東方電機股份有限公司

DONGFANG ELECTRICAL MACHINERY COMPANY LIMITED

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

(Stock Code: 1072)

2007 INTERIM RESULTS ANNOUNCEMENT (PRELIMINARY)

The Board of Directors of the Company is pleased to announce the Group's unaudited interim results for the six months ended 30 June 2007 prepared under the Hong Kong Financial Reporting Standards together with 2006 comparative figures. The results have been reviewed by the Audit Committee of the Company.

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

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

Current liabilities			
Amounts due to customers for contract works		**2,140,376**	1,971,852
Trade and other payables	**9**	**4,294,650**	4,887,435
Enterprise income tax liabilities		**58,364**	149,743
Other tax liabilities		**73,930**	73,064
Provision		**50,006**	38,045
Deferred income		**30,023**	29,842
		6,647,349	7,149,981
Net current assets		**1,997,788**	1,636,102
Total assets less current liabilities		**2,960,194**	2,480,492
Non-current liabilities			
Deferred income		**206,542**	140,037
Long term liabilities		**685**	685
		207,227	140,722
Net assets		**2,752,967**	2,339,770
Capital and reserves			
Share capital		**450,000**	450,000
Reserves		**2,301,155**	1,888,165
Equity attributable to equity holders of the Company		**2,751,155**	2,338,165
Minority interests		**1,812**	1,605
		2,752,967	2,339,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was established on 28 December 1993 in Deyang, Sichuan, the PRC as a joint stock limited company. The Company assumed the manufacture and operation business together with the relevant assets and liabilities from Dongfang Electrical Machinery Works ("DFEW"). On 31 May 1994, the Company placed and issued 170,000,000 overseas listed foreign shares (the "H Shares") to the public in Hong Kong and the H Shares have been listed on The Stock Exchange of Hong Kong Limited since 6 June 1994. On 4 July 1995, with the approval of the relevant authorities including the Securities Regulatory Commission of the PRC, the Company issued 60,000,000 domestic listed Renminbi ordinary shares (the "A Shares") in the PRC. The A Shares have been listed on the Shanghai Stock Exchange since 10 October 1995. On 30 December 2005, the State-owned Assets Supervision and Administration Commission promulgated "Approval of certain issues in the transfer of state-owned shares of Dongfang Electrical Machinery Company Limited" (Guo Zi Chan Quan [2005] No. 1604)《(關於東方電機股份有限公司國有股劃轉有關問題的批復》(國資產權 [2005]1604號) to approve the transfer of 220,000,000 State-owned domestic shares, representing DFEW's 48.89% equity interest in the Company, from DFEW to Dongfang Electric Corporation ("DEC"). Thus, DEC became the largest shareholder of the Company.

The Company's ultimate holding entity is DEC.

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

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

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

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

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

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

HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions [7]
HK(IFRIC) - INT 12	Service Concession Arrangements [8]

[1] Effective for annual periods beginning on or after 1 January 2009.

[2] Effective for annual periods beginning on or after 1 March 2007.

[3] Effective for annual periods beginning on or after 1 January 2008.

3. REVENUE AND SEGMENT INFORMATION

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

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

Business segments

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

Principal activities are as follows:

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

Segments Information

Information about the business segments are as follows:

For the period ended 30 June 2007

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

ASSETS					
Segment assets	**1,741,139**	**1,170,288**	**461,639**	**—**	**3,373,066**
Unallocated corporate assets					**6,234,477**
Consolidated total assets					**9,607,543**
LIABILITIES					
Segment liabilities	**2,723,115**	**2,132,333**	**174,741**	**—**	**5,030,189**
Unallocated corporate liabilities					**1,824,387**
Consolidated total liabilities					**6,854,576**
OTHER INFORMATION					
Allowance for bad and doubtful debts	**6,115**	**4,265**	**2,135**	**—**	**12,515**

For the period ended 30 June 2006

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

ASSETS					
Segment assets	1,457,244	740,296	414,770	—	2,612,310
Unallocated corporate assets					7,018,163
Consolidated total assets					9,630,473
LIABILITIES					
Segment liabilities	3,247,950	1,976,030	162,404	—	5,386,384
Unallocated corporate liabilities					1,904,319
Consolidated total liabilities					7,290,703
OTHER INFORMATION					
Allowance for bad and doubtful debts	3,769	2,713	1,325	—	7,807

Geographical segments

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

4. INCOME TAX EXPENSE

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

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

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

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

5. PROFIT FOR THE PERIOD

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

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

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

6. DIVIDEND

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

7. EARNINGS PER SHARE

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

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

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

8. TRADE AND OTHER RECEIVABLES

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
Trade receivables	**1,568,189**	1,225,012
Less: accumulated impairment	**(177,376)**	(153,136)
	1,390,813	1,071,876
Prepayment, deposits and other receivables	**1,529,085**	1,444,269
	2,919,898	2,516,145

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

The following is an ageing analysis of trade receivables:

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

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

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

9. TRADE PAYABLES AND OTHER PAYABLES

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

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

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

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

10. POST BALANCE SHEET EVENTS

(1) On 3 July 2007, the Company held the 2006 Annual General Meeting, at which the proposal for distribution of profits after tax for 2006 was passed by resolution, namely, the withdrawal of RMB74,776,015.96 for the statutory common reserves, the distribution of a final dividend of RMB0.20 per share in cash (including tax in respect of A shares) for the year ended 31 December 2006 to holders of A shares of the Company and to holders of H shares whose names appeared on the register of members of the Company on 11 May 2007, which amounted to a total of RMB90,000,000.00.

(2) On 3 July 2007, the Company held the Second Extraordinary General Meeting for 2007 and considered and passed the Proposals in Relation to Private Placement of Shares to and Assets Acquisition from DEC and the Proposal in relation to the Company's shareholders (existed before and after the private placement of shares to DEC) sharing the undistributed profits carried before the private placement.

(3) On 6 August 2007, the Company received the "Guo Zi Chan Quan [2007] No.705 Approval for issues in respect of the transfer by agreement of the state-owned equity interest in Dongfang Turbine Co., Ltd." (「國資產權[2007]705號」《關於東方電氣集團東方汽輪機有限公司國有股權協議轉讓有關問題的批復》) signed and issued by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China (中國國務院國有資產監督管理委員會) (hereinafter "SASAC") and forwarded to the Company by DEC. SASAC approved the transfer by agreement of its 100% equity interest in Dongfang Turbine Co., Ltd. (hereinafter "Dongfang Turbine") by DEC to the Company. The "Chuan Hua Heng Ping Bao [2007] No.51 Asset Valuation Report"(川華衡評報 [2007]51號《資產評估報告書》) relating to such transfer of state-owned equity interest by agreement has been filed with and accepted by SASAC, with filing no. 20070099.

11. DIFFERENCES BETWEEN HKFRSs AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP

Reconciliation for consolidated financial statements, prepared under HKFRSs and PRC accounting standards and regulations:

	Net Assets as at 30 June 2007 *RMB*	**Net Profit for the six months ended 30 June 2007** *RMB*
Net assets/net profit prepared under HKFRSs	2,752,967,751.17	413,197,379.07
Adjustments:		
Retirement benefit costs	—	29,219,470.37
Related deferred tax assets	—	(5,578,159.06)
Net increase/(decrease)	—	23,641,311.31
Net assets/net profit prepared under PRC accounting standards and regulations	2,752,967,751.17	436,838,690.38

Since 1 January 2007, the Group has implemented the new Accounting Standards for Business Enterprises promulgated on 15 February 2006 by the Ministry of Finance. In preparing the financial statements in accordance with the new Accounting Standards for Business Enerprises, the retirement benefit costs and the corresponding deferred tax asset have been recognised as prior period adjustments in accordance with "the Accounting Standards for Business Enterprises No. 38 – First Implementation of the Accounting Standards for Business Enterprises".

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2007, closely following the Company's work directions and targets for the year, all the employees of the Company cooperated with one another with an aim to achieving better results. By speeding up various works and overcoming numerous difficulties, the Company has reached phased production and sales target smoothly, thus laying a solid foundation for the achievement of the targets for the whole year. During the reporting period, the Company produced 17 units of hydro turbine generators, with a total capacity of 2211.5MW, 27 units of steam turbine generators, with a total capacity of 11,950MW, 15 units of AC and DC motors, with a total capacity of 55.8MW, and 165 sets of ancillary machines. New orders amounted to RMB3.6 billion. Orders at hand amounted to RMB18.4 billion.

Outlook for the second half of 2007

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

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

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

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

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

FINANCIAL ANALYSIS

1. Financial Status

As at 30 June 2007, the current assets of the Company amounted to RMB 8,645,137,000 (31 December 2006: RMB8,786,083,000). The items with relatively significant changes comparing with last year and the reasons are as follows:

(1) Cash and bank balances amounted to RMB2,493,830,000, representing a decrease of 23.91% compared with RMB3,277,378,000 as at 31 December 2006. The decrease was mainly due to the additional procurement of raw materials and outsourcing business in order to cater for the heavy production need.

(2) Trade and other receivables amounted to RMB2,919,989,000, representing an increase of 16.05% compared with RMB2,516,145,000 as at 31 December 2006, which was mainly attributable to increase in sales revenue of the Company driven by favorable market conditions for electricity generating equipment.

(3) Amounts due from the customers for contract works amounted to RMB 662,287,000 (2006: RMB 569,812,000), an increase of 16.23% from last year, mainly due to the significant increase in the investment for the Company's hydro power generating products.

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

2. Capital Structure

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

3. Gearing Ratio

As at the end of the reporting period, the total assets and total liabilities amounted to RMB9,607,543,000 and RMB6,854,576,000 respectively. The gearing ratio was71.35%, representing a decrease of 4.35 percentage points compared with 75.70% as at the end of last year.

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

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

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

In 2007, an increase in net loss arising from translation of currency is recorded when compared with the preceding year, which was mainly due to appreciation of Renminbi. Since the Company's raw material procurement costs was mainly denominated in foreign currencies, the prepayment and trade payable would be subject to foreign exchange fluctuation. The amount of loss arising from translation of foreign currencies was higher than the gain due to the fact that the amount of prepayment denominated in foreign currencies is higher than trade payable denominated in foreign currencies.

6. Contingent liability

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

INVESTMENT OF THE COMPANY

The Company's investment in the reporting period was RMB116.41 million, comprising mainly the investment in infrastructure amounting to RMB17.16 million, investment in technological renovation amounting to RMB77.62 million, investment in technology measures amounting to RMB14.18 million, and investment amounting to RMB7.45 million in renewal and renovation of equipment and electric instrument and apparatus. During the reporting period, the Company had no proceeds raised or funds brought forward from previous periods.

PURCHASE, SALES OR REDEMPTION OF SHARES

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 GUARANTY AND PERFORMANCE

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

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

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

By order of the Board
Si Zefu
Chairman

Deyang, Sichuan Province, the PRC
30 August 2007

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

Executive Directors:	Si Zefu, Han Zhiqiao and Gong Dan;
Non-executive Directors:	Liu Shigang, Li Hongdong and Chen Xinyou;
Independent non-executive Directors:	Zheng Peimin, Chen Zhangwu and Xie Songlin.

Report of 2007 Interim Result containing all information required under paragraph 45(1) to (3) of Appendix 16 to the Listing Rules will be published soon on the website of The Stock Exchange of Hong Kong (http://www.hkex.com.hk).