东方电气
DONGFANG ELECTRIC

Dongfang Electric Corporation Limited

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

Interim Report 2010

SUMMARY OF RESULTS OF DONGFANG ELECTRIC CORPORATION LIMITED (THE "COMPANY") FOR THE SIX MONTHS ENDED 30 JUNE 2010 (THE "PERIOD") (PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS OF THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC"), UNAUDITED)

- Turnover in the first half of 2010 amounted to RMB16,911 million, representing an increase of 8.93% compared with the same period last year;
- Profit attributable to shareholders in the first half of 2010 amounted to RMB1,002 million, representing an increase of 50.16% compared with the same period last year;
- Basic earnings per share in the first half of 2010 amounted to RMB0.50, representing an increase of 51.52% compared with the same period last year;
- New orders in the first half of 2010 amounted to RMB21,250 million.

I. MAJOR FINANCIAL DATA AND INDICATORS (PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS, UNAUDITED)

1. Major Accounting Data and Financial Indicators

Unit: RMB0'000

	As at the end of the Period	As at the end of the previous year After adjustment	As at the end of the previous year Before adjustment	Change at the end of the Period as compared with the end of the previous year *(%)*
Total assets	7,763,847.09	7,332,276.25	7,303,083.47	5.89
Owner's equity (Shareholders' equity)	946,019.14	866,045.88	870,874.70	9.23
Net assets per share attributable to shareholders of the Company *(RMB)*	4.72	4.32	4.35	9.26

	The Period (Jan - Jun)	Corresponding period last year After adjustment	Before adjustment	Changes in the Period as compared with the corresponding period last year (%)
Operating profit	112,742.13	80,695.92	85,358.17	39.71
Total profit	115,261.58	77,084.13	81,524.55	49.53
Net profit attributable to shareholders of the Company	100,243.20	66,756.62	68,700.32	50.16
Net profit after non-recurring profit and loss attributable to shareholders of the Company	97,016.67	70,015.19	71,958.90	38.57
Basic earnings per share *(RMB)*	0.50	0.33	0.34	51.52
Diluted earnings per share *(RMB)*	0.50	0.33	0.34	51.52
Weighted average return on net assets *(%)*	12.49	25.89	26.54	Decreased by 13.4 percentage points
Net cash flow from operating activities	(20,815.97)	319,756.60	301,222.16	(106.51)
Net cash flow per share from operating activities *(RMB)*	(0.10)	1.60	1.50	(106.25)

Note: According to "Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 — Calculation and Disclosure of Return on Net Assets and Earnings per Share" (Revision 2010)(《公開發行證券的公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》(2010年修訂)), during the period from balance sheet date up to the date when the financial statements are authorised for issue, should there be any event of dividend distribution, conversion of capital reserve into share capital or subdivision or consolidation of shares which affect the number of outstanding ordinary shares or potential ordinary shares but without affecting the amount of owners' equity, earnings per share for relevant comparative periods shall be calculated based on the adjusted number of shares. During the period from the end of the Period to the disclosure date of half year results, pursuant to the relevant resolution passed at the general meeting, the share capital of the Company increased from 1,001,930,000 shares to 2,003,860,000 shares after the Company implemented the conversion of capital reserve into share capital in July 2010. As a result, earnings per share, net assets per share and net cash flow per share for the comparative periods were diluted correspondingly as they should be calculated based on the adjusted share capital of 2,003,860,000 shares. The decrease in return on net assets as at the end of the Period was mainly because the proceeds of approximately RMB5 billion raised in November 2009 was included for one month only in the calculation of net assets for the previous period but fully included in the net assets for the Period.

2. RECONCILIATION FOR HONG KONG ACCOUNTING STANDARDS (HKAS) AND PRC ACCOUNTING STANDARDS

(1) Differences between net profit and net assets in the financial report prepared in accordance with HKAS and PRC Accounting Standards

Unit: RMB0'000

	Net profit		Net assets	
	For the period	For the previous period	Closing balance	Opening balance
Prepared in accordance with PRC accounting standards	100,243.20	66,756.62	946,019.14	866,045.88
Items and total amount adjusted in accordance with HKAS:				
Difference adjustment	2,192.30	303.08	(264.14)	(2,456.48)
Prepared in accordance with HKAS	102,435.50	67,059.70	945,755.00	863,589.40

(2) Explanation of the differences between HKAS and the PRC Accounting Standards

The difference adjustment is the appreciation in of Dongfang Electric Corporation Dongfang Turbine Company Limited（東方電氣集團東方汽輪機有限公司） ("Dongfang Turbine") assets valuation, coupled with the effect of government subsidies and deferred income tax.

II. CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

(I) Shareholding structure as at 30 June 2010

Unit: Share

Class of shares	Number of issued shares *(shares)*	Percentage *(%)*
I. A shares		
1. held by Dongfang Electric Corporation (中國東方電氣集團有限公司)	498,182,479	49.72%
2. held by others	333,747,521	33.31%
II. H shares	170,000,000	16.97%
Total shares	1,001,930,000	100%

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

1. Number of shareholders and shareholdings of the top ten shareholders

Unit: Share

Total number of shareholders as at 30 June 2010 46,816

Shareholdings of the top ten shareholders

Name of shareholder	Capacity	Percentage of total share capital (%)	Total number of shares held	Increase/ (decrease) during the Period	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Dongfang Electric Corporation (中國東方電氣集團有限公司)	State-owned legal person	49.72	498,182,479	(3,802,314)	296,743,246	Nil
HKSCC Nominees Limited	Overseas legal person	16.88	169,136,199	(20,400)		Unknown
Youngor Group Co., Ltd.	Others	1.20	12,000,000	0	12,000,000	Unknown
Xinhua Life Insurance Company Limited - Dividend - Dividend-018L-FH001 Group Shanghai (新華人壽保險股份有限公司－分紅－團體分紅－018L－FH001滬)	Others	0.95	9,529,063	(88,311)		Unknown
China Construction Bank -China Advantage Growth Stock Fund (中國建設銀行－華夏優勢增長股票型證券投資基金)	Others	0.88	8,786,369			Unknown

Name of shareholder	Capacity	Percentage of total share capital (%)	Total number of shares held	Increase/ (decrease) during the Period	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Minmetals Investment Development Ltd.	Others	0.80	8,000,000	0	8,000,000	Unknown
Liu Yiqian（劉益謙）	Others	0.80	8,000,000	0	8,000,000	Unknown
China Construction Bank - Bank of Communications Schroder Sustaining Mixed Securities Investment Fund（中國建設銀行一交銀施羅德穩健配置混合型證券投資基金）	Others	0.70	6,999,848			Unknown
PICC Life Insurance Company Limited – Dividends – Personal Dividends – 005L – FH002 Shanghai（中國人壽保險股份有限公司一分紅一個人分紅一005L一FH002滬）	Others	0.64	6,432,685	(6,528,309)		Unknown
China Pacific Life Insurance Company Limited -Dividend - Personal Dividend（中國太平洋人壽保險股份有限公司一分紅一個人分紅）	Others	0.60	6,000,000	(349,950)		Unknown

Notes:

(1) All of the above disclosed shares and interests represent A Shares of the Company, except for those held by HKSCC Nominees Limited which represent H Shares of the Company.

(2) Dongfang Electric Corporation ("DEC") is the authorized holder of 498,182,479 domestic legal person shares (State-owned legal person shares). None of the shares held by it was pledged, frozen or under custody during the Period.

(3) 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 of the Company holding more than 10% of the total issued share capital of the Company.

(4) So far as is known to the directors and the chief executive of the Company, as at 30 June 2010, the following shareholders (not being directors, supervisors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or to be recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity	Share class	Number of shares held *(share)*	Percentage in issued H shares *(%)*
Blackrock, Inc.	Interests in controlled corporation	H Shares	37,412,170(L) 10,000(S)	11.00(L) 0.00(S)
JPMorgan Chase & Co.	Beneficial owner/investment manager/custodian *(Note (b))*	H Shares	31,392,400(L) 0(S) 30,517,200(P)	9.23(L) 0.00(S) 8.98(P)
Baring Asset Management Limited	Investment manager	H Shares	11,805,000(L)	6.94(L)

**Note:*

(a) 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.

(b) As shown in the Disclosure of Interests filed by JPMorgan Chase & Co. in relation to the Relevant Event dated 31 May 2010, these shares are held through certain subsidiaries of JPMorgan Chase & Co.. Among the 31,392,400 shares(L) held by it, 466,000 shares are held in the capacity of beneficial owner; 409,200 shares are held in the capacity of investment manager; and 30,517,200 shares(P) are held in the capacity of custodian.

(5) Save as disclosed above, as at 30 June 2010, the Directors or chief executives of the Company were not aware of any other person (other than the Directors, supervisors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

(6) There is no provision for pre-emptive rights under the relevant PRC laws and the Company's articles of association.

(7) As at 30 June 2010, the Company had not issued any convertible securities, options, warrants or any other similar rights.

2. Change in the controlling shareholder and de facto controller of the Company

There was no change in the controlling shareholder and de facto controller of the Company during the Period.

III. PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes in shareholdings of directors, supervisors and senior management

There was no change in shareholdings of directors, supervisors and senior management during the Period.

Shareholdings of Directors, Supervisors and Senior Management

As at 30 June 2010, the following Directors, supervisors chief executives or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning under Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or which were required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the same shall be deemed to apply to supervisors to the same extent as it applies to directors):

Name	Number of A shares held at the beginning of the Period	Number of A shares held at the end of the Period	Increase/ decrease during the Period	Reason for the change
Directors				
Si Zefu	0	0	—	—
Zhang Xiaolun	0	0	—	—
Wen Shugang	0	0	—	—
Huang Wei	0	0	—	—
Zhu Yuanchao	0	0	—	—
Zhang Jilie	0	0	—	—
Li Yanmeng	0	0	—	—
Zhao Chunjun	0	0	—	—
Peng Shaobing	0	0	—	—
Supervisors				
Wen Bingyou	4,119	4,119	0	—
Wen Limin	0	0	—	—
Wang Congyuan	0	0	—	—
Senior management				
Zhang Zhiying	0	0	—	—
Han Zhiqiao	1,270	1,270	0	—
Wu Huanqi	0	0	—	—
Gong Dan	1,270	1,270	0	—
Chen Huan	0	0	—	—
Gao Feng	0	0	—	—

(1) All of the above disclosed shares and interests represent A Shares of the Company.

(2) Save as disclosed above, as at 30 June 2010, none of the directors, supervisors or chief executives of the Company, had any interest or short positions in the shares, underlying shares and debentures of the Company or its associate corporations (within the meaning under Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO; or which were required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the same shall be deemed to apply to supervisors to the same extent as it applies to directors).

(3) None of the directors, supervisors and senior management or their respective associates was granted by the Company or its subsidiaries any right to sell or acquire shares or debentures of the Company nor had they exercised any such right as at 30 June 2010.

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

Mr. Peng Shaobing was elected as an additional independent non-executive director of the Company at the annual general meeting of the Company held on 18 June 2010.

The appointment of Mr. Gao Feng as Vice President of the Company and the resignation of Mr. Zhu Yuanchao as senior Vice President of the Company were considered and approved at the tenth meeting of the sixth board of directors of the Company (the "Board") which was held on 18 June 2010.

IV. REPORT OF THE BOARD

(I) BUSINESS REVIEW

During the Period, the Company and its subsidiaries (the "Group") managed to overcome the challenges of the harsh macroeconomic and market conditions, and endeavored to improve product quality by focusing on 2010 production goal and adhering to the market-centered approach. The Company achieved good operating performance and laid a solid foundation towards accomplishing the annual target of 2010.

Sales revenue and profit continued to grow

During the Period, calculated in accordance with PRC accounting standard, the Group recorded a total operating revenue of RMB16,911 million, representing an increase of 8.93% over the same period last year; net profit of RMB1,002 million, representing an increase of 50.16% over the same period last year; earnings per share of RMB0.50, representing an increase of 51.52% over the same period last year.

Production tasks successfully accomplished

During the Period, the capacity of power generation equipment of the Group was up to 16,794MW, including 10 hydro-electric turbine generator sets (2,498MW), 23 steam turbine generators (13,170MW), 750 wind power generation sets (1,126MW), 26 power station boilers (10,550MW) and 34 power station steam turbines (15,613.5MW).

Remarkable achievements of market expansion

During the Period, new orders of the Group amounted to RMB21.25 billion, 41.6% of which was attributable to thermal power generation, 16.3% attributable to nuclear power, 27.0% attributable to wind power, 4.3% attributable to hydro power and 10.8% attributable to others. Among the new orders, export accounted for 6.6%. Among the new orders, the proportion of orders for wind power such as new energy further increased, providing strong support for the Group's adjustment in terms of industrial structure.

Sound and effective advancement of the research and development of new products

The Group has achieved large-scale research and localization of key parts of super-critical thermal generating units, and continuously improved the thermal efficiency and economic efficiency. Among which, the 300MW CFB boiler demonstration project and localization project developed by Dongfang Boiler (Group) Co., Ltd （東方鍋爐（集團）股份有限公司） ("Dongfang Boiler") were awarded the third prize for scientific and technological progress for the year of 2009 by the National Energy Administration. The Group completed the first processing and production of nuclear power rotor, marking a significant breakthrough in welding rotor technology. The Group completed the final assembly of 2MW wind-power generating units with completely independent intellectual rights, jointly developed 2.5 MW wind-power generating units, completed the installation and testing of 1.5 MW direct-drive wind-power generating units in wind farm and has already obtained the first orders.

Completion of post-disaster reconstruction of DEC

For the second anniversary of "5.12" Wenchuan earthquake, the new base of Dongfang Turbine in Deyang was put into operation on 10 May 2010. Since the commencement of construction of the Deyang base on 1 August 2008, it only took one year and nine months to complete building the world-class new DEC.

Smooth progress of major construction projects

The plant of Dongfang Electric wind power (new energy) manufacturing base in East China has been put into production. Complex building, three combinations of plant and four combinations of plant in new construction projects of Dongfang Boiler base of Deyang have undergone installation. Two combinations of plant in Dongfang Guangzhou Heavy Machinery Co., Ltd. (東方電氣(廣州)重型機器有限公司) ("DFHM") Phase III construction project have been put into full operation. This will greatly improve the production capacity and efficiency of the Group, and relieve the bottleneck problems of production, thus providing strong support for maintaining a good production and operation trend for the Group.

Dividend distribution and capitalisation issue of shares successfully accomplished

With the approval of the Board and of the general meeting of the company, the Company implemented the plan of 2009 dividend distribution and capitalisation issue of shares. The Company brought returns to the investors by initiative distribution and enlarged the scale of share capital, playing an active role in the Company's future operation in the capital market.

(II) PRINCIPAL OPERATIONS OF THE COMPANY AND OPERATING STATUS

1. Principal operations by business and product (prepared in accordance with PRC Accounting Standards, unaudited)

Unit: RMB100 million

By business or product	Operating revenue	Operating cost	Operating profit margin (%)	Increase/(decrease) of operating revenue as compared with the corresponding period last year (%)	Increase/(decrease) of operating cost as compared with the corresponding period last year (%)	Increase/(decrease) of operating profit margin as compared with the corresponding period last year (%)
By business						
Machinery manufacturing	166.13	137.09	17.48	8.48	5.21	Increased by 2.56 percentage points
By product						
Hydro power	11.79	10.57	10.33	(7.96)	(7.28)	Decreased by 0.66 percentage points
Thermal power	103.02	84.57	17.91	3.07	1.99	Increased by 0.87 percentage points
Wind power	34.26	27.90	18.56	5.33	0.88	Increased by 3.58 percentage points
Nuclear power	14.61	12.05	17.57	170.90	92.23	—
Others	2.45	2.01	18.13	(0.67)	(2.44)	Increased by 1.48 percentage points

As for comprehensive gross profit margin, the Group's gross profit margin of principal businesses for the Period was 17.48%, representing an increase of 2.56 percentage points over the same period last year which was 14.92%. By products, thermal power posted a gross profit margin of 17.91% for the Period, representing an increase of 0.87 percentage points over the same period last year which was 17.04%; gross profit margin for wind power for the Period was 18.56%, with a rapid increase of 3.58 percentage points over the same period last year which was 14.98%; nuclear power posted a gross profit margin of 17.57% for the Period with noticeable increase over the same period last year which was -16.17%, and the proportion of revenue from the sale of nuclear power products in total sales increased significantly from 3.52% to 8.80%; gross profit margin for hydro power was 10.33% for the Period, representing a decrease of 0.66 percentage points over the same period last year which was 10.99%, basically on a par with the same period last year.

2. **Principal operations by region**

Unit: RMB100 million

Region	**Operating revenue**	**Increase/ (decrease) of operating revenue as compared with last year** *(%)*
PRC	145.19	3.97
Overseas	20.94	55

3. Problems and obstacles in operation

Since the beginning of this year, China has speed up the pace of structural adjustment to product mix in the domestic power generating equipment market. The demand for thermal power decreased continuously, the price of wind power continuously declined and the competition in the power generating equipment market increasingly intensified. Thus, great challenges were brought to the Group's market development, capacity configuration, technology preparation and production arrangement. Meanwhile, the pressure of an expected inflation and an appreciation of the RMB added more difficulties for the Group to develop international markets.

4. Outlook for the second half of the year

In the second half of 2010, the Group will aggressively develop domestic and overseas markets with focus on consolidating traditional markets and gearing up the development of emerging markets, while adhering to the guideline of "developing markets through structural adjustment, enhancing capacity through technological renovation, building brand by way of quality improvement, controlling risk by way of strengthened management, and attaining healthy growth in scientific manner", so as to grasp the development opportunities emerging from low-carbon economy. The Group will place more resources in new energy sector, take full advantage of the development opportunities for its core operations including nuclear power equipments, wind power equipments and efficient and clean thermal power equipments. Moreover, the Group will accelerate the pace of independent renovation and new product development and optimise its product mix to increase its core competitiveness and risk resistance capability in a steady course, with a view to receiving another round of development.

(III) FINANCIAL ANALYSIS (IN ACCORDANCE WITH THE ACCOUNTING STANDARDS GENERALLY ACCEPTED IN HONG KONG ("HONG KONG GAAP")

(1) Financial status

As at 30 June 2010, the current assets of the Group amounted to RMB67,086,360,000 (31 December 2009: RMB64,093,091,000). Items with relatively significant changes compared with the beginning of the Period and the reasons are listed as follows: 1. Cash, deposits in bank and financial institution amounted to RMB12,709,799,000 (31 December 2009: RMB14,708,242,000), representing an decrease of 13.59% over the beginning of the Period, which is mainly due to the further increased purchase expenditure and the settlement by the Group of the outstanding consideration for acquisition of equity interests during the Period. 2. Inventories amounted to RMB29,670,221,000 (31 December 2009: RMB27,030,730,000), representing an increase of 9.76% over the beginning of the Period, which mainly due to 1) the increased parts and components purchased for expanded production of new energy products, especially wind power products of the Group, and 2) increase in work in progress as a result of more long-cycle projects like nuclear products and 100MW thermal power projects. 3. Construction in progress amounted to RMB2,788,560,000 (31 December 2009: RMB2,528,681,000), representing an increase of 10.28% over the beginning of the Period, mainly due to further increase in project expenditure as a result of the continuous investment in the Group's post-disaster reconstruction projects and new energy base construction projects.

As at 30 June 2010, the total liabilities of the Group amounted to RMB68,610,117,000 (31 December 2009: RMB65,555,808,000). Items with relatively significant changes compared with the beginning of the Period and the reasons are listed as follows: 1. Prepayment received from customers for the construction contracts amounted to RMB4,375,714,000 (31 December 2009: RMB7,877,881,000), representing an decrease of 44.46% from the beginning of the Period. The decrease is mainly due to the large sales amount of construction contracts during the Period; 2. Accounts due to related parties amounted to RMB3,274,211,000 (31 December 2009: RMB5,379,744,000), representing a decrease of 39.14% over the beginning of the Period, which is mainly due to the Group's payment of consideration for the acquisition of equity interests during the Period; 3. The provision of the Company was RMB784,953,000 (31 December 2009: RMB591,694,000), representing an increase of 32.66% over the beginning of the Period, which is mainly due to the increase in estimated liabilities incurred from sales of wind power equipments as the Group's sales revenue from wind power had increased substantially.

During the Period, profit attributable to the shareholders of the Group increased by RMB353,758,000 over the same period last year, mainly due to the significant increase in gross profit margin for wind power and nuclear power products during the Period.

As for comprehensive gross profit margin, the Group's gross profit margin of principal business for the Period was 16.38%, representing an increase of 1.46 percentage points over the same period last year which was 14.92%. By products, thermal power posted a gross profit margin of 16.13% for the Period, which stayed at similar level with the same period last year; gross profit margin for wind power for the Period was 18.56%, with a rapid increase of 3.58 percentage points over the same period last year which was 14.98%; nuclear power posted a gross profit margin of 17.57% for the Period with noticeable increase over the same period last year which was -16.17%, and the proportion of revenue from the sale of nuclear power products in total sales increased significantly from 3.52% to 8.80%; gross profit margin for hydro power was 10.33%, representing a decrease of 0.66 percentage points over the same period last year which was 10.99%, basically on a par with the same period last year.

(2) Cash Flows

As at 30 June 2010, net (decrease)/increase of cash and cash equivalents of the Group recorded a net decrease of RMB2,855,725,000 over the corresponding period last year, which was mainly due to the increase of the Group's net cash outflow resulting from the Group's increased purchase of materials for the production of more products such as nuclear power products during the Period, coupled with a long production cycle.

(3) Borrowings

As at 30 June 2010, the Group held bank borrowings of RMB1,898,553,000 due within one year, and RMB602,808,000 of longer terms due after one year. Loans, cash and cash equivalents held by the Group are denominated in Renminbi. The Group maintains sound financing capacity on the back of the Group's healthy credit status and sustainable profitability.

(4) Gearing Ratio

As at 30 June 2010, gearing ratio of the Group was 87.35%, representing a decrease of 0.56 percentage points from a gearing ratio of 87.91% as at the end of last year, basically on a par with the beginning of the Period.

(5) During the period, the Group did not pledge any asset

(6) Risk in Exchange Rate Fluctuation and any related Hedging

In 2010, the stable global foreign exchange market witnessed fluctuation of exchange rates of Renminbi against US dollar and Euro within a normal range. 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 the future. With wider and deeper global presence of the Group, Renminbi exchange rate is playing a more and more important role in its business. Given the complicated and volatile international financial situation and the Group's actual operation, the Group continues to proactively adopt financial leverage instruments including forward exchange settlement in its international projects during the Period to limit the risks arising from exchange rate.

(7) Contingent Liabilities

There was a contractual dispute litigation between Guangzhou Economic and Technological Development District Construction and Supervision Co., Ltd.(廣州經濟技術開發區建設監理有限公司) and DFHM. In February 2005, Guangzhou Economic and Technological Development District Construction and Supervision Co., Ltd. and DFHM entered into the Management Contract on Project Construction. Subsequently, the parties had disputes on the payment in respect of the clause "settlement and review compensation awards(結算審核獎勵報酬)" stipulated in the Management Contract and had failed to reach an agreement. In February 2009, Guangzhou Economic and Technological Development District Construction and Supervision Co., Ltd. filed an action to the People's Court of Nansha District, requesting DFHM to pay the deferred service fee of RMB360,000, the additional service fee for Phase I improvement project of RMB600,000 and settlement and review compensation awards(結算審核獎勵報酬) RMB6,955,700, totaling RMB7,915,720. As at 30 June 2010, the case is still pending for judgment.

V. INVESTMENT OF THE GROUP

During the Period, an aggregate of RMB1,870 million of raised proceeds was utilized in East China (New Energy) Manufacture Base Construction of the Group Project of Dongfang Electric, North China Manufacture Base Construction Project of Dongfang Electric, Technical Renovation Project of 1,000MW Conventional Island for Nuclear Power Station of Dongfang Electric, Production Base Construction Project for Core Components of Large-scale Clean High-efficiency Power Generating Equipment of Dongfang Electric, the post-disaster relocation of Hanwang production base of Dongfang Turbine Co., Ltd. (including the research and development of Grade F 50MW (IGCC) turbine), experiment centre project in respect of clean and high efficiency boiler combustion technology and replenishing working capital of the Group.

During the Period, an aggregate of RMB850 million of non-raised funds of the Group was invested in the following key projects: Medium Power Equipment Project (Phase I) of Dongfang Electrical Machinery Company Limited, Expansion Project of DEC (Wuhan) Nuclear Equipment Company Limited and Seaside Workshop Constriction Phase III Project of Dongfang Electric (Guangzhou) Heavy Duty Machinery Co., Ltd.

VI. SIGNIFICANT EVENTS

(I) THE IMPLEMENTATION OF PROFIT DISTRIBUTION AND CAPITALISATION OF SHARES DURING THE PERIOD

The profit distribution plan of the Company for 2009 was to pay cash dividend of RMB1.6 per 10 shares to all shareholders (with 10 bonus shares for every 10 existing shares by conversion of capital reserve). The plan was approved at the annual general meeting of the Company held on 18 June 2010. The cash dividend and bonus shares were distributed to the holders of A shares and H shares of the Company whose name appeared on the registers of members of the Company on 1 July 2010 and 18 May 2010, respectively.

(II) ACQUISITION AND DISPOSAL OF ASSETS AND MERGER THROUGH ABSORPTION BY THE COMPANY DURING THE PERIOD

1. Increasing shareholding in DFHM through capital injection by the Company

The Company made a capital contribution of RMB505,424,800 in cash to DFHM, a subsidiary controlled by the Company, which increased its registered capital by 43,949.9826 shares. Following the capital increase, the Company's direct equity interest in DFHM increased from 27.3% to 51.05%, and indirect equity interest held through its subsidiary Dongfang Boiler was 14.14%. The remaining equity interest were owned as to 27%, 3.44%, 3.13% and 1.25% by Guangdong Electric Group Co., Ltd., Guangzhou Nansha Gonghua Investment Co., Ltd., Guangzhou Guangzhong Group Co., Ltd. and China Second Heavy Machinery Corporation, respectively.

2. In March 2010, Dongfang Turbine, a subsidiary of the Company, increased its equity interests in Tianjin Dongqi Wind Turbine Blade Engineering Company Limited （天津東汽風電葉片工程有限公司）("Tianjin Blade") to 55.63% after making capital contribution of RMB110,000,000 to Tianjin Blade.

(III) MATERIAL CONNECTED TRANSACTIONS DURING THE PERIOD

Continuing Connected Transactions Framework Agreements

In 2007, in order to regulate the continuing connected transactions between the Company,and its subsidiaries and the controlling shareholder DEC and other related legal entities, the Company entered into a series of three-year framework agreements in respect of purchase, sales, financial services and other related transactions with DEC and other related legal entities when the main business assets of the Company was consolidated and listed on the stock exchange. On 5 May, 2009, according to the changes in the production and operation of the Company, the Company revised 2009 annual caps for the Financial Services Framework Agreement, Properties and Equipment Framework Lessee Agreement and Huaxi Purchase and Production Service Framework Agreement which were entered into in 2007, and entered into the 2009-2011 Financial Services Framework Agreement, 2009-2011 Properties and Equipment Framework Lessee Agreement and 2009-2011 Huaxi Purchase and Production Service Framework Agreement, 2010-2011 Purchase and Production Services Framework Agreement, 2010-2011 Sales and Production Services Framework Agreement, 2010-2011 Combined Ancillary Services Framework Agreement, 2010-2011 Properties and Equipment Framework Lessor Agreement with DEC and other related legal entities. Please refer to the announcements on connected transactions published by the Company on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 5 May 2009 for details of the agreements. The annual caps of these connected transactions were approved by the independent Directors of the Board and/or independent shareholders of the Company at the general meetings of the Company. As at 30 June 2010, none of the annual caps for the significant connected transactions as approved by the Board or general meeting was exceeded.

The actual amounts of these connected transactions as at 30 June 2010 and the annual caps for 2010

Unit: RMB'000

Name of agreement	Total actual amount from Jan to Jun 2010	Proposed annual caps for 2010
Purchase and Production Services Framework Agreement	619,636	5,200,000
Sales and Production Services Framework Agreement	571,263	2,500,000
Combined Ancillary Services Framework Agreement (receipt of services)	68	90,000
Combined Ancillary Services Framework Agreement (provision of services)	13	7,000
Properties and Equipment Lease Framework Agreement (as lessor)	0	2,000
Financial Services Framework Agreement	6,647,318	8,320,000 (deposit plus interest income)
	1,656,587	8,480,000 (loans plus interest expense)
Properties and Equipment Lease Framework Agreement (as lessee)	19,885	80,000
Huaxi Purchase and Production Service Framework Agreement	10,874	75,000

(IV) EMPLOYEES

As at 30 June 2010, the Company employed 20,202 staff members. The Company adopted a remuneration system linked with performance and paid the employees in accordance with their individual performance.

(V) PURCHASE, SALES OR REDEMPTION OF SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

(VI) EXTERNAL GUARANTEE AND PERFORMANCE

During the Period, the Company was not involved in any external guarantee and performance of any guarantee.

(VII) MATERIAL LITIGATION AND ARBITRATION

During the Period, the Company was not involved in any material litigation and arbitration.

(VIII) CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is pleased to confirm that, the Directors were not aware of any information which can reasonably indicate, that the Company was not in compliance with the requirements of all code provisions of the "Code on Corporate Governance Practices" under Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange at all times during the Period.

(IX) MODEL CODE FOR SECURITIES TRANSACTIONS

During the Period, the Company has adopted a code of conduct regarding securities transactions by directors and supervisors on terms not less exact than the required standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") under Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors and supervisors of the Company, the Company confirms that all Directors and supervisors of the Company had complied with the requirements under the Model Code in respect of the standard requirements governing the securities transactions by directors and supervisors.

(X) AUDIT COMMITTEE

The Board of the Company had set up an Audit Committee comprising three independent non-executive Directors, namely, Mr. Zhao Chunjun, Mr. Li Yanmeng and Mr. Peng Shaobing, and two non-executive Directors, namely, Mr. Zhang Xiaolun and Mr. Zhang Jilie. The Audit Committee has reviewed the interim results of the Company for the Period, and agreed to the accounting methods adopted by the Company.

(XI) INFORMATION DISCLOSURE

This Interim Report will be sent by the Company to its shareholders and will also be published in due course on the website of the Stock Exchange, containing all the information as required and recommended in "Disclosure of Financial Information of the Listing Rules" under Appendix 16 of the Listing Rules.

VII. FINANCIAL STATEMENTS (UNAUDITED)

UNAUDITED FINANCIAL STATEMENTS PREPARED UNDER HONG KONG GAAP

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010	2009
		RMB'000	*RMB'000*
			(restated)
		(unaudited)	(unaudited)
Turnover	5	**16,613,436**	15,315,259
Cost of sales		**(13,892,340)**	(13,029,795)
Gross profit		**2,721,096**	2,285,464
Other income		**268,160**	181,164
Distribution expenses		**(337,328)**	(349,518)
Administrative expenses		**(1,434,423)**	(1,181,045)
Share of profit of associates		**1,085**	18,907
Share of profit of jointly controlled entities		**10,684**	4,308
Finance costs		**(50,374)**	(173,016)
Profit before taxation		**1,178,900**	786,264
Income tax expenses	6	**(117,901)**	(134,998)
Profit for the Period	7	**1,060,999**	651,266
Exchange differences arising on translation of foreign operations and other comprehensive (expenses) income for the year		**(354)**	942

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 RMB'000 (unaudited)	2009 RMB'000 (restated) (unaudited)
Total comprehensive income for the Period		**1,060,645**	652,208
Profit/(loss) for the Period attributable to:			
Owners of the Company		**1,024,355**	670,597
Non-controlling interests		**36,644**	(19,331)
		1,060,999	651,266
Total comprehensive income/(loss) for the Period attributable to:			
Owners of the Company		**1,024,001**	671,539
Non-controlling interests		**36,644**	(19,331)
		1,060,645	652,208
Dividend	8	**—**	—
Earnings per share — basic and diluted	9	**RMB0.51**	RMB0.33

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	**30 June 2010** *RMB'000* **(unaudited)**	31 December 2009 *RMB'000* (restated) (unaudited)
Non-current assets			
Property, plant and equipment	10	**6,771,850**	6,122,193
Construction in progress		**2,788,560**	2,528,681
Prepaid lease payments		**809,214**	793,405
Investment properties		**25,616**	26,369
Intangible assets		**139,354**	130,818
Interests in associates		**88,338**	87,252
Interests in jointly controlled entities		**123,472**	120,040
Available-for-sale investments		**30,400**	30,400
Deferred tax assets		**677,829**	637,234
		11,454,633	10,476,392
Current assets			
Inventories		**29,670,221**	27,030,730
Amounts due from associates		**—**	46,867
Amounts due from related parties		**1,296,971**	1,608,559
Trade and other receivables	11	**20,834,824**	17,582,566
Prepaid lease payments		**8,238**	7,874
Other tax assets		**889,407**	1,278,526
Amounts due from customers for contract works		**1,490,882**	1,575,806
Derivative financial instruments		**19,346**	4,177
Restricted bank balances		**84,467**	150,456
Pledged bank deposits		**82,205**	99,288
Cash and deposits in banks and a financial institution		**12,709,799**	14,708,242
		67,086,360	64,093,091

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2010

	Note	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (restated) (unaudited)
Current liabilities			
Amounts due to customers for contract works		**4,375,714**	7,877,881
Amounts due to associates		**11,811**	—
Amounts due to related parties		**3,274,211**	5,379,744
Trade and other payables	12	**55,366,289**	47,155,161
Derivative financial instruments		**2,165**	2,910
Enterprise income tax liabilities		**173,606**	127,501
Other tax liabilities		**48,251**	435,552
Borrowings		**1,898,553**	592,306
Provision		**784,953**	591,694
Deferred income		**52,776**	195,683
Termination benefit		**4,480**	4,353
		65,992,809	62,362,785
Net current assets		**1,093,551**	1,730,306
Total assets less current liabilities		**12,548,184**	12,206,698

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2010

	Note	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (restated) (unaudited)
Non-current liabilities			
Deferred income		**882,718**	763,228
Borrowings		**602,808**	760,000
Long term liabilities		**685**	685
Termination benefit		**71,834**	81,012
Amounts due to related parties		**1,059,263**	1,587,908
Deferred tax liabilities		**—**	190
		2,617,308	3,193,023
Net assets		**9,930,876**	9,013,675
Capital and reserves			
Share capital	13	**1,001,930**	1,001,930
Reserves		**8,455,622**	7,633,965
Equity attributable to owners of the Company		**9,457,552**	8,635,895
Non-controlling interests		**473,324**	377,780
Total Equity		**9,930,876**	9,013,675

The consolidated financial statements on pages 30 to 66 were approved and authorised for issue by the board of directors on 25 August 2010 and are signed on its behalf by:

Director *Director*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to equity holders of the Company								
	Share Capital RMB'000	Capital surplus RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Merger reserve RMB'000 (Note c)	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009 as originally stated	882,000	1,362,998	955,953	(2,352,092)	(7,552)	1,302,028	2,143,335	316,845	2,460,180
Effect of common control combination	–	–	–	15,998	–	–	15,998	12,760	28,758
At 1 January 2009, as restated	882,000	1,362,998	955,953	(2,336,094)	(7,552)	1,302,028	2,159,333	329,605	2,488,938
Profit for the year	–	–	–	–	–	670,597	670,597	(19,331)	651,266
Other comprehensive income for the year	–	–	–	–	942	–	942	–	942
Total comprehensive income (expenses) for the year	–	–	–	–	942	670,597	671,539	(19,331)	652,208
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	24,428	24,428
Dividends paid	–	–	–	–	–	(17,640)	(17,640)	–	(17,640)
Contribution from minority shareholder	–	–	–	–	–	–	–	(5,572)	(5,572)
At 30 June 2009	882,000	1,362,998	955,953	(2,336,094)	(6,610)	1,954,985	2,813,232	329,130	3,142,362
As 31 December 2009, as originally stated	1,001,930	6,242,938	994,009	(2,507,884)	(5,279)	2,958,470	8,684,184	360,598	9,044,782
Effect of common control combination	–	–	–	21,542	–	(69,831)	(48,289)	17,182	(31,107)
At 31 December 2009, as restated	1,001,930	6,242,938	994,009	(2,486,342)	(5,279)	2,888,639	8,635,895	377,780	9,013,675
Profit for the year	–	–	–	–	–	1,024,355	1,024,355	36,644	1,060,999
Other comprehensive expense for the year	–	–	–	–	(354)	–	(354)	–	(354)
Total comprehensive (expenses) income for the year	–	–	–	–	(354)	1,024,355	1,024,001	36,644	1,060,645
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	1,480	1,480
Dividends paid	–	–	–	–	–	(160,309)	(160,309)	–	(160,309)
Contribution from minority shareholder	–	–	–	–	–	–	–	57,420	57,420
Merger reserve arising from common control combination	–	–	–	(42,035)	–	–	(42,035)	–	(42,035)
At 30 June 2010	1,001,930	6,242,938	994,009	(2,528,377)	(5,633)	3,752,685	9,457,552	473,324	9,930,876

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2010

Note a Capital surplus includes share premium and contribution from China Dongfang Electric Corporation ("DEC"). Capital surplus may be used to adjust against the difference between the consideration and the acquired net assets arising from business combination under common control. Included in the balance as at 30 June 2010 is part of the share premium amounted to RMB6,162,502,000 which is not distributable.

Note 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 the 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.

Note c In 2010, Dongfang Turbine, a subsidiary of the Company, acquired 55.63% equity interests in Tianjin Dongqi Wind Turbine Blade Engineering Company Limited Tianjin Blade from DEC.

The above acquisitions were accounted for using merger accounting. Merger reserve represents the difference between the par value of common shares issued or consideration paid for the purpose of group reorganisation and the share capital of Dongfang Boiler (Group)., Ltd, Dongfang Turbine Co., Ltd, Dongfang Guangzhou Heavy Machinery Co., Ltd and Tianjin Blade attributable to DEC.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
		(Restated)
Net cash flow (used in) generated from operating activities	**(1,846,278)**	3,197,566
Net cash flow used in investing activities	**(1,088,428)**	(2,074,829)
Net cash flow generated from (used in) financing activities	**939,852**	(261,866)
Net (decrease) increase in cash and cash equivalents	**(1,994,854)**	860,871
Effects of foreign exchange rate changes on cash and cash equivalents	**(3,589)**	(1,417)
Cash and cash equivalents at the beginning of the period	**14,708,242**	11,807,221
Cash and cash equivalents at the end of the period	**12,709,799**	12,666,675
Analysis on the balance of cash and cash equivalents		
Cash and bank balances	**12,709,799**	12,666,675

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 June 2010

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 since 6 June 1994. On 4 July 1995, with the approval of the relevant authorities including China Securities Regulatory Commission, 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權劃轉有關問題的批覆》國資產權[2005]1604號）) to approve the transfer of 220,000,000 non-circulating State-owned domestic shares, representing DFEW's then 48.89% of the share capital of the Company, from DFEW (the former largest shareholder of the Company) to DEC, a stated-owned enterprise established in the PRC which is directly supervised by SASAC, and DEC accordingly became the largest shareholder of the Company.

1. GENERAL *(Continued)*

The Board considers that its immediate parent and ultimate parent is DEC which is a state-owned enterprise established in the PRC. The address of the registered office of the Company is 18 Xixin Road, High-Tech District (Western District), Chengdu, Sichuan Province.

The Group 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 Group 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 March 2010, Dongfang Turbine, a subsidiary of the Company, acquired 55.63% equity interests in Tianjin Blade through contributing RMB110,000,000 to Tianjin Blade, and thus obtained the control over Tianjin Blade. ("2010 Group Reorganization")

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial report for the six months ended 30 June 2010 has been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Listing Rules and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

Since the Board considers that the Company and Tianjin Blade are under the common control of Dongfang Electric Corporation, the 2010 Group Reorganisation have been accounted for as 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 HKICPA.

2. BASIS OF PREPARATION *(Continued)*

2010 Group Reorganisation

The consolidated statement of comprehensive income and the consolidated statement of cash flows in this report have been prepared as if the Group's structure after the 2010 Group Reorganisation had been in existence since 1 January 2009. Tianjin Blade has been under the Company's control since April 2007. In addition, the Group's consolidated statement of financial position since 2009 has been restated accordingly. The assets and liabilities of the companies now comprising the Group are as if the current Group structure after the 2010 Group Reorganisation had been in existence since 1 January 2009 and in accordance with the respective equity interests of each of these companies.

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

HKFRSs (Amendments)	Amendments to HKFRS 5, as for Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemption for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-Settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) - Int 17	Distribution of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

The application of HKFRS 3 (Revised) had no effect on the condensed consolidated interim financial information of the Group for the current accounting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of other new and revised HKFRSs had no effect on the condensed consolidated interim results and financial information of the Group for the current or prior accounting periods.

The Group has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) - Int 14 (Amendment)	Prepayments of Minimum Funding Requirement[4]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

[2] Effective for annual periods beginning on or after 1 February 2010.

[3] Effective for annual periods beginning on or after 1 July 2010.

[4] Effective for annual periods beginning on or after 1 January 2011.

[5] Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Board anticipates that the application of the other new and revised standards, amendments or interpretations will have no material impact on the financial position of the Group.

4. SUMMARY OF EFFECT FOR COMMON CONTROL COMBINATION

The effect of adoption of common control combination on the equity of the Group as at 31 December 2009 are summarized as below:

	As at 31 December 2009 (reported before adjustment)	Adjustment	As at 31 December 2009 (restated)
	RMB'000	*RMB'000*	*RMB'000*
Retained earnings (accumulated profit or loss)	2,958,470	(69,831)	2,888,639
Non-controlling interests	360,598	17,182	377,780
	3,319,068	(52,649)	3,266,419

4. **SUMMARY OF EFFECT FOR COMMON CONTROL COMBINATION *(Continued)***

The effect of adoption of common control combination by line items are as follows:

	Six months ended 30 June 2009 *RMB'000*
Turnover	349,205
Cost of sales	(356,842)
Distribution expenses	(1,062)
Administrative expenses	(51,384)
Share of profit of associates	14,286
Finance costs	(23,625)
Decrease in profit for the Period	(69,422)
Attributable to:	
Owners of the Company	(44,455)
Non-controlling interests	(24,967)
	(69,422)

4. SUMMARY OF EFFECT FOR COMMON CONTROL COMBINATION *(Continued)*

The effects of the adoption of common control combination on the Group's basic and diluted loss per share for last year:

	Six months ended 30 June 2009 *RMB'000*
Earnings per share	
Reported figures before adjustments	0.35
Adjustments arising on common control combination	(0.02)
Restated	0.33

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of power generation equipments and other services. The Group's turnover is analyzed as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
		(restated)
Revenue from sales of goods	**9,170,007**	7,523,245
Revenue from construction contracts	**7,388,627**	7,756,841
Revenue from other services	**54,802**	35,173
	16,613,436	15,315,259

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments

The Group operates in five major segments as follows: Main thermal power equipment, main hydro power equipment, wind power generation sets, main nuclear power equipment and other services:

The Group's principal activities are manufacture, construction and sale of the following products:

Main thermal power equipment	manufacture and sale of main thermal power equipment (including turbines and boilers)
Main hydro power equipment	manufacture and sale of main hydro power equipment
Nuclear power generation sets	manufacture and sale of nuclear power generation sets
Wind power generation sets	manufacture and sale of wind power generation sets
Others	manufacture and sales of environmental protection products, AC/DC motors and related power generation facilities, and other services

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

The Group's business segment information is as follows:

Segment information about each business is presented below:

For the six months ended 30 June 2010

	Main thermal power equipment *RMB'000*	Main hydro power equipment *RMB'000*	Nuclear power generation sets *RMB'000*	Wind power generation sets *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Revenue from principal operations							
External revenue	10,302,116	1,178,613	1,461,468	3,426,112	245,127	—	16,613,436
Inter-segment revenue	—	—	—	—	—	—	—
Total revenue	10,302,116	1,178,613	1,461,468	3,426,112	245,127	—	16,613,436
Segment results	1,662,191	121,781	256,743	635,941	44,440	—	2,721,096
Other income							268,160
Distribution expenses							(337,328)
Administrative expenses							(1,434,423)
Share of profit of associates							1,085
Share of profit of jointly controlled entities							10,684
Finance costs							(50,374)
Profit before taxation							1,178,900

Each inter-segment revenue is charged at cost prevailing market rate.

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the six months ended 30 June 2009

	Main thermal power equipment *RMB'000*	Main hydro power equipment *RMB'000*	Nuclear power generation sets *RMB'000*	Wind power generation sets *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Revenue from principal operations							
External revenue	9,995,530	1,280,570	539,487	3,252,891	246,781	—	15,315,259
Inter-segment revenue	487	—	—	—	—	(487)	—
Total revenue	9,996,017	1,280,570	539,487	3,252,891	246,781	(487)	15,315,259
Segment results	1,703,684	140,728	(87,217)	487,193	41,076	—	2,285,464
Other income							181,164
Distribution expenses							(349,518)
Administrative expenses							(1,181,045)
Share of profit of associates							18,907
Share of profit of jointly controlled entities							4,308
Finance costs							(173,016)
Profit before taxation							786,264

Each segment revenue is charged at cost prevailing market rate.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
PRC enterprise income tax		
— Current period	**158,686**	109,575
Deferred tax	**(40,785)**	25,423
	117,901	134,998

Notes:

(a) No provision for Hong Kong profits tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

(b) Applicable income tax rate of 15% represents the relevant income tax rate for 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.

Pursuant to the provisions from the State Council in 2007 in relation to the Development of the Western Region, the enterprise income tax rate for the Company, Dongfang Electrical Machinery (東方電機), Dongfang Boiler, Dongfang Turbine and Chengdu Dongfang KWH Catalysts Co., Ltd. is 15% until 2010.

The enterprise income tax rate of Shenzhen Dongfang Boiler Control Co., Ltd. is 15% as it has been assessed as "High-New Technology Enterprise" under the Enterprise Income Tax Law for the successive three years from 2009.

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and implementation Regulation of the EIT Law, the tax rate of other PRC Subsidiaries of the Company is 25% from 2008 onwards.

The relevant tax rates of the Group's other subsidiaries in the PRC is 25%.

6. INCOME TAX EXPENSE *(Continued)*

Notes: (Continued)

(c) Tax benefits represents an incentive scheme, in addition to the research and development cost which is deductible for tax purpose, further tax benefit was granted in respect of the research and development costs incurred.

(d) Pursuant to No. 131 [2009] issued by the Tax Bureau of Deyang, Dongfang Machinery are exempted from enterprise income tax until the year ended 31 December 2010 as Dongfang Machinery is located in the area of 12 May Earthquake.

Pursuant to Notice concerning Issues about Taxation policy in Support of the Restoration and Reconstruction in Wenchuan after Earthquake Disaster(《關於支援汶川地震災後恢復重建有關稅收政策問題的通知》), Dongfang Turbine are exempted from enterprise income tax for the 3 years ended 31 December 2010 as Dongfang Turbine is located in the area of 12 May Earthquake.

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Amortisation of intangible assets included in administrative expenses	**6,825**	6,087
Allowance for bad and doubtful debts (Net of reversal of doubtful debts)	**258,308**	152,160
Cost of inventories recognised as an expense	**13,892,340**	13,029,795
Amortisation of prepaid lease payments	**8,265**	9,111
Depreciation on property, plant and equipment	**364,878**	265,256
Depreciation on investment properties	**752**	823
Loss on disposal of property, plant and equipment (included in cost of sales)	**736**	724
Impairment loss on inventories (included in cost of sales)	**98,941**	82,202

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend. No interim dividend was declared for the same period of 2009.

9. EARNINGS PER SHARE

On 18 June 2010, the Board was pleased to approve the bonus issue to holders of A Shares and H Shares of the Company on the basis of 10 capitalization H Shares for every 10 existing H Shares and 10 capitalization A Shares for every 10 existing A Shares at the record date. The basis earnings per share for six months ended 30 June of 2010 and for the six months ended 30 June of 2009 have been calculated after making adjustment to the number of ordinary shares in issue as if the capital reserve of the Company had been converted into the Company's new ordinary shares since 1 January 2009.

During the Period, the calculation of the basic and diluted earnings per share is based on profit attributable to shareholders of the Group of approximately RMB1,024,355,000 (six months ended 30 June 2009: approximately RMB670,597,000) and the weighted average 2,003,860,000 shares in issue (six months ended 30 June 2009: 2,003,860,000 shares).

For the six months ended 30 June 2010, the Company has no potentially dilutive shares (for the six months ended 30 June 2009: Nil), therefore, diluted loss per share is the same as basic loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group allocated approximately RMB1,047,710,000 (For the six months ended 30 June 2009: RMB106,765,000) to acquire properties, plants and equipments.

11. 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. For large or long-established customers with good repayment history are usually offered a longer credit period of, say two to three years.

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 within 180 days after provision of services or delivery of goods.

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Trade receivables	**13,635,775**	11,414,751
Less: allowance for doubtful debts	**(1,820,105)**	(1,482,070)
	11,815,670	9,932,681
Prepayment for raw materials	**8,521,838**	7,195,997
Deposits and other receivables	**497,316**	453,888
	20,834,824	17,582,566

Included in the trade receivables is bills receivables amounted to approximately RMB1,414,661,000 (31 December 2009: RMB986,983,000) aged within one year.

11. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Within 1 year	**7,142,235**	5,914,447
1-2 years	**2,487,146**	2,263,598
2-3 years	**1,379,631**	1,088,549
More than 3 years	**806,658**	666,087
	11,815,670	9,932,681

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables:

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Within 1 year	**11,525,595**	11,408,535
1-2 years	**28,931**	749,311
More than 2 years	**14,578**	133,209
	11,569,104	12,291,055
Receipt in advance	**42,862,836**	33,416,141
Accrual for 12 May Earthquake rehabilitation and resettlement cost	**84,467**	150,456
Other payables and accruals	**849,882**	1,297,509
	55,366,289	47,155,161

The average credit period for payment of purchases of goods is 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

Included in the trade payables is bills payables amounting to RMB2,414,843,000 (31 December 2009: RMB3,156,693,000) aged within one year.

13. SHARE CAPITAL

From 1 January 2010 to 30 June 2010, the change in the Company's share capital structure is as follow:

	Opening balance *'000*	Number of shares increase/ decrease during the period *'000*	Closing balance *'000*
Authorised, issued and fully paid:			
Shares subject to trading moratorium			
Domestic legal person shares	501,985	—	501,985
A Shares	329,945	—	329,945
H Shares	170,000	—	170,000
	1,001,930	—	1,001,930

13. SHARE CAPITAL *(Continued)*

From 1 January 2009 to 30 June 2009, the change in the Company's share capital structure is as follow:

		Number of shares	
	Opening balance	increase/ decrease during the period	Closing balance
	'000	*'000*	*'000*
Authorised, issued and fully paid			
Shares subject to trading moratorium			
Domestic legal person shares	395,578	(158,800)	236,778
A Shares	316,422	158,800	475,222
H Shares	170,000	—	170,000
	882,000	—	882,000

14. CONTINGENT LIABILITIES

In February 2005, Guangzhou Economic and Technological Development District Construction and Supervision Co., Ltd. and DFTM entered into the Management Control on Project Construction. Subsequently, the parties had disputes on the payment in respect of the clause "settlement and review compensation awards(結算審核獎勵報酬)" stipulated in the Management Contract and failed to reach an agreement. In February 2009, Guangzhou Economic and Technological Development District Construction and Supervision Co., Ltd. filed an action to the People's Court of Nansha District, requesting DFHM to pay the deferred service fee of RMB360,000, the additional service fee for Phase I improvement project of RMB600,000 and settlement and review compensation awards(結算審核獎勵報酬) RMB6,955,700, totaling RMB7,915,720. As at 30 June 2010, the case is still pending for judgment. The outcome of the litigation is uncertain at this stage. In the opinion of the Directors, no provision is required in respect of this litigation.

15. CAPITAL COMMITMENTS

At the end of reporting period, the Group had the following capital commitments:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
Capital expenditure for the acquisition of construction in progress		
— contracted for but not provided in consolidated financial statements	**1,317,339**	2,568,082

16. RELATED PARTY TRANSACTIONS

The Group entered into the following major transactions with related parties in normal course of business:

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

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Expenditure		
— Purchase of raw materials	**630,424**	1,107,895
— Freight and maintenance fee	**23,330**	94,234
— Sub-contracting services	**194,529**	68,798
— Rental expenses	**10,300**	9,611
— Others	**816**	3,449
	859,399	1,283,987
Revenue		
— Sale of finished goods	**571,306**	1,249,686
Other income		
— Interest income	**62,157**	6,393
— Provision of power supply and others	**2,948**	2,739
	65,105	9,132

16. RELATED PARTY TRANSACTIONS *(Continued)*

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

Name of related company	Related balances	30 June 2010 RMB'000	31 December 2009 RMB'000
DEC and its subsidiaries	Other receivables	**634**	11,582
	Bills payables	**61,491**	65,500
	Other payables	**1,094,837**	90,225
DEC Finance Company (subsidiary of DEC)	Deposits	**6,636,866**	5,956,583

16. RELATED PARTY TRANSACTIONS *(Continued)*

(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:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Sales	**13,450,438**	13,018,747
Purchases	**3,954,933**	5,271,143

16. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel

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

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	2,868	1,577

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

Some key management personnel of the Company were paid by DEC.

17. EVENT AFTER THE REPORTING PERIOD

On 18 June 2010, the 2009 capitalization issue proposal was approved to transfer capital surplus to registered capital at the 2009 annual general meeting of the Company. Pursuant to the proposal, based on total share capital as at 31 December 2009, being 1,001,930,000 shares, a total of 1,001,930,000 bonus shares of RMB1.00 each is expected to be issued to all holders of A Share and H Share on the basis of 10 capitalization A Shares for every 10 existing A Shares and 10 capitalization H Shares for every 10 existing H Shares.

Dongfang Electric Corporation Limited
Si Zefu
Chairman

25 August 2010