreased by 3.99 percentage points to 17.85% this year from 21.84% for 2007. Reasons for such decrease mainly include: firstly, prices of raw materials, especially large forged sections, steel, nonferrous metal parts increased rapidly or maintained at high level; secondly, the Company increased outsourcing to secure delivery, leading to an increase in manufacturing costs of products; and thirdly, proportion of new products and products with large capacity and high parameters in total sales rapidly increased as a result of product restructuring, leading to a decrease in overall gross profit margin of thermal power products due to their relatively lower gross margin;

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(5) Principal Operations and Performance (Continued)

Analysis of major reasons for changes in revenue, cost and gross profit margin: (Continued)

2. Thanks to the bulk production, sales revenue from wind power products in 2008 amounted to RMB2,617,000,000, representing an increase of 374.09% over 2007 and accounting for 9.63% of the revenue from principal business. The gross profit margin of wind power business was increased by 3.29 percentage points to 11.46% from 8.17% for 2007. Such increase was mainly due to the emerging scale merit of wind power products, as the fixed cost of unit product decreased substantially as a result of mass production of wind power products and the surging import substitution rate;

3. Revenue from hydropower products was basically unchanged as compared with 2007, with gross profit margin increasing by 0.51 percent to 9.62% this year from 9.11% for 2007. Such increase was mainly attributable to improved effectiveness as a result of the reasonable product structure upon adjustment by the Company.

Major customers and suppliers

Unit: RMB100 million

Item	Aggregation for top 5	Percentage in annual total amount (%)
Customers	50.03	17.90
Suppliers	28.72	11.27

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(6) Financial status during the Reporting Period

- **Prepared under PRC Accounting Standards**

Analysis on asset change during the Reporting Period

Asset Movement Statement:

Unit: RMB100 million

Item	Closing balance	Opening balance	Increase/ decrease (%)	Percentage in the total assets and liabilities for the year (%)
Bank balance and cash	114.50	50.20	128.09	20.28
Prepayment	86.16	52.86	63.00	15.26
Inventories	214.98	135.26	58.94	38.08
Construction in progress	12.17	3.12	290.06	2.15
Intangible assets	5.19	3.48	49.14	0.92
Total assets	564.59	363.78	55.20	100
Accounts payable	74.81	34.26	118.36	13.25
Advances from customers	348.29	217.00	60.50	61.69
Taxes payable	(0.80)	3.44	(123.26)	(0.14)
Other payables	29.15	13.47	116.41	5.16
Non-current liabilities due within one year	10.36	4.83	114.49	1.83
Long-term payables	36.27	18.49	96.16	6.42
Total liabilities	540.26	325.10	66.18	95.69
Share capital	8.82	8.17	7.96	1.56
Capital reserve	12.32	0	100	2.18
Undistributed profit	1.38	17.85	(92.27)	0.24
Gearing ratio (%)	95.69	89.37	7.07	

Analysis on reasons of changes:

(1) Closing balance of bank balance and cash increased by 128.09% 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 by taking the initiative to pay retention receivables or project progress payments; which resulted in abundant cash position of the Company at the end of 2008;

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(6) Financial status during the Reporting Period (Continued)

- **Prepared under PRC Accounting Standards (Continued)**

Analysis on asset change during the Reporting Period (Continued)

Analysis on reasons of changes: (Continued)

(2) Closing balance of prepayment and accounts payable increased by 63.00% and 118.36% 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; and as post earthquake reconstruction is proceeding fast, prepaid land premium and construction expenses were growing rapidly;

(3) inventories grew by 58.94% as compared with the opening balance, which is mainly due to increased parts and components purchased for expanded production of new energy products, especially wind power products of the Company, as well as increased reserve of raw materials and products in process for long-cycle projects like nuclear products and 100MW thermal power projects;

(4) construction in progress grew by 290.06% as compared with the opening balance, which is mainly due to new numerical controlled production equipment purchased for capacity expansion and increased infrastructure and equipment for new product localization and mass production; as well as more investment in civil work and equipment as post earthquake relocation project started in August 2008;

(5) intangible assets grew by 49.14% as compared with the opening balance, mainly attributable to land use right and non-patent technology of wind power acquired by branches and subsidiary invested for further development of new energy industry;

(6) The closing balance of taxes payable decreased by 123.26% as compared with the opening balance, the main reasons are (i) the input tax increased noticeably in the period due to the aforesaid significant increase in purchase, and (ii) the Company provided no income tax according to 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;

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(6) Financial status during the Reporting Period (Continued)

- **Prepared under PRC Accounting Standards (Continued)**

Analysis on asset change during the Reporting Period (Continued)

Analysis on reasons of changes: (Continued)

(7) The closing balance of long-term payables and current liabilities due within one year increased by 96.16% and 114.49% respectively as compared with the opening balances, mainly attributable to consideration payable for the acquisition of remaining 31.61% equity interest in Dongfang Boiler under the Acquisition Agreement and the Supplementary Agreement of Acquisition Agreement;

(8) Capital reserve for the year increased by RMB1,232 million through the issue of 65,000,000 A shares at premium;

(9) The closing balance of undistributed profit decreased by 92.27% as compared with the opening balance, the main reasons are (i) the net profit recorded a substantial decrease year on year as a result of retirement of fixed assets at RMB1,568 million recognised after earthquake, and (ii) the Company's acquisition of 31.61% equity in Dongfang Boiler reduced shareholders' equity according to the requirements on treatment to acquisition of minority interests in a subsidiary under the New Accounting Standards;

(10) Gearing ratio at the end of the year increased by 6.32 percentage points as compared with the opening balance, mainly due to (i) under new accounting standards on combination of business under common control, long-term investment in Dongfang Turbine and Dongfang Boiler were offset against net assets in the consolidated financial statements which led to decreased total assets and therefore the rise in consolidated gearing ratio. In fact, in view of the individual financial statements of the parent company and subsidiaries, gearing ratio of Dongfang Turbine was relatively high as at the end of 2008 due to the earthquake and that of the other subsidiaries ranged from 79% to 80%; and (ii) high gearing ratio reflected in the financial statements is mainly attributable to large sum of advance from customers of the Company (accounting for 64.47% of total liabilities as at the end of 2008), which was yet to be transferred to sales revenue due to the expanded production capacity and relatively long production cycle.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(6) Financial status during the Reporting Period (Continued)

- **Prepared under PRC Accounting Standards (Continued)**

Analysis on change in items in income statement during the Reporting Period

Expense Movement Statement

Unit: RMB100 million

Item	Current year	Previous year	Increase/ decrease (%)
Sales expense	**4.64**	3.85	20.52
Administrative expense	**16.84**	16.59	1.51
Finance costs	**1.82**	(0.45)	504.44
Assets impairment loss	**6.17**	2.93	110.59
Non-operating income	**5.18**	0.89	482.02
Non-operating expenses	**19.86**	0.23	8,534.78
Total profit	**0.73**	24.90	(97.07)
Income tax	**(1.37)**	3.13	(143.77)

Analysis on reasons of changes:

(1) Finance costs for the year increased by 504.44% over last year, mainly attributable to the provision made by the Company for the interest on the residual consideration of acquiring equity interest in Dongfang Turbine and Dongfang Boiler;

(2) Assets impairment loss increased by 110.59% over last year, mainly due to provision of RMB90 million for impairment of land made for Hanwang production base after earthquake;

(3) Non-operating income increased by 482.02% over last year, mainly due to donations received after earthquake;

(4) Non-operating expenses increased by 8,534.78% over last year, mainly due to loss on scrapping of assets at RMB1,568 million recognised for the year from the loss in the "5.12" earthquake;

(5) Income tax for the year decreased by 143.77% from last year. This is mainly due to recognition of deferred income tax assets and deducting income tax expenses for the year, as the tax deductible loss of Dongfang Steam Turbine Co. Ltd. which can be carried forward, in the Company's opinion stated as temporary difference, can be reversed by adequate taxable income within effective time limit for loss recovery as required by tax laws.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(6) Financial status during the Reporting Period (Continued)

- **Prepared under PRC Accounting Standards (Continued)**

Analysis of changes in items in cash flow statement

Statement of change in items in cash flow statement

Unit: RMB100 million

Item	Amount for the period	Amount for the previous period	Increase/ decrease (%)
Net cash flow from operating activities	**70.02**	(4.62)	1,615.58
Net cash flows from investing activities	**(19.75)**	(18.62)	6.07
Net cash flows from financing activities	**14.88**	2.26	558.41

Analysis of reasons for changes:

(1) Net cash flow from operating activities increased by 1,651.58% over last year, which is mainly attributable to prompt collection of sales payment due to our active receivable collection and payments from customers after earthquake as a support. On the other hand, the Company increased cash inflows by fully leveraging settlement methods of commercial credit and deferred payment when making payment for goods;

(2) Net cash flow from financing activities increased by 588.41% over last year, mainly due to the raised proceeds of RMB1.3325 billion from public issue of A shares during 2008.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(7) Operation of major subsidiaries of the Company

Unit: RMB100 million

Name	Interest (%)	Major products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Dongfang Steam Turbine Co. Ltd.	100	Production, processing and sale of steam turbine, water turbine, gas turbine, air compressor, fans, pumps, ancillary machines, wind power generating units, solar power and renewable energy sources; industry control and automation; research and development, design, installation and testing, renovation, maintenance service for power stations and relevant equipment; mechanical equipment and parts, as well as relevant import & export business	18.46	261.55	19.52	88.59	5.65	(8.13)
Dongfang Electrical Machinery Company Limited	100	Design, manufacture and sale of power generation equipment sets, turbine generators, AC and DC motors, control devices, reconstruction and redevelopment of power plants and installation of equipment for power plants	20	100.20	28.94	63.96	8.44	8.94
Dongfang Boiler (Group) Company Limited	99.66	Development, design, manufacture and sale of power station boilers, power station auxiliaries, industrial boiler, valve of power station, petrochemical vessel, nuclear reaction equipment, environmental protection equipment (denitration, desulphurisation, sewage, solid waste)	4.01	155.57	27.75	125.83	4.32	4.06

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(7) Operation of major subsidiaries of the Company (Continued)

- **Analysis of financial position prepared under HKFRS**

1. Financial Status

As at 31 December 2008, the current assets of the Company amounted to RMB51,593,138,000 (2007: RMB32,506,752,000). Items with relatively significant changes from last year and the reasons are listed as follows: (1) cash and deposits in banks and a financial institution amounted to RMB11,449,416,000 (2007: RMB5,020,270,000), grew by 128.06% over 2007, which is primarily attributable to more receivables collected by the Company under monetary shortage and active payment or prepayment for projects from certain clients. Besides, after the "5.12" earthquake, the State granted preferential policies to the Company. As of December 2008, an aggregate of RMB440,970,000 had been received as state-owned capital for post-disaster reconstruction; (2) inventories amounted to RMB19,870,692,000 (2007: RMB12,040,057,000), grew by 65.04% from last year, which is mainly due to increased parts and components purchased for surging orders arising from expanded production of new energy products, especially wind power products of the Company, as well as increased reserve of raw materials and products in process for long-cycle projects like nuclear products and 100MW thermal power projects; (3) construction in progress amounted to RMB1,216,698,000 (December 2007: RMB312,086,000), grew by 289.86% from the beginning of the year, which is mainly due to new production equipment purchased for capacity expansion and increased infrastructure and equipment for new product localization and mass production.

As at 31 December 2008, the total liabilities of the Company amounted to RMB54,494,755,000 (2007: RMB32,718,717,000). Items with relatively significant changes from last year and the reasons are listed as follows: (1) trade and other payables amounted to RMB31,229,893,000 (2007: RMB17,512,365,000), grew by 78.33% over 2007. The increase is mainly attributable to more payables to suppliers for surging productive material purchases, to cater for high output in recent years, the undersupply of certain key resources around the world and a heavily loaded production schedule; (2) cash consideration payable to parent company amounted to RMB6,052,220,000 (2007: RMB3,252,336,000), grew by 86.09% over 2007, which is mainly attributable to the consideration payable for the residual 31.61% equity interest in Dongfang Boiler acquired under Acquisition Agreement and Supplementary Agreement of Acquisition Agreement.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(7) Operation of major subsidiaries of the Company (Continued)

- **Analysis of financial position prepared under HKFRS (Continued)**

1. Financial Status (Continued)

During the reporting period, profit attributable to shareholders of the Company decreased by RMB1,744,571,000 from last year, mainly attributable to asset loss of RMB1,535,517,000 in the "5.12" earthquake, and lower gross profit margin in 2008 due to adjusted product mix and more outsourced work.

2. Cash Flows

As at 31 December 2008, the cash and cash equivalents of the Company recorded a net increase of RMB6,526,539,000 over last year. The increase is mainly attributable to our active receivable collection and payments from customers after earthquake as a support. The rapid recovery of trade receivables increased cash inflow from operating activities to RMB7,252,288,000, grew by 2,710.96% over last year. Moreover, the Company raised proceeds of RMB1,332.5 million (excluding relevant expenses) from the public issuance of new A Shares in 2008, together with RMB440 million from the government as state-owned capital for our reconstruction which uplifted our cash and cash equivalents.

3. Borrowings

As at 31 December 2008, the Company held borrowings of RMB218,215,000 due within one year, and RMB2,320,000 due more than one year later but within two years. Significant portion of loans, cash and cash equivalents held by the Company are in Renminbi. The Company maintains sound financing capacity with healthy credit status and future sustainable profitability.

4. Gearing Ratio

As at the end of 2008, gearing ratio of the Company was 96.00%. The relatively high gearing ratio reflected in the financial statements is mainly attributable to the surging prepayment from customers which was yet to be transferred to sales revenue due to the expanded production capacity and relatively long production cycle. Moreover, due to the acquisition of equity interests in Dongfang Turbine and Dongfang Boiler, shareholdings of Dongfang Turbine and Dongfang Boiler under long-term investment and net assets were offset in the consolidated financial statements which led to decreased total assets and therefore the rise in consolidated gearing ratio. In fact, in view of each of the individual financial statements of the parent company and subsidiaries, gearing ratios of Dongfang Turbine was relatively high as at the end of 2008 due to the earthquake and that of the other subsidiaries ranged from 79% to 80%.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Operation review for the Reporting Period (Continued)

(7) Operation of major subsidiaries of the Company (Continued)

- **Analysis of financial position prepared under HKFRS (Continued)**

5. Pledge of Assets

On 4 November 2008, Chengdu KWH Company, a subsidiary of the Company, entered into a "Maximum Pledge Contract" (2008 Kai Yin Di Zi No. 003) with west development zone branch of Chengdu, Bank of China Limited, to obtain guaranteed credit facilities up to RMB35,000,000.00 with certain buildings and land use rights pledged as security. On 4 November 2008, the parties entered into the Renminbi Loan Contract (2008 Kai Liu Dai Zi No. 017) (short-term) for a loan of RMB15,000,000.00.

6. Risk in Exchange Rate Fluctuation and any related Hedging

In 2008, the turbulent global foreign exchange market witnessed volatile exchange rates of Reminbi against US dollar and euro. It is expected that multiple regional reserve currency systems will emerge around the world after the financial storm, which will gradually replace the single US dollar reserve system. In 2008, prepayments received from Pakistan and India projects of the Company were exchanged into Renminbi at spot rates. With wider and deeper global presence of the Company, Renminbi exchange rate is playing more and more important role in its business. Given the complicated and volatile international financial situation and the actual operation of its own, the Company is proactively studying how to use financial derivatives to hedge the risks in exchange rate and interest rate, so as to avoid loss and increase income.

7. During the reporting period, the Company had no contingent liabilities.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Future Outlook

(1) Industry growth trends and market outlook

Looking into 2009, power equipment manufacturing industry faces both risks and opportunities. On one hand, due to slowdown of domestic power demand, our new orders slumped in the second half of 2008, especially the fourth quarter where the thermal power arm suffered the most. Under the global economy uncertainties, domestic economic slowdown has depressed demand, income and export market. The pressure from global economy fluctuation together with China's revival plans has great impact on the prospects of the industry. On the other hand, economic meeting of the central government resolved to keep a steady economy momentum in 2009 and to introduce proactive fiscal policy and easy monetary policy. The State Council rolled out ten measures for domestic demand revival and other stimulus measures. The rapid development of industrialization and urbanization still promise the demand for equipment manufacturing. The ten key industry revival plan, export tax rebate, value-added tax transformation and encouragement for independent innovation will provide all-round support to equipment manufacturing industry. We are now entering new energy sector which is one of the key areas of domestic stimulus. The ardent development of nuclear power, the "restrain small, encourage large" policy to phase out obsolete capacity and higher safe production standards will impose higher requirements and provide more room for development of equipment manufacturing industry.

(2) Business growth plan for 2009

In 2009, the Company will actively react to the challenges brought by financial crisis in the adverse market condition. We will explore market, upgrade innovation capacity and improve management, guard against operation risks and finish post-disaster reconstruction to ensure steady development.

- Strive to explore market and lay a groundwork for steady development.

  Leveraging the government's vast investment in infrastructure to stimulate domestic demand, the Company is to further strengthen its comparative advantage, focus on thermal power market and strive for breakthroughs in nuclear, hydro, wind power and environment protection markets. We are to explore nuclear market and seek major breakthrough. We are to expand the market shares of our wind power, hydropower and environment friendly product to offset the drop in thermal market, hence achieve a steady increase of orders in 2009.

  To explore international market, the Company is to move prudently to consolidate traditional market on the basis of risk control, and actively explore for new market to diversify market risks and strengthen competitiveness of our products in the global market.

  We will reinforce 24-hour service spirit, expand after-service coverage and extend the service chain to improve after-sales service.

(I) MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Future Outlook (Continued)

(2) Business growth plan for 2009 (Continued)

- Press forward relocation construction for Dongfang Turbine to commence full production by 2010.

  To construct the new base of Dongfang Turbine as instructed by the State, the Company will press ahead construction of major plants and ancillary facilities to ensure in-time production of new base, and restore production capacity by repairing equipment and new acquisition. We will cut production cost and step up production pace and efficiency with first-class management based on sound information system and optimized workflow planning.

- Improve quality based on scientific production planning

  Based on scientific planning, the Company is to make full use of coordination and service functions to avoid risks. At the same time, we will enhance centralized management on purchase of material, production supervision, delivery supervision and storage, seek management innovation and improvement to support project implementation. Quality control will be enhanced, and importance will be attached to overseas constructions and product quality to ensure "one project, one monument". We will improve our safety system and build a long-term mechanism to govern production safety.

- Strengthen management on investment projects to hedge operation risks.

  Based on in-depth study of the impact of financial crisis on China's economy, external environment and our condition, we will make careful analysis and assessment on existing investment project or new constructions to be implemented, control investment scale, increase investment return and reduce risk. We will enhance project management to promote major constructions. First of all, we will promote the relocation project of Dongfang Turbine at full speed to start production as soon as possible. Secondly, we will advance the installation and testing of inner reactor component, control rod driving device and nuclear rotor welding device, to prepare for the production of nuclear power. Thirdly, we will push forward wind power construction in Tianjin, Hangzhou and Deyang to secure our competitive edge in wind power industry.

- Tighten cost control to secure stable development.

  With the global financial crisis, the Company will enhance cost control by all means under appropriately tight financial policy. To counter the apparent cost rise caused by various external reasons, we are to compress non-productive expenses and period expenses for smooth development.

(II) INVESTMENT DURING THE REPORTING PERIOD

1. Overall utilisation of raised proceeds

According to the Approval of Public Issuance of Shares of Dongfang Electric Corporation Limited (Zheng Jian Xu Ke [2008] No. 1100) by CSRC, the Company successfully completed the public issuance of 65,000,000 ordinary shares in Renminbi on 18 November 2008 and raised proceeds of RMB1,332,500,000. After completion of the issuance in November 2008, the Company should, in accordance with the regulations on raised proceeds, deposit such proceeds in a designated account and signed the Third Party Custody Agreement on Special Account for Proceeds from Public Issuance of Shares by Dongfang Electric Corporation Limited to Non-specific Public Subscribers. During the reporting period, the Company did not utilize such proceeds to finance its projects.

Raised Proceeds Projects:

	DEC Wind Power Industrialisation Project		DEC Technical Renovation Project of 1,000 MW Conventional Island for Nuclear Power Station	Production Base Construction for Core Components of Large-scale Clean High-efficiency Power Generating Equipment
	East China (New Energy) Manufacture Base	North China Manufacture Base		
Project progress	In the fundamental construction stage	In the equipment installation stage	Equipment foundation was completed, and certain equipment delivered, preparing for installation.	Foundation construction onsite
Project investment (RMB0'000)	125,000	56,868	118,000	96,280
Raised Proceeds (RMB0'000)	133,250			
Proceeds used during the reporting period (RMB0'000)	0			

(II) INVESTMENT DURING THE REPORTING PERIOD (CONTINUED)

2. Projects unrelated to Raised Proceeds

(1) The total investment in the post-disaster relocation of Hanwang production base by Dongfang Steam Turbine Co. Ltd. was RMB5,097,200,000, including RMB4,559,000,000 in newly acquired fixed assets and approximately 2,601 acres of land. The reconstruction will take 2.5 years and is expected to be completed by 2010. RMB674,840,000 was invested during the reporting period.

(2) The investment in the medium power equipment project of Dongfang Electrical Machinery Company Limited was RMB481,800,000. Upon completion, the project will have 2,166MW production capacity for power generation units. The project is expected to be completed by 2010. RMB92,760,000 was invested during the reporting period.

(III) PROPOSAL ON THE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND TO SHARE CAPITAL FOR THE YEAR

As audited by Deloitte Touche Tohmatsu CPA Ltd., the Company's net profit for the year 2008 was RMB211,000,000 (including net profit of RMB176,000,000 attributable to shareholders of the parent company). As at 31 December 2008, undistributed profit of the Company (parent company) was RMB1,032,927,063.19. The Company recommends the profit distribution proposal for 2008: cash dividends per share being RMB0.02 (tax inclusive for A shares), totalling RMB17,640,000.00 with the remaining undistributed profits being carried forward to next year.

(IV) CASH DIVIDENDS FOR LATEST THREE YEARS

Unit: RMB

Year	Amount of Cash Dividend	Net Profits for the Year of Distributing Dividend	Rate of Cash Dividend to Net Profit (%)
2007	196,080,000.00	1,989,855,973.51	9.85
2006	90,000,000.00	829,855,821.20	10.85
2005	225,000,000.00	527,766,989.36	42.63

(I) WORK OF SUPERVISORY COMMITTEE

Particulars of the Meeting of Supervisory Committee	Particulars of the Meeting Topics of Supervisory Committee
The 10th meeting of the fifth Supervisory Committee was convened on 29 January 2008	Consideration and approval of Relevant Content of Rules of Procedures for the Supervisory Committee of Dongfang Electric Corporation Limited
The 11th meeting of the fifth Supervisory Committee was convened on 28 March 2008	Consideration and approval of the Proposal for the Audited Financial Report of the Company for 2007, the Proposal for Profit after Taxation Distribution Plan of the Company for 2007, the 2007 Annual Report and Its Summary, the Proposal for Special Explanation on Utilisation of the Last Raised Proceeds and Work Report of the Supervisory Committee for 2007.
The 12th meeting of the fifth Supervisory Committee was convened on 29 April 2008	Consideration and approval of the Proposal for the 2008 First Quarterly Financial Report
The 13th meeting of the fifth Supervisory Committee was convened on 21 August 2008	Consideration and approval of the Proposal for the Company's 2008 Interim Financial Report, recommendation of further expediting the confirmation work of losses from the earthquake and giving a true and complete view of the loss in the accounting year.
The 14th meeting of the fifth Supervisory Committee was convened on 27 October 2008	Consideration and approval of the Proposal for the 2008 Third Quarterly Financial Report.
The 15th meeting of the fifth Supervisory Committee was convened on 23 December 2008	Consideration and approval of the Proposed Delay in Holding the Re-election of the Supervisory Committee with a Maximum of Six Months.

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

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

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

During the reporting period, the Supervisory Committee carefully examined and reviewed the financial position and financial management of the Company. After the examination, the Supervisory Committee is of the view that the financial system of the Company is relatively complete with standard management, and laws and regulations including Accounting Law, Accounting Standard for Business Enterprises were strictly executed. The Supervisory Committee of the Company prudently reviewed the Company's 2008 Financial Report to be submitted at the general meeting, and is of the opinion that it truly, accurately, and objectively reflects the financial position and the operating results of the Company, and the preparation and review procedures of the report are in compliance with all requirements of the laws, regulations, the Articles of Association of the Company and internal administrative systems of the Company. None of the personnel participating in preparation and review of the annual report was engaged in any act in breach of confidentiality regulations. Deloitte Touche Tohmatsu has audited the 2008 Annual Report of the Company and issued a standard unqualified auditor's report.

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

During the reporting period, the Company issued 65,000,000 new A shares with net proceeds of RMB1,297,346,000, which was deposited under the Third Party Custody Agreement on Special Account for Proceeds entered into as required by CSRC and the Shanghai Stock Exchange. The Company did not change actual use of proceeds for the earlier stage of projects including East China (New Energy) Manufacture Base Construction Project of Dongfang Electric, North China Manufacture Base Construction Project of Dongfang Electric, Technical Renovation Project of MW Conventional Island for Nuclear Power Station of Dongfang Electric and Production Base Construction Project for Core Components of Large-scale Clean High-efficiency Power-Generating Equipment according to its undertakings and resolutions passed at the general meeting.

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

During the reporting period, the Company acquired Wuhan Boiler Group Nuclear Equipment Manufacture Company Limited (武漢鍋爐集團核設備製造有限公司), a wholly-owned subsidiary of Wuhan Boiler Group Company Limited, by way of capital increase. The Company held 67% shares in the company. The acquisition procedures were in compliance with the relevant state laws and regulations and the acquisition considerations were fair and reasonable, in the interests of the shareholders of the Company.

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

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

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

(I) ASSETS TRANSACTION

1. Acquisition of Assets

(1) Merger of certain equity interest in Wuhan Boiler Group Nuclear Equipment Manufacture Company Limited

The Company acquired Wuhan Boiler Group Nuclear Equipment Manufacture Company Limited ("Nuclear Equipment Company"), a wholly-owned subsidiary of Wuhan Boiler Group Company Limited ("Wuhan Boiler Group"), by way of capital increase. Nuclear Equipment Company was established on 18 November 2008 originally as a wholly-owned subsidiary of Wuhan Boiler Group. With the registered address of No. 8, Yanguang Avenue, Jiangxia District, Wuhan and registered capital of RMB70 million, it is mainly engaged in the design and manufacture of inner reactor pressure equipment for civil nuclear facilities, and design, manufacture and machining of special products. The Company exclusively completed the capital increase in Nuclear Equipment Company with RMB131.56 million funded by its internal resources. Upon the capital increase, the registered capital was increased from RMB70 million to RMB196.36 million, of which the Company contributed RMB131.56 million, representing 67% of total capital contributions and Wuhan Boiler Group contributed RMB64.80 million, representing 33% of total capital contributions.

(2) Second Acquisition of DEC's Shares in Dongfang Boiler

Pursuant to the Acquisition Agreement entered into by DEC and the Company on 16 May 2007, DEC will, following the expiry of the period of acquisition offer for shares in Dongfang Boiler (Group) Company Limited ("Dongfang Boiler") from all holders of shares not subject to trading moratorium ("Dongfang Boiler Shares"), transfer the maximum of 128,250,000 Dongfang Boiler Shares (not more than 31.95% of issued shares of Dongfang Boiler) purchased upon expiry of the period of acquisition offer to the Company.

As at 26 January 2008, the expiry day of the period of acquisition offer, a total of 126,905,730 shares accepted the offer as confirmed by China Securities Depository and Clearing Corporation Limited, Shanghai Branch. As at 29 February 2008, 126,905,730 Dongfang Boiler Shares were transferred to DEC.

On 22 March 2008, DEC and the Company entered into the Letter of Confirmation on Second Settlement of Shares and Consideration, confirming: 1. DEC shall subsequently transfer 126,905,730 Dongfang Boiler Shares to the Company pursuant to the Acquisition Agreement, representing 31.61% of issued shares of Dongfang Boiler. 2. The acquisition consideration of aforesaid Dongfang Boiler Shares payable by the Company was RMB2,799,884,194. Accordingly, the Company completed the acquisition of Dongfang Boiler Shares purchased by DEC upon expiry of the period of acquisition offer, representing 99.66% of issued shares of Dongfang Boiler.

(II) MATERIAL CONNECTED TRANSACTIONS DURING THE REPORTING PERIOD

Unit: RMB'000

(Extracted from annual report of A share)

	Sales of products and provision of service to connected parties		Purchase of products and reception of service from connected parties	
Connected party	**Transaction amount**	**Percentage in the amount of similar transactions (%)**	**Transaction amount**	**Percentage in the amount of similar transactions (%)**
DEC and subsidiaries	3,029,526.85	10.84	3,169,602.77	12.17
Joint venture	15,732.52	0.06	673,656.91	2.64
Associate	14,836.64	0.05	111,693.73	0.43
Others	46,647.80	0.17	11,833.82	0.04
Total	3,106,743.81	11.12	3,966,787.23	15.28

On 16 May 2007, the Company entered into framework agreements on continuing connected transactions with DEC or its associates for a term of three years (2007-2009), including the Purchase and Production Services Framework Agreement, the Sales and Production Services Framework Agreement, the Combined Ancillary Services Framework Agreement, the Financial Services Framework Agreement and the Properties and Equipment Framework Lease Agreement, Huaxi Purchase and Production Service Framework Agreement and Huaxi Sales Framework Agreement (for a term of one year). As at 31 December 2008, no specific amount for any of such significant connected transactions exceeded the annual cap as approved in shareholders' meeting.

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

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

(III) EXPLANATION ON OTHER MAJOR EVENTS

1. The "5.12" earthquake caused severe casualties and property losses to the Company, especially Hanwang base of Dongfang Steam Turbine Co. Ltd., a wholly owned subsidiary of the Company, suffered severe damages. Direct property losses arising from the earthquake amounted to RMB1,565,047,800.

2. In November 2008, the Company publicly issued 65,000,000 A shares to non-specific public subscribers at the price of RMB20.50 per share, raising proceeds of RMB1,332,500,000. The raised proceeds will be used for DEC Wind Power Industrialisation Project, DEC Technical Renovation Project of 1,000 MW Conventional Island for Nuclear Power Station and DEC Production Base Construction Project for Core Components of Large-scale Clean High-efficiency Power Generating Equipment.

(IV) PUBLIC FLOAT

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

Chairman
Si Zhefu
Dongfang Electric Corporation Limited

8 April 2009

TO THE SHAREHOLDERS OF
DONGFANG ELECTRIC CORPORATION LIMITED
東方電氣股份有限公司
(established in the Deyang City, Sichuan Province, the People's Republic of China ("PRC") with limited liability)

We have audited the consolidated financial statements of Dongfang Electric Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 137, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
8 April 2009

CONSOLIDATED INCOME STATEMENT

For the Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	7	**27,171,342**	24,099,128
Cost of sales		**(22,883,915)**	(19,198,474)
Gross profit		**4,287,427**	4,900,654
Other income	8	**1,113,915**	379,335
Distribution expenses		**(464,502)**	(385,247)
Administrative expenses		**(2,721,711)**	(2,090,789)
Loss from 12 May Earthquake	9	**(1,535,517)**	—
Share result of associates		**(16,206)**	(44,881)
Share result of jointly controlled entities		**7,854**	20,871
Finance costs	10	**(279,470)**	(25,933)
Profit before tax		**391,790**	2,754,010
Income tax credit (expense)	11	**122,739**	(343,018)
Profit for the year	12	**514,529**	2,410,992
Attributable to:			
Equity holders of the parent		**479,904**	2,224,475
Non-controlling interests		**34,625**	186,517
		514,529	2,410,992
Dividends recognised as distribution during the year:			
Paid final dividend of RMB0.24 (2007: RMB0.2 per share)	14	**196,080**	90,000
Earnings per share			
basic	15	**RMB0.584**	RMB2.723

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**2,366,052**	2,337,910
Construction in progress	17	**1,216,698**	312,086
Prepaid lease payments	18	**640,986**	181,486
Investment properties	19	**34,056**	35,682
Intangible assets	20	**111,661**	108,201
Interests in associates	21	**158,868**	175,074
Interests in jointly controlled entities	22	**120,881**	121,368
Available-for-sale investments	23	**39,600**	55,099
Deferred tax assets	24	**481,368**	284,223
		5,170,170	3,611,129
Current assets			
Inventories	25	**19,870,692**	12,040,057
Amounts due from associates	26	**1,270,368**	—
Amounts due from related parties	27	**2,249,666**	1,391,756
Trade and other receivables	28	**14,666,634**	12,601,410
Prepaid lease payments	18	**5,624**	10,419
Other tax asset	32	**453,109**	—
Amounts due from customers for contract works	29	**1,627,629**	1,442,840
Pledged bank deposits	30	**137,518**	206,331
Cash and deposits in banks and a financial institution	30	**11,311,898**	4,813,939
		51,593,138	32,506,752
Current liabilities			
Amounts due to customers for contract works	29	**10,425,315**	6,921,204
Amounts due to related parties	27	**7,255,085**	4,465,846
Trade and other payables	31	**31,229,893**	17,512,365
Enterprise income tax liabilities		**159,049**	271,058
Other tax liabilities	32	**213,831**	73,029
Borrowings	33	**218,215**	413,028
Provision	34	**332,966**	228,378
Deferred income	35	**149,446**	86,438
Termination benefit	40	**12,150**	16,472
		49,995,950	29,987,818
Net current assets		**1,597,188**	2,518,934
Total assets less current liabilities		**6,767,358**	6,130,063

Consolidated Balance Sheet (Continued)

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Deferred income	35	800,809	811,421
Borrowings	33	2,320	5,820
Long term liabilities		685	685
Termination benefit	40	69,083	64,973
Amounts due to related parties	27	3,625,908	1,848,000
		4,498,805	2,730,899
Net assets		2,268,553	3,399,164
Capital and reserves			
Share capital	36	882,000	817,000
Reserves		1,197,625	1,721,563
Equity attributable to equity holders of the parent		2,079,625	2,538,563
Non-controllinginterests		188,928	860,601
		2,268,553	3,399,164

The consolidated financial statements on pages 67 to 137 were approved and authorised for issue by the Board of Directors on 8 April 2009.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2008

	Attributable to equity holders of the parent								
	Share capital	Capital surplus	Statutory surplus reserve	Merger reserve	Translation reserve	Retained earnings	Total	Mon-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note a)	*(Note b)*	*(Note c)*					
At 1 January 2007	817,000	732,388	503,979	811,074	–	1,791,983	4,656,424	667,187	5,323,611
Profit for the year and total recognised income for the year	–	–	–	–	–	2,224,475	2,224,475	186,517	2,410,992
Transfers	–	–	208,951	–	–	(208,951)	–	–	–
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	40,051	40,051
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(33,154)	(33,154)
Dividend paid	–	–	–	–	–	(90,000)	(90,000)	–	(90,000)
Distribution to parent Dongang Electric Corporation ("DEC") as a result of the Group Reorganisation *(Note c)*	–	(606,078)	(1,667)	(3,311,247)	–	(333,344)	(4,252,336)	–	(4,252,336)
At 31 December 2007	817,000	126,310	711,263	(2,500,173)	–	3,384,163	2,538,563	860,601	3,399,164
Profit for the year and total recognised income for the year	–	–	–	–	–	479,904	479,904	34,625	514,529
Transfers	–	4,295	244,690	–	–	(248,985)	–	–	–
Arising from acquisition of a subsidiary	–	–	–	–	–	–	–	68,256	68,256
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(7,273)	(7,273)
Dividend paid	–	–	–	–	–	(196,080)	(196,080)	–	(196,080)
Shares issued *(Note 36)*	65,000	1,232,393	–	–	–	–	1,297,393	–	1,297,393
Distribution to DEC as a result of the 31.61% Acquisition *(Note 2 and Note d)*	–	–	–	–	–	(2,032,603)	(2,032,603)	(767,281)	(2,799,884)
Exchange differences arising on translation	–	–	–	–	(7,552)	–	(7,552)	–	(7,552)
At 31 December 2008	882,000	1,362,998	955,953	(2,500,173)	(7,552)	1,386,399	2,079,625	188,928	2,268,553

Notes:

(a) Capital surplus includes share premium and contribution from DEC. Capital surplus may be used to adjust against the difference between the consideration and the acquired net assets arising from business combination under common control. Included in the balance is part of the share premium amounted to RMB1,282,562,000 (2007: RMB9,147,000) which is not distributable.

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

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

(c) During 2007, the Company acquired 100% equity interest of Dongfang Turbine Co., Ltd. 東方電氣集團東方汽輪機有限公司 ("Dongfang Turbine") and 68.05% equity interest of Dongfang Boiler (Group) Co., Ltd. ("Dongfang Boiler") from DEC (the "Group Reorganisation"), which was accounted for using merger accounting (see Note 2 for details). Merger reserve represents the difference between the par value of the 367,000,000 common shares issued for the purposes of the Group Reorganisation and the share capital of Dongfang Boiler and Dongfang Turbine attributable to DEC.

(d) Upon the Group Reorganisation, the Company further acquired 31.61% equity interest of Dongfang Boiler from DEC in 2008 ("31.61% Acquisition"). The difference between the 31.61% of Dongfang Boiler attributable to DEC and the fair value of the consideration paid and payable for the acquisition is accounted for as equity transaction.

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before tax		391,790	2,754,010
Adjustments for:			
Finance costs		279,470	25,933
Interest income		(147,334)	(104,981)
Realisation of deferred income		(303,945)	(76,405)
Allowance for bad and doubtful debts		286,580	197,358
Loss from 12 May Earthquake		1,535,517	—
Depreciation and amortisation		430,506	312,513
Impairment of available-for-sale investments		15,499	—
Negative goodwill		(7,021)	—
Reversal of write down for inventories		—	(2,380)
Share result of jointly controlled entities		(7,854)	(20,871)
Share result of associates		16,206	44,881
Expense arising from Group Reorganisation		—	87,409
Loss on disposal of property, plant and equipment and intangible asset		34,951	577
Operating cash flows before movements in working capital		2,524,365	3,218,044
Increase in inventories		(8,931,370)	(2,843,464)
Increase in amounts due from associates		(1,270,368)	—
Increase in amounts due from related parties		(956,259)	(188,764)
Increase in trade receivables and other receivables		(2,227,229)	(2,814,880)
Increase in amounts due from customers for contract works		(184,789)	(607,501)
Increase in amounts due to customers for contract works		3,504,111	1,287,236
Increase in amounts due to related parties		1,167,501	1,322,147
Increase in trade payables and other payables		13,383,441	614,117
Increase in other tax liabilities		(312,307)	(35)
Increase in provision		104,588	53,039
Increase in deferred income		356,341	50,123
(Decrease) increase in provision in termination benefit		(212)	29,309
Donation received for 12 May Earthquake	31(i)	402,405	—
Use of donation received for 12 May Earthquake	31(i)	(121,515)	—
Cash from operations		7,438,703	119,371
PRC enterprise income tax paid		(186,415)	(397,134)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		7,252,288	(277,763)

For the Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Decrease in amount due from an associate		–	717
Increase in pledged bank deposits		68,813	137,642
Prepayment for land lease		(501,596)	(15,733)
Purchase of property, plant and equipment		(99,980)	(81,688)
Payment for construction in progress		(1,538,925)	(584,974)
Purchase of intangible assets		(24,804)	(69,929)
Capital contribution in associate		–	(156,693)
Increase in investment cost in jointly controlled entity		–	(19,124)
Dividend received from jointly controlled entity		8,341	17,826
Interest received		147,334	104,981
Acquisition of a subsidiary	37	1,049	–
Proceeds from disposal of property, plant and equipment		–	20,457
NET CASH USED IN INVESTING ACTIVITIES		(1,939,768)	(646,518)
FINANCING ACTIVITIES			
Dividends and distribution paid		(196,080)	(90,000)
Repayment of loans		(200,313)	(209,680)
New loans raised		390,528	
Interest paid		(120,678)	(25,933)
Partial payment of cash consideration paid for the Group Reorganisation		–	(1,000,000)
Expense arising from Group Reorganisation		–	(87,409)
Dividends paid to non-controlling interests		(7,273)	(33,154)
Contribution from non-controlling interests		–	40,051
Amounts due to related parties		440,970	–
Net proceeds from issue of ordinary shares		1,297,393	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		1,214,019	(1,015,597)
NET INCREASE (DECREASE) IN CASH AND DEPOSITS IN BANKS AND A FINANCIAL INSTITUTION		6,526,539	(1,939,878)
CASH AND DEPOSITS IN BANKS AND A FINANCIAL INSTITUTION AT BEGINNING OF THE YEAR		4,813,939	6,753,884
Effects of exchange rate changes on the balance of cash held in foreign currencies		(28,580)	(67)
CASH AND DEPOSITS IN BANKS AND A FINANCIAL INSTITUTION AT THE END OF THE YEAR		11,311,898	4,813,939

1. GENERAL

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

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

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

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

1. GENERAL (CONTINUED)

In 2008, DEC undertook to implement a share exchange offer to purchase unrestricted A shares of Dongfang Boiler. As confirmed by the China Securities Depository and Clearing Compurgation Limited Shanghai Branch in March 2008, DEC exchanged 31.61% unrestricted A shares of Dongfang Boiler which the Company then acquired from DEC ("31.61% Acquisition"). The listing status of Dongfang Boiler was terminated by the Shanghai Stock Exchange since then. Upon the completion of 31.61% Acquisition, the Company holds 99.66% equity interest of Dongfang Boiler and DEC holds 54.02% equity interest of the Company.

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

2. BASIS OF PREPARATION

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

The total consideration for the acquisition of 100% equity interest of Dongfang Turbine and 68.05% equity interest of Dongfang Boiler has been satisfied by the allotment and issue of 367,000,000 common shares of the Company to DEC and a RMB4,252 million cash consideration. RMB1,000 million of which was paid in 2007 and five equal annual instalments totalling RMB2,310 million is payable by the Company to DEC after the completion of the Group Reorganisation which carries interest at 6.08% per annum (see note 27).

The 31.61% Acquisition in 2008 does not result in a change of control in Dongfang Boiler and thus is accounted for as equity transactions (ie transactions with DEC in its capacity as owner). The total consideration for the 31.61% Acquisition has been satisfied by cash consideration representing five equal annual instalments totalling RMB2,799,884,000 payable to DEC after the completion of the 31.61% Acquisition which carries interest at 6.08% per annum.

2. BASIS OF PREPARATION (CONTINUED)

Dongfang Boiler is a joint stock limited company established in the PRC and its A Shares are listed on the Shanghai Stock Exchange since December 1996 and its listing status was terminated in March 2008.

Dongfang Turbine was established on 27 December 2006 in the PRC under the Company Law of the PRC. On the same day, it took over the core business of the manufacture and sale of turbines and related power generation equipment previously carried on by 東方汽輪機廠.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

The Company early applied HKAS 27 (Revised) and HKFRS 3 (Revised) which become effective for the annual periods beginning on or after 1 July 2009 on the accounting treatment of 31.61% Acquisition in 2008. Accordingly, the 31.61% Acquisition is accounted for as equity transactions (ie transactions with parent in its capacity as owner) as the 31.61% Acquisition does not result in a change of control in the Dongfang Boiler. Should the Company not early apply HKAS 27 (Revised) and HKFRS 3 (Revised), goodwill would have been resulted representing the excess of the cost of the business combination over the DEC's attributable interest in the carrying value of the identifiable assets, liabilities and contingent liabilities of Dongfang Boiler recognised.

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

Apart from HKAS 27 (Revised) and HKFRS 3 (Revised), the Company has not early applied the other new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[7]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for transfers on or after 1 July 2009

7 Effective for annual periods ending on or after 30 June 2009

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Business combinations

For business combinations prior to 1 January 2008

Other than the business combination which constitutes reorganisation of entities under common control, the acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

For business combinations prior to 1 January 2008 (Continued)

The interest of minority interest in the acquiree is initially measured at the minority interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

For business combinations after 1 January 2008

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of (i) the amount of those non-controlling interests at the date of the original combination calculated in accordance with HKFRS 3; and (ii) the non-controlling interests' share of changes in equity since the date of the combination.

The interest of non-controlling interests in the acquiree is initially measured at the non-controlling interest's proportion of the fair value of identifiable net assets.

Acquisition-related costs incured to effect a business combination shall be accounted for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities shall be recognised in accordance with HKAS 32 and HKAS 39.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Interests in associates

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly controlled entities

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

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

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

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

Service income is recognised when services are provided.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts

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

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

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grant

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

Taxation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value. Straight-line depreciation method is applied to buildings and motor vehicles and declining-balance method is applied to plant and machinery and furniture, fixtures and equipment.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

Prepaid lease payments

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

Research and development expenditure

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately

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

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments of which interest income is included in net gains or losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities

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

Derecognition

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

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

Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concurring the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for bad and doubtful debts and other receivables

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses. The amount of provision is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2008, the carrying amount of trade receivable is RMB7,984,886,000 (2007: RMB8,525,049,000) (net of allowance for doubtful debts of RMB906,908,000 (2007: RMB718,677,000)).

Provision

Provision has been made for additional costs to repair or replace defective goods, such as labour (whether internal or external) and material costs, and cost that might not be recovered from customers for rework. The provision requires management to estimate the extent of repair and replacements with reference to historical warranty trends and may vary as a result of new materials and altered manufacturing process. Any of these factors may affect the extent of the repair or replacement required and therefore the ultimate repair and replacement costs to be incurred in the future period. As at 31 December 2008, the carrying amount of provision is approximately RMB332,966,000 (2007: RMB228,378,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Construction contract

Revenue from construction contracts of certain products of main thermal power equipment, main hydro power equipment and environment production products for power generation equipment of the Group are recognised by reference to the stage of completion of the contract activity at the balance sheet date. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Should there be a change in these estimates, then will be an impact on the amount of contract revenue or contract loss.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Capital risk management

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

The capital structure of the Group consists of bank borrowings disclosed in note 33, cash and deposits in banks and a financial institution and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

The Group's overall strategy remains unchanged from 2007.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Significant accounting policies

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

(c) Categories of financial instruments

	2008 **Rmb'000**	2007 RMB'000
Financial assets		
Loans and receivables (including cash and deposits in banks and a financial institution)	**20,894,841**	15,010,809
Available-for-sale financial assets	**39,600**	55,099
	20,934,441	15,065,908
Financial liabilities		
Amortised cost	**17,856,575**	7,844,255

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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

(d) Financial risk management objectives

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Financial risk management objectives (Continued)

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

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

(e) Foreign currency risk management

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

(f) Interest rate risk management

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

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

Interest rate sensitivity

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

If interest rates had been 100 basis points (2007: 100 basis points) higher/lower and all other variables were held constant, the Group's:

Post tax profit for the year ended 31 December 2008 would increase/decrease by RMB5,413,000 (2007: increase /decrease by RMB4,608,000). This is mainly attributable to the Group's exposure to interest rates on its bank deposits.

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(g) Credit risk management

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

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

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

(h) Liquidity risk management

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

Liquidity and interest risk tables

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(h) Liquidity risk management (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average interest rate	Repayable on demand	Within 1 year	1-2 year	2-3 year	More than 3 years	Total undiscounted cash flows	Carrying amount at 31 December 2008
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008								
Amounts due to related parties	–	1,101,128	1,096,673	19,465	21,516	–	2,238,782	2,238,782
Amounts due to related parties	6.08%	490,090	1,084,113	1,150,027	1,219,949	2,003,216	5,947,395	5,109,884
Trade and other payables	–	1,067,942	4,585,621	4,192,841	–	–	9,846,404	9,846,404
Borrowings	5.89%	–	231,033	2,613	–	–	233,646	220,535
		2,659,160	6,997,440	5,364,946	1,241,465	2,003,216	18,266,227	17,415,605

	Weighted average interest rate	Repayable on demand	Within 1 year	1-2 year	2-3 year	More than 3 years	Total undiscounted cash flows	Carrying amount at 31 December 2008
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007								
Amounts due to related parties	–	–	1,273,239	16,243	16,243	32,487	1,338,212	1,338,212
Amounts due to related parties	6.08%	–	490,090	519,887	551,496	1,170,054	2,731,527	2,310,000
Trade and other payables	–	1,629,328	2,147,867	–	–	–	3,777,195	3,777,195
Borrowings	5.78%	–	437,231	3,922	2,752	–	443,905	418,848
		1,629,328	4,348,427	540,052	570,491	1,202,541	8,290,839	7,844,255

As at 31 December 2008, advance from immediate holding entity amounting to RMB440,970,000 has not been included in the above table as the amount will be settled by DEC as additional investment in the Company as mentioned in Note 27.

7. REVENUE AND SEGMENT INFORMATION

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

	2008	2007
	Rmb'000	*RMB'000*
Sale of goods	**11,165,046**	10,864,995
Revenue from construction contracts	**15,939,380**	13,199,202
Revenue from engineering and repairing services	**66,916**	34,931
	27,171,342	24,099,128

Business segments

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

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

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

Following the Group Reorganisation, the operation of the Group has been enlarged and the segments become integrated to each others. Sales orders from customers now cover various segments of the Group and the Group places bulk purchase orders of raw materials which will subsequently be assigned to the sales orders. Accordingly, significant part of the corresponding assets and liabilities previously allocated to individual segment are now commonly used among segments. In the opinion of directors, to give details of segment analysis of the assets and liabilities is impracticable.

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Segment information about these businesses is presented below.

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*
External sales	20,314,376	2,596,921	2,617,299	1,642,746	—	27,171,342
Inter-segment sales	3,611	—	—	538,433	(542,044)	—
Total revenue	20,317,987	2,596,921	2,617,299	2,181,179	(542,044)	27,171,342
SEGMENT RESULTS	3,631,199	249,886	300,470	105,872	—	4,287,427
Inter-segment sales are charged at cost prevailing market rate.						
Other income						1,113,915
Distribution expenses						(464,502)
Administrative expenses						(2,721,711)
Loss from 12 May Earthquake						(1,535,517)
Share result of associate						(16,206)
Share result of jointly controlled entities						7,854
Finance costs						(279,470)
Profit before taxation						391,790
Income tax credit						122,739
Profit for the year						514,529

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

2007

	Main thermal power equipment	Main hydro power equipment	Wind power generation sets	Others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Inter-segment sales are charged						
Revenue						
External sales	19,616,680	2,648,361	551,669	1,282,418	—	24,099,128
Inter-segment sales	3,696	—	—	545,910	(549,606)	—
Total revenue	19,620,376	2,648,361	551,669	1,828,328	(549,606)	24,099,128
SEGMENT RESULTS	4,327,030	243,413	45,471	284,740	—	4,900,654
Inter-segment sales are charged at cost prevailing market rate.						
Other income						379,335
Distribution expenses						(385,247)
Administrative expenses						(2,090,789)
Share result of associates						(44,881)
Share result of jointly controlled entities						20,871
Finance costs						(25,933)
Profit before taxation						2,754,010
Income tax expense						(343,018)
Profit for the year						2,410,992

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

2007 (Continued)

	Main thermal power equipment	Main hydro power equipment	Wind power generation sets	Others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS						
Segment assets	14,464,758	3,707,223	318,989	854,045	–	19,345,015
Unallocated corporate assets						16,772,866
Consolidated total assets						36,117,881
LIABILITIES						
Segment liabilities	9,527,539	829,665	1,503,301	381,407	–	12,241,912
Unallocated corporate liabilities						20,476,805
Consolidated total liabilities						32,718,717
OTHER INFORMATION						
Allowance for bad and doubtful debts	144,233	44,510	2,526	6,089	–	197,358
Amortisation of intangible asset	25,769	–	–	–	–	25,769
Loss on disposal of property, plant and equipment	577	–	–	–	–	577

Geographical segments

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

8. OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Interest income	**147,334**	104,981
Consultancy service income	**165,925**	93,263
Release of government grant for the property, plant and equipment *(Note 35)*	**303,945**	76,405
Donation for the 12 May Earthquake from *(Note 31(i))*:		
— general public	**352,405**	—
— government	**50,000**	—
Gain from sales of scrap materials	**77,355**	97,759
Rental income	**550**	544
Net foreign exchange gain	**1,555**	—
Others	**14,846**	6,383
	1,113,915	379,335

9. LOSS FROM 12 MAY EARTHQUAKE

There was an earthquake with a magnitude of 8.0 on the Richter scale struck Wenchuan area of Sichuan Province on 12 May 2008 ("12 May Earthquake"). The urban areas of Chengdu and Deyang and Zigong City, where the Company and its subsidiaries are located, were affected. In the 12 May Earthquake, the production facilities for the steam turbine operation of Dongfang Turbine in Hanwang Town of Mianzhu, Sichuan Province were seriously damaged.

After assessing the net realisable value of the inventories, recoverable amount of property, plant and equipment and construction in progress and the future usage of the land, loss of RMB1,535,517,000 arising from full written off of inventories, property, plant and equipment and construction in progress and full impairment of land no longer in use recognised as follows:

	RMB'000
Written off of inventories	1,106,838
Written off of property, plant and equipment	239,635
Written off of construction in progress	147,134
Impairment of prepaid lease payment	41,910
	1,535,517

10. FINANCE COSTS

	2008 **RMB'000**	2007 *RMB'000*
Bank loans and other borrowings wholly repayable within five years	**2,386**	3,903
Interest on amounts due to related parties	**277,084**	22,030
	279,470	25,933

11. INCOME TAX CREDIT (EXPENSE)

	2008 **RMB'000**	2007 *RMB'000*
PRC enterprise income tax		
— Current year	**76,043**	392,691
— Overprovision in prior years	**(1,637)**	—
	74,406	392,691
Deferred tax *(Note 24)*	**(197,145)**	(49,673)
	(122,739)	343,018

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

11. INCOME TAX CREDIT (EXPENSE) (CONTINUED)

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

	2008 RMB'000	2007 RMB'000
Profit before tax	**391,790**	2,754,010
Tax charge at enterprise tax rate of 15% (2007: 15%) *(a)*	**58,769**	413,102
Tax effect of income not taxable for tax purpose	**(100,441)**	(14,408)
Tax effect of share of result of associates	**2,431**	6,376
Tax effect of share of result of jointly controlled entities	**(1,178)**	(3,129)
Tax effect of expenses not deductible for tax purpose	**66,157**	2,464
Tax effect of tax benefits *(b)*	**(56,616)**	(61,987)
Tax exemption for 12 May Earthquake *(c)*	**(111,344)**	—
Tax effect of tax losses not recognised	**42,108**	—
Effect of excess of applicable tax rate for deferred tax over current tax on deductible temporary difference	**(18,110)**	—
Overprovision in respect of prior years	**(1,637)**	—
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	**(2,878)**	600
Tax charge for the year	**(122,739)**	343,018

11. INCOME TAX CREDIT (EXPENSE) (CONTINUED)

Note:

(a) Applicable income tax rate of 15% represents the relevant income tax rate of the Company, 東方電氣集團東方電機有限公司 ("Dongfang Machinery"), Dongfang Boiler and Dongfang Turbine, which are the major entities of the Group.

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

(c) Pursuant to No.65 [2008] issued by the tax bureau of Deyang, Dongfang Machinery is exempted for enterprise income tax for the year 2008 as Dongfang Machinery is located in the area of 12 May Earthquake.

Pursuant to《關於支持汶川地震災後恢復重建有關稅收政策問題的通知》, Dongfang Turbine is exempted for enterprise income tax for the year 2008 as Dongfang Turbine is located in the area of 12 May Earthquake.

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in Shenzhen was increased from 15% to 25% progressively from 1 January 2008 onwards. The enterprise tax rate of other PRC subsidiaries of the Company would be 25% from 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2007: 15% to 25%).

The enterprise tax rate of Dongfang Electric (India) Private Limited ("Dongfang India") is 30%.

12. PROFIT FOR THE YEAR

	2008 **RMB'000**	2007 *RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Salaries and wages	**1,454,286**	1,167,272
Retirement benefits scheme contributions		
— defined contribution plans *(Note 40)*	**173,184**	144,565
Staff welfare	**150,240**	148,147
Housing fund *(Note 40)*	**145,430**	117,974
Termination benefits *(Note 40)*	**39,409**	69,314
Total staff cost *(Note a)*	**1,962,549**	1,647,272
Auditor's remuneration	**4,100**	3,600
Amortisation of intangible assets *(Note c)*	**21,033**	25,769
Amortisation of prepaid lease payments *(Note c)*	**4,981**	10,419
Allowance for bad and doubtful debts	**286,580**	197,358
Cost of inventories recognised as an expense	**22,883,915**	19,200,854
Depreciation on property, plant and equipment	**402,866**	274,699
Depreciation on investment properties	**1,626**	1,626
Impairment loss on available-for-sale investments *(Note c)*	**15,499**	—
Loss on disposal of property, plant and equipment	**34,640**	577
Loss on disposal of intangible assets	**311**	—
Reversal of write down for inventories *(Note b)*	**—**	(2,380)
Negative goodwill (included in other income)	**(7,021)**	—
Rental expense	**12,394**	3,758
Research and development expenditure *(Note c)*	**492,637**	468,747
Net foreign exchange (gains) losses	**(1,555)**	6,933
Share of tax of associates (included in share of result of associates)	**2,040**	448
12 May Earthquake rehabilitation cost and resettlement cost for affected employees	**402,405**	—
Gross rental income from investment properties	**(604)**	(592)
Less: direct operating expenses from investment properties that generated rental income during the year	**54**	48
	(550)	(544)

12. PROFIT FOR THE YEAR (CONTINUED)

Note:

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

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

(c) Included in administrative expense.

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2007: 18) directors and supervisors were as follows:

For the year ended 31 December 2008

	Director						Independent non-executive directors			Supervisors			
	Si Zefu	Zhu Yuanchao	Wen Shugang	Li Hongdong	Zhang Xiaolun	Zhang Jilie	Chen Zhangwu	Xie Songlin	Zheng Peimin	Wen Bingyou	Wen Limin	Ma Zonggiong	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	–	–	–	–	–	–	50	50	50	–	–	–	150
Basic salaries and allowances	489	441	441	561	441	416	–	–	–	–	–	–	2,789
Retirement benefits scheme contributions	16	15	15	15	15	12	–	–	–	–	–	–	88
Total	505	456	456	576	456	428	50	50	50	–	–	–	3,027

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The emoluments paid or payable to each of the 12 (2007: 18) directors and supervisors were as follows: (Continued)

For the year ended 31 December 2007

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

* Emoluments paid by DEC.

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

The five highest paid individuals in the Group in 2008 and 2007 were all directors and supervisors of the Company and details of their emoluments are included above.

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

14. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
The Company		
Dividends recognised as distribution during the year:		
2007 final dividend of RMB0.24		
(2007: 2006 final dividend of RMB0.2) per ordinary share	**196,080**	90,000

The final dividend of RMB0.02 (2007: RMB0.24) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. EARNINGS PER SHARE

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

	2008	2007
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to shareholders of the parent)	**479,904**	2,224,475
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**822,417**	817,000

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

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2007	–	1,106,441	2,572,072	251,911	116,022	4,046,446
Transfer from construction in progress	–	160,856	390,924	35,811	–	587,591
Additions	–	20,636	29,755	8,197	23,100	81,688
Disposals/written off	–	(33,803)	(31,572)	(12,767)	(2,087)	(80,229)
At 31 December 2007	–	1,254,130	2,961,179	283,152	137,035	4,635,496
Transfer from construction in progress	–	63,967	403,761	33,992	12,899	514,619
Additions	32,128	1,982	55,045	7,706	3,119	99,980
Acquired on acquisition of a subsidiary	–	50,426	39,907	288	63	90,684
Disposals/written off	–	(35,678)	(51,269)	(55,885)	(1,830)	(144,662)
Written off on 12 May Earthquake	–	(182,328)	(202,830)	(76,884)	(812)	(462,854)
At 31 December 2008	32,128	1,152,499	3,205,793	192,369	150,474	4,733,263
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	–	450,303	1,420,054	153,350	58,375	2,082,082
Charge for the year	–	50,440	177,920	32,931	13,408	274,699
Eliminated on disposals/written off	–	(15,241)	(29,221)	(12,767)	(1,966)	(59,195)
At 31 December 2007	–	485,502	1,568,753	173,514	69,817	2,297,586
Charge for the year	–	45,026	298,181	42,410	17,249	402,866
Eliminated on disposals/written off	–	(29,371)	(26,291)	(53,541)	(819)	(110,022)
Written off on 12 May Earthquake	–	(84,550)	(98,185)	(39,851)	(633)	(223,219)
At 31 December 2008	–	416,607	1,742,458	122,532	85,614	2,367,211
NET BOOK VALUES						
At 31 December 2008	32,128	735,892	1,463,335	69,837	64,860	2,366,052
At 31 December 2007	–	768,628	1,392,426	109,638	67,218	2,337,910

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

The freehold land is situated in India.

As at 31 December 2008, the Company has not obtained the building ownership certificates for certain buildings with net book value of approximately RMB123,164,000 (2007: RMB129,592,000). All the buildings are located in the PRC.

	Useful lives
Freehold land	Infinity
Buildings for production	20
Buildings for non-production	25
Plant and machinery	10
Furniture, fixtures and equipment	5-6
Motor vehicles	6

17. CONSTRUCTION IN PROGRESS

	2008 **RMB'000**	2007 RMB'000
COST		
As at 1 January	**312,086**	314,703
Acquired on acquisition of a subsidiary *(Note 37)*	**27,440**	—
Additions	**1,538,925**	584,974
	1,878,451	899,677
Transfer to property, plant and equipment	**(514,619)**	(587,591)
Written off on 12 May Earthquake	**(147,134)**	—
As at 31 December	**1,216,698**	312,086

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments are analysed for reporting purpose as follows:

	2008	2007
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current portion	**5,624**	10,419
Non-current portion	**640,986**	181,486
	646,610	191,905

Included in the balance is an approximately RMB239,076,000 non-current portion prepaid lease payment which the Group is in the process of obtaining the land use right certificate for the medium-term leasehold land.

The other amounts represent the medium-term land use rights situated in the PRC for a period of 50 years.

19. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2007, 31 December 2007 and 2008	42,145
ACCUMULATED DEPRECIATION	
At 1 January 2007	4,837
Provided for the year	1,626
At 31 December 2007	6,463
Provided for the year	1,626
At 31 December 2008	8,089
CARRYING VALUES	
At 31 December 2008	34,056
At 31 December 2007	35,682

19. INVESTMENT PROPERTIES (CONTINUED)

The Group obtained the building ownership certificates and land use right certificates of certain investment properties with fair value of approximately RMB18,890,000 and RMB19,230,000 at 31 December 2008 and 31 December 2007 respectively.

For the investment property which the Group has not obtained the building ownership certificate and land use right certificate, the net book value is approximately RMB21,693,000 and RMB22,721,000 at 31 December 2008 and 31 December 2007 respectively. Should the Group obtain the building ownership certificate and land use right certificate of the said property, its fair value would be RMB33,100,000 (2007: RMB34,100,000).

The fair value has been arrived at based on a valuation carried out by Vigers Asia Pacific Ltd., an independent valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties.

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

20. INTANGIBLE ASSETS

	Technology know-how *RMB'000*	Computer software and telecommunication system *RMB'000*	Total *RMB'000*
COST			
At 1 January 2007	149,049	3,436	152,485
Additions	68,451	1,478	69,929
At 31 December 2007	217,500	4,914	222,414
Additions	19,750	5,054	24,804
Disposal	—	(1,348)	(1,348)
At 31 December 2008	237,250	8,620	245,870
AMORTISATION			
At 1 January 2007	87,048	1,396	88,444
Charge for the year	25,118	651	25,769
At 31 December 2007	112,166	2,047	114,213
Charge for the year	18,302	2,731	21,033
Elimination of disposal	—	(1,037)	(1,037)
At 31 December 2008	130,468	3,741	134,209
CARRYING VALUES			
At 31 December 2008	106,782	4,879	111,661
At 31 December 2007	105,334	2,867	108,201

20. INTANGIBLE ASSETS (CONTINUED)

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

21. INTERESTS IN ASSOCIATES

	2008 ***RMB'000***	2007 *RMB'000*
Cost of investment in unlisted associates unlisted in the PRC	**256,490**	256,490
Share of post-acquisition losses and reserves	**(97,622)**	(81,416)
	158,868	175,074

As at 31 December 2008, the Group had interests in the following associates:

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

21. INTERESTS IN ASSOCIATES (CONTINUED)

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

	2008	2007
	RMB'000	*RMB'000*
Total assets	**2,949,641**	1,762,732
Total liabilities	**(2,536,407)**	(1,234,486)
Net assets	**413,234**	528,246
Revenue	**810,444**	62,574
Loss for the year	**(56,563)**	(153,444)
Group's share of result of associates for the year	**(16,206)**	(44,881)

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008	2007
	RMB'000	*RMB'000*
Cost of unlisted investments in jointly controlled entities	**76,637**	76,637
Share of post-acquisition profits, net of dividends received	**44,244**	44,731
	120,881	121,368

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

As at 31 December 2008, the Group had interests in the following significant jointly controlled entities:

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

The summarised financial information related to the Group's interest in jointly controlled entities which are accounted for using the equity method is set out below:

	2008 **RMB'000**	2007 RMB'000
Total assets	**414,092**	261,620
Total liabilities	**293,211**	140,252
Income	**377,918**	270,668
Expenses	**370,064**	249,797

23. AVAILABLE-FOR-SALE INVESTMENTS

As at 31st December 2008, the investments are as follow:

	2008	2007
	RMB'000	*RMB'000*
Unlisted equity securities, at cost	**57,720**	57,720
Less: impairment losses recognised	**(18,120)**	(2,621)
	39,600	55,099

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

Certain available-for-sale investments represent investment in equities that are located in the earthquake area. Accordingly, the directors of the Company consider the corresponding carrying costs have been fully impaired.

24. DEFERRED TAX ASSETS

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

	Warranty provision	Accrual for payroll	Loss on construction contracts	Allowance on inventory	Deprecation allowance	Allowance on trade and other receivables	Tax loss (note)	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'00*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax asset									
At 1 January 2007	27,751	47,435	33,832	6,587	5,201	112,974	–	770	234,550
Credit (debit) to consolidated income statement	6,506	770	(3,634)	4,137	2,401	39,997	–	(504)	49,673
At 31 December 2007	34,257	48,205	30,198	10,724	7,602	152,971	–	266	284,223
Credit (debit) to consolidated income statement	15,686	(659)	(5,656)	(3,326)	21,503	57,595	109,211	2,791	197,145
At 31 December 2008	49,943	47,546	24,542	7,398	29,105	210,566	109,211	3,057	481,368

24. DEFERRED TAX ASSETS (CONTINUED)

At the balance sheet date, the Group has unused tax losses of approximately RMB317,892,000 (2007:RMB21,925,000) available for offset against future profits. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is uncertain whether taxable profit of the corresponding group entities will be available against which the deductible temporary differences can be utilised. Included in unrecognised tax losses are losses of approximately RMB3,743,000 (2007: RMB5,224,000), RMB16,701,000 (2007: RMB16,701,000) and RMB297,448,000 (2007: nil) that will expire in 2011, 2012 and 2013 respectively.

Note: The deferred tax asset represents the approximately RMB728,000,000 tax loss of Dongfang Turbine which will expire in 2013.

25. INVENTORIES

	2008 ***RMB'000***	2007 *RMB'000*
Raw materials and consumables	**6,949,009**	3,783,232
Work in progress	**12,495,085**	7,887,585
Finished goods	**399,527**	362,254
Spare parts and consumables	**27,071**	6,986
	19,870,692	12,040,057

26. AMOUNTS DUE FROM ASSOCIATES

Amounts represent the advance payments to associates for contract works and are unsecured and interest free. The directors consider the construction works would be completed within twelve months from the balance sheet date and the fair values approximate the carrying amounts.

27. AMOUNTS DUE FROM/TO RELATED PARTIES

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

	2008	2007
	RMB'000	*RMB'000*
Amounts due from related parties due within one year		
Trade receivables:		
Fellow subsidiaries	**665,124**	372,353
Immediate holding entity	**977,204**	629,925
Less: allowance for doubtful debts	**(181,789)**	(83,440)
	1,460,539	918,838
Prepayment for materials and contract work:		
Fellow subsidiaries	**788,470**	389,878
Immediate holding entity	**657**	83,040
	789,127	472,918
	2,249,666	1,391,756

27. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

	2008 RMB'000	2007 RMB'000
Amounts due to related parties		
Trade payables:		
Fellow subsidiaries	**1,136,234**	391,295
Immediate holding entity	**1,420**	4,581
	1,137,654	395,876
Receipt in advance:		
Fellow subsidiaries	**874,767**	824,618
Immediate holding entity	**2,216,590**	1,841,016
	3,091,357	2,665,634
Cash consideration payable to immediate holding entity for:		
Group Reorganisation *(Note a)*	**3,252,336**	3,252,336
31.61% Acquisition *(Note b)*	**2,799,884**	—
	6,052,220	3,252,336
Interest payable to immediate holding entity	**158,792**	—
Advance from immediate holding entity for 12 May Earthquake *(Note c)*	**440,970**	—
	10,880,993	6,313,846
Analysed for reporting purpose:		
Current position	**7,255,085**	4,465,846
Non-current position	**3,625,908**	1,848,000
	10,880,993	6,313,846

27. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

Note a: The RMB3,252,336,000 (2007: RMB3,252,336,000) represents the remaining cash consideration payable to DEC arising from the Group Reorganisation in 2007, which represents a payable to DEC of RMB942,336,000 that is interest free and five equal annual instalments totalling RMB2,310,000,000 payable to DEC after the completion of the Group Reorganisation which carries interest at 6.08% per annum. Accordingly, RMB1,386,000,000 (2007: RMB1,848,000,000) is payable to DEC after one year from the balance sheet date. The payment schedule is mutually agreed between the Company and DEC.

Note b: The RMB2,799,884,000 represents the cash consideration payable to DEC arising from the 31.61% Acquisition in 2008, which represents five equal annual instalments totalling RMB2,799,884,000 payable to DEC after the completion of the 31.61% Acquisition which carries interest at 6.08% per annum. Accordingly, RMB2,239,908,000 is payable to DEC after one year from the balance sheet date.

Note c: Pursuant to the Notice 417 [2008] "Rehabilitation planning and feasibility study of the relocation of the Hanwang production plant of Dongfang Turbine" issued by the Bureau of Planning and Development of State-owned Assets Supervision and Administration Commission of the State Council, the total cost of the rehabilitation of Dongfang Turbine is RMB5.097 billion; of which RMB1.5 billion would be contributed from the State as state-owned capital to the Company; RMB2 billion from bank borrowings and the remaining from the Group's internal resources. The rehabilitation work is expected to be completed by two and a half year.

Pursuant further to the Notice 318 [2008] issued by the Ministry of Finance ("MOF") "Regarding the notice from Ministry of Finance on the 2008 Central State capital budget allocated to Dongfang Electric Corporation" and Notice 397 of 2008 issued by MOF "Regarding the allocation of funds for rehabilitation of Central enterprises in Wenchuan earthquake disaster area", a total of RMB440.97 million and RMB559.03 million was received by the Company on 25 December 2008 and 16 January 2009. The aggregate of RMB1.0 billion shall be used for the rehabilitation of Dongfang Turbine only and the amount would be capitalised as an additional investment in Dongfang Turbine by the Company and, inter alia, an additional investment in the Company by DEC, respectively, subject to the satisfactory completion of the relevant procedures and conditions for the capital increases.

At the balance sheet date, the amount of RMB440.97 million was recorded as current account with DEC.

Apart from as mentioned above, other balances with related parties are interest free and unsecured. In respect to the trade balances, the general credit period offer to/from related parties is two to three years. The directors consider the carrying amounts of amounts due from and to related parties approximate their fair values.

27. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

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

	2008 **RMB'000**	2007 RMB'000
Within 1 year	**976,090**	577,702
1 - 2 years	**183,705**	316,272
2 - 3 years	**288,709**	24,578
More than 3 years	**12,035**	286
	1,460,539	918,838

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

	2008 **RMB'000**	2007 RMB'000
2 - 3 years	**77,153**	24,578
More than 3 years	**12,035**	286
	89,188	24,864

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

Movements in allowance of doubtful trade receivables due from related parties during the year are as follows:

Movement in the allowance for doubtful debts

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**83,440**	111,683
Increase (decrease) in allowance recognised in profit or loss	**98,349**	(28,243)
Balance at end of the year	**181,789**	83,440

27. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

Movement in the allowance for doubtful debts (Continued)

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

	2008	2007
	RMB'000	*RMB'000*
Within 1 year	**1,089,690**	368,137
1 - 2 years	**19,465**	15,684
2 - 3 years	**21,516**	7,231
More than 3 years	**6,983**	4,824
	1,137,654	395,876

28. TRADE AND OTHER RECEIVABLES

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

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

	2008	2007
	Rmb'000	*RMB'000*
Trade receivables	**8,891,794**	9,243,726
Less: allowance for doubtful debts	**(906,908)**	(718,677)
	7,984,886	8,525,049
Prepayment for raw materials	**6,560,402**	4,002,618
Deposits and other receivables	**121,346**	73,743
	14,666,634	12,601,410

Included in the trade receivables is bills receivables amounted to RMB143,350,000 (2007: RMB755,264,000) aged within one year.

28. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2008	2007
	Rmb'000	*RMB'000*
Within 1 year	**4,697,262**	5,700,121
1 - 2 years	**2,040,215**	1,990,857
2 - 3 years	**853,186**	691,570
More than 3 years	**394,223**	142,501
	7,984,886	8,525,049

Before accepting any new customer, the Group carries out research on the creditworthiness of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. For the year ended 31 December 2008, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 17.9% (2007: 12.2%) of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 7.26% (2007: 5.6%) of the Group's total turnover. There is no customer who represents more than 5% (2007: 5%) of the total balance of trade debtors. In the opinion of directors, trade and other receivables not past due nor impaired are of good credit quality at the balance sheet dates.

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

	2008	2007
	Rmb'000	*RMB'000*
1 - 2 years	**—**	1,904
2 - 3 years	**20,466**	21,467
More than 3 years	**10,735**	29,938
	31,201	53,309

28. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Movements in allowance for doubtful debts of trade receivables during the year are as follows:

Movement in the allowance for doubtful debts

	2008	2007
	Rmb'000	*RMB'000*
Balance at beginning of the year	**718,677**	493,076
Increase in allowance recognised in profit or loss	**188,231**	225,601
Balance at end of the year	**906,908**	718,677

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

29. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2008	2007
	Rmb'000	*RMB'000*
Contracts in progress at the balance sheet date		
Contract costs incurred plus		
recognised profits less recognised losses	**13,407,390**	3,133,790
Less: progress billings	**(22,205,076)**	(8,612,154)
	(8,797,686)	(5,478,364)
Analysed for reporting purposes as:		
Amounts due from customers for contract works	**1,627,629**	1,442,840
Amounts due to customers for contract works	**(10,425,315)**	(6,921,204)
	(8,797,686)	(5,478,364)

Included in the trade receivables is retentions held by customers for contract works amounted toRMB2,868,222,000 (2007: RMB3,576,666,000). RMB1,650,867,000 (2007: RMB1,387,920,000) of the retention receivables would be settled after twelve months from the balance sheet date.

30. PLEDGED BANK DEPOSITS/CASH AND DEPOSITS IN BANKS AND A FINANCIAL INSTITUTION

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

The weighted average effective interest rates on pledged bank deposits and cash and deposits in banks and a financial institution as at 31 December 2008 were ranged from 1.35% to 1.71% (2007: 2.25% to 3.6%) and 0.36% (2007: 0.72%) respectively.

Included in the balance is an approximately RMB280,890,000 bank deposits received for the donation for 12 May Earthquake, the usage of which is restricted to the said event (Note 31(i)).

31. TRADE PAYABLES AND OTHER PAYABLES

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

	2008	2007
	Rmb'000	*RMB'000*
Within 1 year	**8,497,572**	3,258,657
1 - 2 years	**140,056**	167,384
2 - 3 years	**83,409**	—
	8,721,037	3,426,041
Receipt in advance	**21,383,489**	13,735,170
Accrual for 12 May Earthquake rehabilitation and resettlement cost *(Note i)*	**280,890**	—
Other payables and accruals	**844,477**	351,154
	31,229,893	17,512,365

Included in the trade payables is bills payables amounting to RMB2,227,238,000 (2007: RMB1,591,487,000) aged within one year. Included in the other payables is retentions payable to customers for contract works approximately amounted to RMB272,002,000 (2007: RMB167,384,000).

31. TRADE PAYABLES AND OTHER PAYABLES (CONTINUED)

Note (i):

During the year, the Group received donations amounting to RMB402,405,000 from the general public and the government for the 12 May Earthquake. The Group has specifically formed a committee to govern and closely monitor the utilization of the donations. The committee decided to restrict the usage of the donations to rehabilitation of the disaster area and resettlement of the affected employees of the Group. The balance of RMB280,890,000, kept at designated bank accounts of the Group, represents the amount not yet paid at year end.

32. OTHER TAX ASSET/LIABILITIES

	2008	2007
	Rmb'000	*RMB'000*
Value added tax input	**453,109**	—
Value added tax output	**(180,473)**	(53,551)
Business tax	**(3,452)**	(756)
Property tax	**(276)**	(7,157)
Stamp duty	**(4,891)**	(5,233)
Education tax	**(9,360)**	(67)
City maintenance tax	**(5,670)**	(780)
Others	**(9,709)**	(5,485)
	239,278	(73,029)
Analysed for reporting purpose as:		
Other tax asset	**453,109**	—
Other tax liabilities	**(213,831)**	(73,029)
	239,278	(73,029)

33. BORROWINGS

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

	2008	2007
	Rmb'000	*RMB'000*
Bills discounted with recourse	**—**	398,348
Unsecured bank loans	**191,535**	10,000
Secured bank loans	**15,000**	—
Unsecured other loans	**14,000**	10,500
	220,535	418,848
Carrying amount repayable:		
On demand or within one year	**218,215**	413,028
More than one year, but not exceeding two years	**2,320**	5,820
	220,535	418,848
Less:		
Amount due within one year shown under current liabilities	**(218,215)**	(413,028)
Amount due after one year	**2,320**	5,820

As at 31 December 2007, the bill discounted with recourse are fixed-rate which carry interest at 5.86% per annum.

As at 31 December 2008, the bank loans are fixed-rate borrowings which carry interest at 6.12% per annum. Approximately RMB19,280,000 (2007: RMB18,830,000) property, plant and equipment and RMB19,690,000 (2007: RMB19,289,000) intangible assets are pledged for the secured bank loans.

33. BORROWINGS (CONTINUED)

As at 31 December 2008, other loans are fixed-rate borrowings which carry interest at 2.55% (2007: 2.55% to 6.39%) per annum.

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

34. PROVISIONS

	Warranty
	RMB'000
At 1 January 2007	175,339
Provided for the year	128,290
Amount utilised	(75,251)
At 31 December 2007	228,378
Provided for the year	182,160
Amount utilised	(77,572)
At 31 December 2008	332,966

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

35. DEFERRED INCOME

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

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

	2008	2007
	Rmb'000	*RMB'000*
At 1 January	**897,859**	924,141
Additions	**356,341**	50,123
Release to consolidated income statement (a)	**(303,945)**	(76,405)
At 31 December	**950,255**	897,859
Analysed for reporting purposes as:		
Current portion	**149,446**	86,438
Non-current portion	**800,809**	811,421
	950,255	897,859

Note a: Included in RMB303,945,000 above is RMB207,520,000 release of government grant for the property, plant and equipment of Dongfang Turbine in Hanwang Town of Mianzhu which were damaged in the 12 May Earthquake.

36. SHARE CAPITAL OF THE COMPANY

	Restricted circulating state-owned domestic shares	A shares	H shares	Total
Authorised, issued and fully paid:				
Number of shares	*'000*	*'000*	*'000*	*'000*
1 January 2007	570,800	76,200	170,000	817,000
Transfer (a)	(22,500)	22,500	—	—
31 December 2007	548,300	98,700	170,000	817,000
Issued during the year (b)	—	65,000	—	65,000
Transfer (c)	(152,722)	152,722	—	—
31 December 2008	395,578	316,422	170,000	882,000
Share capital	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2007	570,800	76,200	170,000	817,000
Transfer (a)	(22,500)	22,500	—	—
31 December 2007	548,300	98,700	170,000	817,000
Issued during the year (b)	—	65,000	—	65,000
Transfer (c)	(152,722)	152,722	—	—
31 December 2008	395,578	316,422	170,000	882,000

(a) 22,500,000 restricted circulating state-owned domestic shares became circulating in 2007 as confirmed by China Securities Regulatory Commission.

(b) In order to finance the 31.61% Acquisition and the Group's development, as approved by China Securities Regulatory Commission in 9 September 2008, the Company issued 65,000,000 A shares at RMB20.5 per share. The allocation was made in November 2008 to the existing shareholders of A share. The new shares rank pari passu with the existing shares in all respects.

(c) Approximately 152,722,000 restricted circulating state-owned domestic shares were converted to circulating A shares on 10 March 2008, 6 June 2008 and 4 August 2008 as confirmed by China Securities Regulatory Commission.

37. ACQUISITION OF A SUBSIDIARY

On 29 December 2008, the Group acquired 67% of the equity interest of 武漢鍋爐集團核設備製造有限公司 ("Wuhan Nuclear") which was established on 18 November 2008 by way of RMB131,560,000 capital injection to Wuhan Nuclear. This acquisition has been accounted for using the purchase method. The amount of negative goodwill arising as a result of the acquisition of RMB7,021,000 was recorded in other income.

The net assets acquired in the transaction, and the negative goodwill arising, are as follows:

	Acquiree's carrying amount before combination and fair value *RMB'000*
Net assets acquired:	
Property, plant and equipment	90,684
Construction in progress	27,440
Inventories	6,103
Other receivables	5,198
Bank balances and cash	132,609
Other payable	(53,197)
Borrowings	(2,000)
	206,837
Non-controlling interests	(68,256)
Negative goodwill (included in other income)	(7,021)
Total consideration satisfied by:	
Cash	131,560
Net cash inflow arising on acquisition:	
Cash consideration paid	(131,560)
Bank balances and cash acquired	132,609
	1,049

There is no contribution from Wuhan Nuclear to the Group's profit and revenue for the year.

38. OPERATING LEASE ARRANGEMENTS

The Group as lessor

The investment properties of the Group are expected to generate rental yields of 3.38% (2007: 3.13%) on an ongoing basis. All of the properties held have committed tenants for one year in average.

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

	2008	2007
	Rmb'000	*RMB'000*
Within one year	**485**	119
In the second year	**131**	—
In the third year	**31**	—
Total	**647**	119

The Group as lessee

	2008	2007
	Rmb'000	*RMB'000*
Minimum lease payments paid under operating leases during the year:		
Properties	**12,394**	8,364

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

	2008	2007
	Rmb'000	*RMB'000*
Within one year	**15,529**	5,153
In the second year	**375**	—
	15,904	5,153

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

39. CAPITAL COMMITMENTS

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

	2008	2007
	Rmb'000	*RMB'000*
Capital expenditure for the acquisition of:		
Construction in progress		
— contracted for but not provided in the consolidated financial statements	**2,915,020**	485,837

At 31 December 2007, the Company has commitment to acquire the remaining 31.95% equity interest in Dongfang Boiler from DEC at a consideration of up to a maximum of RMB2,830 million subject to the remaining shareholders of Dongfang Boiler to accept the acquisition offer from DEC which will expire in January 2008.

40. RETIREMENT BENEFITS PLANS AND HOUSING FUND

The employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. For the year ended 31 December 2008, the retirement benefits scheme contributions made by the Group amounted to RMB173,184,000 (2007: RMB144,565,000).

The Group's full-time employees are entitled to a housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund on 11% of employees' salaries. From 1 February 2005, the contribution rate was changed to 15%. For the year ended 31 December 2008, the housing fund contributions made by the Group amounted to RMB145,430,000 (2007: RMB117,924,000).

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

40. RETIREMENT BENEFITS PLANS AND HOUSING FUND (CONTINUED)

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

	Termination benefit *RMB'000*
At 1 January 2007	52,136
Additional provision for the year	69,314
Amount paid	(40,005)
At 31 December 2007	81,445
Addition provision for the year	39,409
Amount paid	(39,621)
At 31 December 2008	81,233

	2008 *Rmb'000*	2007 *RMB'000*
Reported as:		
Current liabilities	**12,150**	16,472
Non-current liabilities	**69,083**	64,973
	81,233	81,445

41. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclose in Note 1, 2 and 27, during the year, the Group entered into the following transactions with related parties:

(a) Transactions with DEC and its subsidiaries and Group's associates and jointly controlled entities:

	2008	2007
	Rmb'000	*RMB'000*
Expenditure		
— Interest paid and payable	**277,084**	22,030
— Purchase of raw materials	**2,778,427**	2,251,687
— Freight and maintenance	**—**	210,448
— Sub-contracting services	**1,169,306**	878,778
— Management fee	**19,054**	4,193
— Rental expenses	**—**	3,779
— Others	**—**	136
	4,243,871	3,371,051
Revenue		
— Sale of finished goods	**3,053,630**	2,400,214
Other income		
— Provision of power supply	**53,114**	9,854
— Interest income	**9,412**	11,529
— Others	**—**	61
	62,526	21,444

41. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Current accounts with related parties are as follows

Name of related company	Related balances	2008 RMB'000	2007 RMB'000
DEC and its subsidiaries	Other receivables	**60,781**	24,101
	Bills receivables	**11,000**	—
	Other payables	**65,831**	2,888
	Bills payables	**205,079**	184,347
DEC Finance Company (subsidiary of DEC)	Deposits	**1,104,626**	360,818

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

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

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

	2008 Rmb'000	2007 RMB'000
Sales	**25,222,612**	19,498,352
Purchases	**9,138,456**	5,882,441
Amounts due from other state-controlled entities	**11,304,130**	7,648,315
Amounts due to other state-controlled entities	**30,240,783**	18,602,090

41. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Compensation of key management personnel

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

	2008	2007
	Rmb'000	*RMB'000*
Short-term employee benefits	**4,972**	2,212
Post-employment benefits	**312**	142
	5,284	2,354

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

There is no remuneration of directors and supervisors paid by DEC in 2008. In 2007, the remuneration of four directors and one supervisor were paid by DEC.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 December 2008, the details of principal subsidiaries of the Company are as follow:

Name of subsidiary	Place/country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital '000	Proportion ownership interest held by the Company Directly % 2008	Directly % 2007	Indirectly % 2008	Indirectly % 2007	Proportion of voting power held by the Company 2008	2007	Principal activities
Dongfond Turbines	PRC	Registered capital	RMB1,846,000	**100.00**	100.00	**–**	–	**100**	100.00	Design, manufacture and sales of Turbines
Dongfang Boiler	PRC	Registered capital	RMB401,415	**99.66**	68.05	**–**	–	**99.66**	68.05	Design, manufacture and sales of boiler
Dongfang Machinery	PRC	Registered capital	RMB2,000,000	**100.00**	N/A	**–**	–	**100**	N/A	Design, manufacture and sales of thermal power equipment, main hydro power equipment etc.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

As at 31 December 2008, the details of principal subsidiaries of the Company are as follow: (Continued)

Name of subsidiary	Place/country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital '000	Proportion ownership interest held by the Company Directly %		Indirectly %		Proportion of voting power held by the Company		Principal activities
				2008	2007	**2008**	2007	**2008**	2007	
DFEM Equipment Engineering Co., Ltd. *(a)*	PRC	Registered capital	RMB13,500	**–**	97.04	**–**	0.74	**–**	97.78	Provision of services for repair and upgrade of electrical machinery equipment
DFEM Power Equipment	PRC	Registered capital	RMB42,754	**–**	98.83	**98.83**	–	**98.83**	98.83	Manufacture and sales of AC/DC electrical motors
DFEM Tooling and Moulding Co., Ltd.	PRC	Registered capital	RMB14,600	**–**	99.32	**99.32**	**–**	**99.32**	99.32	Manufacture and sales of tools and moulds
DFEM Control Equipment Co., Ltd.	PRC	Registered capital	RMB13,000	**–**	96.15	**96.15**	–	**96.15**	96.15	Manufacture and sales of control equipment of power generators
Shenzhen Dongfang Boiler Control Co., Ltd.	PRC	Registered capital	RMB10,000	**–**	–	**51.00**	51.00	**51.00**	51.00	Research and manufacture of power station boiler control system
Chengdu Dongfang KWH Catalysts Co., Ltd	PRC	Registered capital	EUR13,000	**–**	–	**51.00**	51.00	**51.00**	51.00	Design, manufacture and sales of Selective Catalytic Reduction catalysts
Wuhan Nuclear	PRC	Registered capital	RMB196,360	**67.00**	–	**–**	–	**67.00**	–	Design, manufacture and sales of nuclear power equipment
Donfang India (b)	India	Share capital	Rupees320,000	**100.00**	N/A	**–**	N/A	**100.00**	N/A	Design, manufacture and sales of power equipment

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

(a) DFEM Power Equipment Co., Ltd. was liquidated during 2008.

(b) Dongfang India was incorporated in 2008.

To the shareholders of

Dongfang Electric Corporation Limited

De Shi Bao (Shen) Zi (09) No. P0397

We have audited the accompanying financial statements of Dongfang Electric Corporation Limited (the "Company"), which comprise the Company's and consolidated balance sheets as at 31 December 2008 and the Company's and consolidated income statements, the Company's and consolidated statement of changes in equity and the Company's and consolidated cash flow statements for the year then ended, and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

II. AUDITOR'S RESPONSIBILITY

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

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

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

III. OPINION

In our opinion, the financial statements of Dongfang Electric Corporation Limited have been prepared in accordance with Accounting Standards for Business Enterprise, and present fairly, in all material respects, the Company's and consolidated financial position as of 31 December 2008, and the Company's and cosolidated results of operations and cash flows for the year then ended.

Deloitte Touche Tohmatsu CPA Ltd.
Shanghai, China

8 April 2009

Chinese Certified Public Accountant:
Gan Changru
(幹長如)

Chinese Certified Public Accountant:
Xiao Jinghua
(肖靜華)

THE COMPANY'S AND CONSOLIDATED BALANCE SHEETS

At 31 December 2008

		Group		Company	
		31/12/2008	31/12/2007	**31/12/2008**	31/12/2007
	Note	***RMB***	*RMB*	***RMB***	*RMB*
ASSETS					
CURRENT ASSETS:					
Monetary funds	7	**11,449,415,976.02**	5,020,270,063.60	**2,718,569,783.94**	1,442,874,984.13
Trading financial asset	8	**173,825.46**	885,904.02	**–**	885,904.02
Notes receivable	9	**143,350,254.46**	755,264,420.90	**–**	26,739,996.00
Accounts receivable	10	**9,297,264,763.68**	7,776,081,054.89	**65,170,334.40**	1,816,511,272.13
Advances to suppliers	11	**8,615,693,756.66**	5,285,587,991.11	**4,690,695,836.23**	1,359,317,112.77
Interest receivable		**13,681,500.00**	–	**–**	–
Other receivables	12	**146,838,499.53**	175,838,074.92	**516,866,762.56**	72,441,877.45
Inventories	13	**21,498,320,276.15**	13,525,874,727.87	**38,244,681.21**	3,562,825,462.26
Including: Amounts due from customers for contract work		**1,790,272,579.61**	1,645,151,464.47	**–**	979,300,224.95
Total current assets		**51,164,738,851.96**	32,539,802,237.31	**8,029,547,398.34**	8,281,596,608.76
Non-current assets:					
Long-term equity investment	14	**319,911,540.12**	351,499,670.86	**9,147,347,829.72**	4,253,871,225.67
Properties held for investment	15	**34,041,886.46**	35,681,586.19	**21,693,441.92**	24,912,778.92
Fixed assets	16	**2,484,116,394.19**	2,506,618,981.28	**5,154,517.02**	696,290,799.76
Construction in progress	17	**1,216,576,529.56**	311,851,600.57	**–**	120,814,547.51
Construction materials		**121,664.96**	121,664.96	**–**	–
Intangible assets	18	**518,842,608.11**	348,472,241.17	**10,584.00**	37,312,038.74
Long-term deferred expenses		**352,971.00**	–	**–**	–
Deferred income tax assets	19	**481,387,950.22**	284,349,148.36	**989,843.54**	71,626,678.07
Other non-current assets	20	**239,076,185.80**	–	**–**	–
Total non-current assets		**5,294,427,730.42**	3,838,594,893.39	**9,175,196,216.20**	5,204,828,068.67
TOTAL ASSETS		**56,459,166,582.38**	36,378,397,130.70	**17,204,743,614.54**	13,486,424,677.43

The Company's and Consolidated Balance Sheets (Continued)

At 31 December 2008

		Group		Company	
		31/12/2008	31/12/2007	**31/12/2008**	31/12/2007
	Note	***RMB***	*RMB*	***RMB***	*RMB*
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term loans	23	**204,214,900.00**	392,528,000.00	**107,214,900.00**	–
Notes payable	24	**2,227,237,061.99**	1,591,486,937.85	**–**	301,638,597.34
Accounts payable	25	**7,481,161,656.77**	3,426,040,657.01	**631,058,537.86**	658,637,144.10
Advances form customers	26	**34,828,559,536.11**	21,699,570,822.34	**5,702,692,903.88**	5,501,028,902.45
Including: amounts received for uncompleted contract work		**10,425,314,849.80**	6,921,024,498.07	**2,474,032,221.48**	2,017,970,375.26
Salaries and wages payable	27	**357,199,979.79**	377,287,439.20	**13,202,135.96**	144,670,488.50
Taxes payable	28	**(80,229,275.49)**	344,086,857.58	**(15,820,646.44)**	108,684,899.37
Interest payable	29	**158,792,490.11**	21,457,333.33	**158,792,490.11**	21,457,333.33
Dividend payable		**406,494.67**	4,275.00	**–**	–
Other payables	30	**2,915,453,510.97**	1,347,536,178.71	**2,406,872,906.45**	1,420,685,108.47
Non-current liabilities due within one year	31	**1,035,976,838.80**	482,500,000.00	**1,021,976,838.80**	462,000,000.00
Other non-current liabilities		**741,164.58**	–	**–**	–
Total current liabilities		**49,129,514,358.30**	29,682,498,501.02	**10,025,990,066.62**	8,618,802,473.56
Non-current liabilities:					
Long-term borrowings	32	**2,320,000.00**	5,820,000.00	**–**	–
Long-term payables	33	**3,626,592,608.04**	1,848,685,252.84	**3,625,907,355.20**	1,848,685,252.84
Estimated liabilities	34	**332,966,104.96**	228,377,931.14	**–**	52,795,709.59
Deferred income tax liabilities	35	**30,402,751.06**	45,120,569.93	**–**	126,246.12
Other non-current liabilities	36	**903,778,644.46**	699,787,210.76	**–**	217,035,121.28
Total non-current liabilities		**4,896,060,108.52**	2,827,790,964.67	**3,625,907,355.20**	2,118,642,329.83
TOTAL LIABILITIES		**54,025,574,466.82**	32,510,289,465.69	**13,651,897,421.82**	10,737,444,803.39

At 31 December 2008

		Group		Company	
		31/12/2008	31/12/2007	**31/12/2008**	31/12/2007
	Note	***RMB***	*RMB*	***RMB***	*RMB*
SHAREHOLDERS' EQUITY:					
Paid-in capital	37	**882,000,000.00**	817,000,000.00	**882,000,000.00**	817,000,000.00
Capital reserve	38	**1,232,393,146.10**	–	**1,349,556,013.10**	117,162,867.00
Surplus reserves	39	**–**	405,525,983.43	**288,363,116.43**	288,363,116.43
Retained earnings	40	**137,822,718.21**	1,784,980,994.44	**1,032,927,063.19**	1,526,453,890.61
Difference from translation of foreign currency statement		**(7,551,930.79)**	–	**–**	–
Total equity attributable to the parent		**2,244,663,933.52**	3,007,506,977.87	**3,552,846,192.72**	2,748,979,874.04
Minority interests	41	**188,928,182.04**	860,600,687.14	**–**	–
TOTAL SHAREHOLDERS' EQUITY		**2,433,592,115.56**	3,868,107,665.01	**3,552,846,192.72**	2,748,979,874.04
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**56,459,166,582.38**	36,378,397,130.70	**17,204,743,614.54**	13,486,424,677.43

THE COMPANY'S AND CONSOLIDATED INCOME STATEMENTS

For the year ended 31 December 2008

Item			Note	Group 2008 RMB	Group 2007 RMB	Company 2008 RMB	Company 2007 RMB
1.	**Operating Revenue**		42	27,948,054,382.61	24,886,776,619.93	973,039,996.20	5,742,238,074.21
	Less:	Operating cost	43	23,389,922,000.77	20,088,669,634.76	902,541,606.43	4,440,525,983.97
		Business tax and surcharges	44	58,636,272.16	58,246,734.03	796,310.47	18,910,019.20
		Sales expenses		464,400,036.88	385,246,663.20	11,749,649.95	67,165,180.56
		Administrative expenses		1,683,631,085.78	1,659,129,362.70	92,744,143.74	490,858,506.68
		Financial costs	45	182,499,189.87	(45,341,410.95)	265,437,986.83	(12,110,242.94)
		Loss of assets impairment	46	617,894,432.77	293,107,127.65	6,598,956.96	27,043,720.90
	Add:	Profit from changes in fair value	47	(712,078.56)	841,640.78	–	841,640.78
		Investment income	48	(8,633,276.38)	(24,009,408.27)	8,382,967.57	(4,130,711.30)
	Including:	Investment income from associated enterprises and joint ventures		(8,460,216.41)	(24,009,408.27)	(7,317,621.75)	(6,053,711.30)
2.	**Operating Profit**			1,541,726,009.44	2,424,550,741.05	(298,445,690.61)	706,555,835.32
	Add:	Non-operating revenue	49	517,757,489.18	88,744,271.14	9,024.65	37,521,085.54
	Less:	Non-operating expenditure	50	1,986,209,458.93	23,381,339.86	5.00	3,824,887.22
3.	**Profit before tax**			73,274,039.69	2,489,913,672.33	(298,436,670.96)	740,252,033.64
	Less:	Income tax fee	51	(137,349,544.49)	313,540,619.29	(989,843.54)	91,633,903.45
4.	**Net profit**			210,623,584.18	2,176,373,053.04	(297,446,827.42)	648,618,130.19
	Net profit attributable to the shareholders of the parent company			175,999,037.06	1,989,855,973.51		
	Profit and loss attributable to minority shareholders			34,624,547.12	186,517,079.53		
	Including:	Net profit of the merged parties under common control		–	1,269,247,269.15		
5.	**Earnings per share**						
	Basic earnings per share		53	0.21	2.44		

THE COMPANY'S AND CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2008

Iterm	Note	Group 2008 RMB	Group 2007 RMB	Company 2008 RMB	Company 2007 RMB
1. CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from sales of goods and rendering services		**42,954,353,953.30**	26,570,733,046.97	**5,817,402,906.97**	4,955,644,953.30
Tax Refund		**231,705,113.06**	46,758,787.95	**–**	–
Other cash receipts relating to operating activities	57	**1,255,416,245.29**	257,402,616.72	**242,931,551.78**	562,812,023.79
Sub-total of cash inflows from operating activities		**44,441,475,311.65**	26,874,894,451.64	**6,060,334,458.75**	5,518,456,977.09
Cash paid for goods and services		**33,485,150,813.02**	23,491,049,172.81	**4,140,367,186.41**	4,694,170,642.33
Cash paid to and on behalf of employees		**1,991,507,519.92**	1,645,708,664.82	**56,041,257.48**	721,192,643.42
Tax payments		**719,387,486.99**	1,076,324,385.29	**16,727,311.02**	357,387,045.64
Other cash payments relating to operating activities	58	**1,242,751,023.13**	1,123,701,586.86	**89,891,967.75**	202,542,792.15
Sub-total of cash outflows from operating activities		**37,438,796,843.06**	27,336,783,809.78	**4,303,027,722.66**	5,975,293,123.54
Net cash flow from operating activities	56	**7,002,678,468.59**	(461,889,358.14)	**1,757,306,736.09**	(456,836,146.45)

Iterm	Note	Group 2008 RMB	Group 2007 RMB	Company 2008 RMB	Company 2007 RMB
2. CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash received from disposal of investments		**–**	320,332.46	**–**	1,923,000.00
Cash received from gains in investment		**7,672,540.91**	5,773,872.24	**–**	2,109,030.84
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**4,961,172.80**	–	**–**	–
Other cash received from activities related to investment		**1,049,106.89**	–	**–**	–
Sub-total of cash inflows from investing activities		**13,682,820.60**	6,094,204.70	**–**	4,032,030.84
Cash paid to acquire fixes assets, intangible assets and other long term assets		**1,988,312,226.64**	692,651,108.09	**3,297,903.35**	187,626,716.77
Cash paid to acquire investments		**–**	1,175,819,100.00	**–**	1,019,125,000.00
Net cash paid for acquiring subsidiaries and other operating entities		**–**	–	**1,759,991,972.98**	–
Other cash paid for activities related to investment		**383,521.14**	–	**–**	–
Sub-total of cash outflows from investing activities		**1,988,695,747.78**	1,868,470,208.09	**1,763,289,876.33**	1,206,751,716.77
Net cash flows from investing activities		**(1,975,012,927.18)**	(1,862,376,003.39)	**(1,763,289,876.33)**	(1,202,719,685.93)

For the year ended 31 December 2008

Iterm	Note	Group 2008 RMB	Group 2007 RMB	Company 2008 RMB	Company 2007 RMB
3. CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash received from capital contribution		**1,738,812,160.60**	9,811,371.97	**1,738,623,146.10**	–
Cash received from borrowing		**195,000,000.00**	392,528,000.00	**–**	–
Other cash received from financing-related activities		**402,219.66**	–	**–**	–
Sub-total of cash inflows from financing activities		**1,934,214,380.26**	402,339,371.97	**1,738,623,146.10**	–
Cash repayments of borrowings		**110,000,000.00**	–	**–**	–
Dividends paid, profit distributed or interest paid		**336,391,191.41**	176,819,878.85	**330,808,673.91**	88,407,745.05
Sub-total of cash outflows from financing activities		**446,391,191.41**	176,819,878.85	**330,808,673.91**	88,407,745.05
Net Cash Flows from Financing Activities		**1,487,823,188.85**	225,519,493.12	**1,407,814,472.19**	(88,407,745.05)
4. EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS:		**(28,579,822.35)**	(67,595.34)	**(21,040,545.77)**	(173,711.40)
5. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	55	**6,486,908,907.91**	(2,098,813,463.75)	**1,380,790,786.18**	(1,748,137,288.83)
Add: Cash and cash equivalents at the beginning of the period	55	**4,827,380,712.67**	6,926,194,176.42	**1,337,778,997.76**	3,085,916,286.59
6. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	55	**11,314,289,620.58**	4,827,380,712.67	**2,718,569,783.94**	1,337,778,997.76

FIVE YEARS' FINANCIAL SUMMARY

Consolidated income statement

	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**27,171,342**	24,099,128	22,433,762	3,047,858	2,051,360
Profit before tax	**391,790**	2,754,010	2,782,024	617,201	311,759
Income tax income (charge)	**122,739**	(343,018)	(324,977)	(82,213)	(59,004)
Profit for the year	**514,529**	2,410,992	2,457,047	534,988	252,755
Non-controlling interests	**34,625**	186,517	187,963	290	167
Profit Attributable to the equity holders of the parent	**479,904**	2,224,475	2,269,084	534,698	252,588

Consolidated balance sheets

	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**56,763,308**	36,117,881	31,334,056	8,462,888	6,348,184
Total liabilities	**(54,494,755)**	(32,718,717)	(26,010,445)	(6,763,159)	(5,129,397)
Non-controlling interests	**(188,928)**	(860,601)	(667,187)	(1,272)	(1,028)
Net assets	**2,079,625**	2,538,563	4,656,424	1,698,457	1,217,759

DOCUMENTS AVAILABLE FOR INSPECTION

1. 2008 Annual Report signed by the Chairman of the Company.

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

3. Articles of Association of the Company.

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