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東方電氣股份有限公司

Dongfang Electric Corporation Limited

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1072)

ANNOUNCEMENT OF 2008 ANNUAL RESULTS

The Board of Directors of the Company is pleased to announce the audited annual results of the Group for year ended 31 December 2008 prepared in accordance with the Hong Kong Financial Reporting Standards. The results of 2008 as compared with the figures of 2007 are set out as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	<i>NOTES</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Revenue	3	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	4	1,113,915	379,335
Distribution expenses		(464,502)	(385,247)
Administrative expenses		(2,721,711)	(2,090,789)
Loss from 12 May Earthquake	5	(1,535,517)	—
Share result of associates		(16,206)	(44,881)
Share result of jointly controlled entities		7,854	20,871
Finance costs	6	(279,470)	(25,933)

Profit before tax		391,790	2,754,010
Income tax credit (expense)	7	122,739	(343,018)
		<hr/>	<hr/>
Profit for the year	8	514,529	2,410,992
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the parent		479,904	2,224,475
Non-controlling interests		34,625	186,517
		<hr/>	<hr/>
		514,529	2,410,992
		<hr/> <hr/>	<hr/> <hr/>
Dividends recognised as distribution during the year:			
Paid final dividend of RMB0.24 (2007: RMB0.2) per share	9	196,080	90,000
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share			
basic	10	RMB0.584	RMB2.723
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

		2008	2007
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		2,366,052	2,337,910
Construction in progress		1,216,698	312,086
Prepaid lease payments		640,986	181,486
Investment properties		34,056	35,682
Intangible assets		111,661	108,201
Interests in associates		158,868	175,074
Interests in jointly controlled entities		120,881	121,368
Available-for-sale investments		39,600	55,099
Deferred tax assets		481,368	284,223
		<hr/> 5,170,170 <hr/>	<hr/> 3,611,129 <hr/>
Current assets			
Inventories		19,870,692	12,040,057
Amounts due from associates	11	1,270,368	—
Amounts due from related parties	12	2,249,666	1,391,756
Trade and other receivables	13	14,666,634	12,601,410
Prepaid lease payments		5,624	10,419
Other tax asset		453,109	—
Amounts due from customers			
for contract works		1,627,629	1,442,840
Pledged bank deposits		137,518	206,331
Cash and deposits in banks and a financial institution		11,311,898	4,813,939
		<hr/> 51,593,138 <hr/>	<hr/> 32,506,752 <hr/>

Current liabilities

Amounts due to customers			
for contract works		10,425,315	6,921,204
Amounts due to related parties	12	7,255,085	4,465,846
Trade and other payables	14	31,229,893	17,512,365
Enterprise income tax liabilities		159,049	271,058
Other tax liabilities		213,831	73,029
Borrowings		218,215	413,028
Provision		332,966	228,378
Deferred income		149,446	86,438
Termination benefit		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
Non-current liabilities			
Deferred income		800,809	811,421
Borrowings		2,320	5,820
Long term liabilities		685	685
Termination benefit		69,083	64,973
Amounts due to related parties		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		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-controlling interests		188,928	860,601
		2,268,553	3,399,164

NOTE TO CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31 December 2008

1. BASIS OF PREPARATION

The Group Reorganisation (see defined below) 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 Co., Ltd. (“Dongfang Turbine”) and Dongfang Boiler (Group) Co., Ltd. (“Dongfang Boiler”) are under the common control of Dongfang Electric Corporation (“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 (“Group Reorganisation”) 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.

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 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.

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.

2. 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.

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 (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.

3. 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 <i>RMB'000</i>	2007 <i>RMB'000</i>
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
	<u>27,171,342</u>	<u>24,099,128</u>

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.

Segment information about these businesses is presented below.

2008

	Main thermal power equipment <i>RMB'000</i>	Main hydro power equipment <i>RMB'000</i>	Wind power generation sets <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue						
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	<u>20,317,987</u>	<u>2,596,921</u>	<u>2,617,299</u>	<u>2,181,179</u>	<u>(542,044)</u>	<u>27,171,342</u>
SEGMENT RESULTS	<u>3,631,199</u>	<u>249,886</u>	<u>300,470</u>	<u>105,872</u>	<u>—</u>	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		<u>(279,470)</u>
Profit before taxation		391,790
Income tax expense		<u>122,739</u>
Profit for the year		<u>514,529</u>

2007

	Main thermal power equipment <i>RMB'000</i>	Main hydro power equipment <i>RMB'000</i>	Wind power generation sets <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
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	<u>19,620,376</u>	<u>2,648,361</u>	<u>551,669</u>	<u>1,828,328</u>	<u>(549,606)</u>	<u>24,099,128</u>
SEGMENT RESULTS	<u>4,327,030</u>	<u>243,413</u>	<u>45,471</u>	<u>284,740</u>	<u>—</u>	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	<u>(25,933)</u>
Profit before taxation	2,754,010
Income tax expense	<u>(343,018)</u>
Profit for the year	<u>2,410,992</u>

ASSETS

Segment assets	14,464,758	3,707,223	318,989	854,045	—	19,345,015
Unallocated corporate assets						<u>16,772,866</u>
Consolidated total assets						<u><u>36,117,881</u></u>

LIABILITIES

Segment liabilities	9,527,539	829,665	1,503,301	381,407	—	12,241,912
Unallocated corporate liabilities						<u>20,476,805</u>
Consolidated total liabilities						<u><u>32,718,717</u></u>

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	—	—	—	—	<u><u>577</u></u>

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.

4. OTHER INCOME

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	147,334	104,981
Consultancy service income	165,925	93,263
Release of government grant for the property, plant and equipment	303,945	76,405
Donation for the 12 May Earthquake from:		
— 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
	<u>1,113,915</u>	<u>379,335</u>

5. 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:

	<i>RMB'000</i>
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
	<u>1,535,517</u>

6. FINANCE COSTS

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

7. INCOME TAX (CREDIT) EXPENSE

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

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

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

	2008	2007
	RMB'000	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

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%.

8. PROFIT FOR THE YEAR

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
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	173,184	144,565
Staff welfare	150,240	148,147
Housing fund	145,430	117,974
Termination benefits	39,409	69,314
	<hr/>	<hr/>
Total staff cost (<i>Note a</i>)	<u>1,962,549</u>	<u>1,647,272</u>

Auditor's remuneration	4,100	3,600
Amortisation of intangible assets (<i>Note c</i>)	21,033	25,769
Amortisation of prepaid lease payments (<i>Note c</i>)	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 (<i>Note c</i>)	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 (<i>Note b</i>)	—	(2,380)
Negative goodwill (included in other income)	(7,021)	—
Rental expense	12,394	3,758
Research and development expenditure (<i>Note c</i>)	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 for affected employees	402,405	—
	<u>402,405</u>	<u>—</u>
Gross rental income from investment properties	(604)	(592)
Less: direct operating expenses from investment properties that generated rental income during the year	54	48
	<u>(550)</u>	<u>(544)</u>

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.

9. DIVIDENDS

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>

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	<u>196,080</u>	<u>90,000</u>
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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.

10. 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
	<i>RMB'000</i>	<i>RMB'000</i>

Earnings

Earnings for the purposes of basic and diluted earnings per share

(profit for the year attributable to shareholders of the parent)	<u>479,904</u>	<u>2,224,475</u>
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	2008	2007
	'000	'000

Number of shares

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share

	<u>822,417</u>	<u>817,000</u>
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No diluted earnings per share are calculated as there were no potentially dilutive share is issued in both periods presented.

11. 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.

12. 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 <i>RMB'000</i>	2007 <i>RMB'000</i>
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	<u>(181,789)</u>	<u>(83,440)</u>
	<u>1,460,539</u>	<u>918,838</u>
Prepayment for materials and contract work:		
Fellow subsidiaries	788,470	389,878
Immediate holding entity	<u>657</u>	<u>83,040</u>
	<u>789,127</u>	<u>472,918</u>
	<u><u>2,249,666</u></u>	<u><u>1,391,756</u></u>

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
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Receipt in advance:

Fellow subsidiaries	874,767	824,618
Immediate holding entity	2,216,590	1,841,016

3,091,357	2,665,634
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Cash consideration payable to immediate holding entity for:

Group Reorganisation (<i>Note a</i>)	3,252,336	3,252,336
31.61% Acquisition (<i>Note b</i>)	2,799,884	—

6,052,220	3,252,336
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Interest payable to immediate holding entity

158,792	—
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Advance from immediate holding entity

for 12 May Earthquake (<i>Note c</i>)	440,970	—
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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

3,625,908	1,848,000
10,880,993	6,313,846

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.

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>1,460,539</u>	<u>918,838</u>

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	2007
	<i>RMB'000</i>	<i>RMB'000</i>
2 - 3 years	77,153	24,578
More than 3 years	12,035	286
	<u>89,188</u>	<u>24,864</u>

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	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year	83,440	111,683
Increase (decrease) in allowance recognised in profit or loss	98,349	(28,243)
	<u>181,789</u>	<u>83,440</u>

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>1,137,654</u>	<u>395,876</u>

13. 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
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	8,891,794	9,243,726
Less: allowance for doubtful debts	(906,908)	(718,677)
	<u>7,984,886</u>	<u>8,525,049</u>
Prepayment for raw materials	6,560,402	4,002,618
Deposits and other receivables	121,346	73,743
	<u>14,666,634</u>	<u>12,601,410</u>

Included in the trade receivables is bills receivables amounted to RMB143,350,000 (2007: RMB755,264,000) aged within one year. RMB128,510,000 and RMB125,324,000 bills receivables is discounted with recourse as at 31 December 2008 and 31 December 2007 respectively.

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<hr/> 7,984,886 <hr/>	<hr/> 8,525,049 <hr/>

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
	<i>RMB'000</i>	<i>RMB'000</i>
1 - 2 years	—	1,904
2 - 3 years	20,466	21,467
More than 3 years	10,735	29,938
	<hr/> 31,201 <hr/>	<hr/> 53,309 <hr/>

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 <i>RMB'000</i>	2007 <i>RMB'000</i>
Balance at beginning of the year	718,677	493,076
Increase in allowance recognised in profit or loss	188,231	225,601
	<hr/>	<hr/>
Balance at end of the year	906,908	718,677
	<hr/> <hr/>	<hr/> <hr/>

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

14. TRADE PAYABLES AND OTHER PAYABLES

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Within 1 year	8,497,572	3,258,657
1 - 2 years	140,056	167,384
2 - 3 years	83,409	—
	<hr/>	<hr/>
Receipt in advance	8,721,037	3,426,041
Accrued for 12 May Earthquake rehabilitation and resettlement cost (<i>Note i</i>)	21,383,489	13,735,170
Other payables and accruals	280,890	—
	<hr/>	<hr/>
	844,477	351,154
	<hr/> <hr/>	<hr/> <hr/>
	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).

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 usage from these donations is restricted to the rehabilitation of the disaster area and the resettlement of the affected employees of the Group as governed by a committee of the Group. The balance of RMB280,890,000 at 31 December 2008 represents the amount of rehabilitation and resettlement cost not yet paid at year end. Said amount is kept at designated bank accounts of the Group.

FINANCIAL STATEMENTS RECONCILIATION (PREPARED BY MANAGEMENT)

Reconciliation for consolidated financial statements prepared in accordance with HKFRS and PRC Accounting Standards for the accounting year 2008.

	<i>Notes</i>	Net Assets At the end of the year RMB'000	Net Profit Cumulative for the year RMB'000
Net assets/net profit prepared in accordance with HKFRS		2,268,553	514,529
Adjustments:			
— Revaluation surplus, government grants and the corresponding deferred taxation of Dongfang Turbine etc.		<hr/>	<hr/>
Net increase/(decrease)		<hr/> 165,039 <hr/>	<hr/> (303,905) <hr/>
Net assets/net profit prepared in accordance with PRC Accounting Standards for Business Enterprises		<hr/> 2,433,592 <hr/>	<hr/> 210,624 <hr/>

There is no new difference on the accounting standard between HKFRS and PRC Accounting Standards during the year that affect the above reconciliation.

RESULTS AND DIVIDENDS IN 2008

Based on HKGAAP, the Company achieved a turnover of RMB27,171 million, representing an increase of 12.75% as compared with the previous year. Net profit amounted to RMB515 million, representing a decrease of 78.64% as compared with the previous year. Earnings per share amounted to RMB0.584, representing a decrease of RMB2.139 as compared with RMB2.723 of the previous year.

The Board of Directors has recommended the general meeting to distribute final cash dividend of RMB0.02 per share for the year 2008, representing a total of RMB17,640,000.

Upon the approval at the AGM, the dividend will be distributed to those holders of H Shares whose names appear on the Register of Members of the Company. Details of the record date, dividend payment method and dividend payment date for shareholders will be announced separately.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

I. Production and operation of the Company for 2008

(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 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. The Company managed to gained 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.

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”.

(2) Operation during the Reporting Period

- Disaster Relief and Reconstruction

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, infrastructure like water, power, gas supply and transportation destroyed, resulted 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 Dongfang Turbine, 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.

- 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).

- Orders

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 in 2008, 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 super-critical 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.

- 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 super-critical 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. 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.

II. Opportunities and challenges in operation

Looking into 2009, power equipment manufacturing industry faces both risks and opportunities. On one hand, due to slower 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.

PROSPECT AND OUTLOOK

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.

- (1) 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.

- (2) 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.

(3) 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 material procurement, 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.

(4) 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.

(5) Tighten cost control to secure stable development.

With the deepened 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.

FINANCIAL ANALYSIS

Prepared under Hong Kong Financial Reporting Standards

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 RMB440,000,000 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 last 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 amounted to RMB6,052,220,000 (2007: RMB3,252,336,000), grew by 86.09% over 2007, which is mainly composed by the consideration payable for the residual 31.61% equity interest in Dongfang Boiler acquired under Acquisition Agreement and Supplementary Agreement of Acquisition Agreement.

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 state-owned capital from the government for our reconstruction to uplift 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 but within two years. Significant portion of loans, cash and cash equivalents held by the Company are denominated in Renminbi. The Company maintains sound financing capacity on the back of 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 gearing ratio. In fact, in view of each of the financial statements of the parent and subsidiaries, gearing ratios of the other subsidiaries ranged from 79% to 80% except Dongfang Turbine which was relatively high as at the end of 2008 due to the earthquake.

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.

Prepared under PRC Accounting Standards

1. 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 increased by 12.30% over 2007;
2. 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 increased materials import for securing prompt delivery to customers given the limited production capacity of domestic materials 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.
3. 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.
 - (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 in that year. The gross profit margin of wind power business increased by 3.29 percentage points to 11.46% this year 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 percentage point 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.

INVESTMENT OF THE COMPANY

1. Raised Proceeds Projects

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.

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 new fixed assets and acquisition of 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 Company's medium power equipment project 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.

PURCHASE, SALES OR REDEMPTION OF SHARES

Save for the disclosed issue of shares and listing in "Raised Proceeds Projects" above, as at the end of the reporting period, the Company, its subsidiaries or entities collectively controlled by the Company did not purchase, sell or redeem any of the shares of the Company.

EXTERNAL GUARANTEE AND PERFORMANCE

As at the end of the reporting period, the Company was not involved in any external guarantee and performance of any guarantee.

MATERIAL LITIGATION AND ARBITRATION

As at the end of the Reporting Period, the Company was not involved in any material litigation and arbitration.

DESIGNATED DEPOSIT AND UNRECOVERABLE OVERDUE FIXED DEPOSIT

As at the end of the Reporting Period, the Company did not have any designated deposit and unrecoverable overdue fixed deposit.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

During the reporting period, the directors were not aware of any information which can reasonably indicate that the Company was not in compliance with the requirements of the Code 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. Details of compliance are set out in the Corporate Governance Report contained in the Annual Report of the Company for the year.

COMPLIANCE WITH THE MODEL CODE

During the reporting period, the Company adopted a code of conduct regarding securities transactions of directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Companies under Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Upon specified enquiry to all the directors of the Company, all directors have expressed that they have complied with the aforesaid Model Code.

AUDIT COMMITTEE

The Board of Directors of the Company had set up an Audit Committee in accordance with the requirements of Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Audit Committee had reviewed the audited Annual Results of the Company for the year 2008.

By order of the Board
Dongfang Electric Corporation Limited
Si Zefu
Chairman

Chengdu, Sichuan, the PRC
8 April 2009

As at the date of this announcement, the Directors of the Company are:

<i>Executive Directors:</i>	Si Zefu, Wen Shugang and Zhu Yuanchao
<i>Non-executive Directors:</i>	Zhang Xiaolun, Zhang Jilie and Li Hongdong
<i>Independent Non-executive Directors:</i>	Zheng Peimin, Chen Zhangwu and Xie Songlin

In obedience to requirements of paragraph 45(1) to (3) under Appendix 16 of the Listing Rules, the annual results report in detail will be published on website (<http://www.hkex.com.hk>) of the Stock Exchange of Hong Kong Limited shortly.