東方電氣股份有限公司

Dongfang Electric Corporation Limited

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

(Stock Code: 1072)

ANNOUNCEMENT OF 2008 INTERIM RESULTS (PRELIMINARY)

The Board of Directors of Dongfang Electric Corporation Limited ("the Company") is pleased to announce the Group's unaudited interim results for the six months ended 30 June 2008 prepared under the accounting standards generally accepted in Hong Kong together with 2007 comparative figures. The results have been reviewed by the Audit Committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2008

	Note	**January to June 2008** ***RMB'000*** **(unaudited)**	January to June 2007 *RMB'000* (unaudited)
Turnover	4	**11,785,470**	11,455,245
Cost of sales		**(9,965,670)**	(8,941,557)
Gross profit		**1,819,800**	2,513,688
Other income		**153,326**	140,521
Distribution expenses		**(200,052)**	(232,358)
Administrative expenses		**(758,160)**	(858,660)
Other expenses	5	**(308,044)**	—
Share profit of associated companies		**(13,182)**	(6,800)
Share profit of jointly controlled entities		**5,448**	7,316
Financial expenses		**(123,164)**	(1,619)
Profit before taxation		**575,972**	1,562,088
Income tax expenses	6	**(118,674)**	(225,656)
Profit for the period	7	**457,298**	1,336,432

Attributable to:			
the shareholders of the Company		**452,454**	1,232,703
minority interests		**4,844**	103,729
		457,298	1,336,432
Dividend	8	**—**	—
Basic earnings per share	9	**RMB0.55**	RMB1.51

CONSOLIDATED BALANCE SHEET

As at 30 June 2008

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

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

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

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

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

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

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

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

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

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

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

HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Shares Transactions;
HK(IFRIC) — Int 12	"Service concession arrangements"; and
HK(IFRIC) — Int 14	"HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction"[1].

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

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

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

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

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

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

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

Business segments

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

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

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

Segment information is set out as follows:

Segment information about these businesses is presented below:

As at the period ended 30 June 2008

	Main thermal power equipment	Main hydro power equipment	Wind power generation sets	Others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue						
External sales	9,042,462	1,128,311	1,397,071	217,626	—	11,785,470
Inter-segment sales	64,037	—	—	153,677	(217,714)	—
Total revenue	9,106,499	1,128,311	1,397,071	371,303	(217,714)	11,785,470
Segment results	1,494,624	124,125	202,527	(1,476)	—	1,819,800
Other income						153,326
Distribution expenses						(200,052)
Administrative expenses						(758,160)
Other expenses						(308,044)
Share result of associate						(13,182)
Share result of jointly controlled entities						5,448
Finance costs						(123,164)
Profit before taxation						575,972
Income tax expense						(118,674)
Profit for the year						457,298
Other information						
Allowance for bad and doubtful debts	55,932	1,425	—	18,270	—	75,627
Amortisation	13,689	—	—	—	—	13,689

As at the period ended 30 June 2007

	Main thermal power equipment *RMB'000*	Main hydro power equipment *RMB'000*	Wind power generation sets *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Revenue						
External sales	9,750,053	1,093,780	356,836	254,576	—	11,455,245
Inter-segment sales	75,479	—	—	238,303	(313,782)	—
Total revenue	9,825,532	1,093,780	356,836	492,879	(313,782)	11,455,245
Segment results	2,398,901	85,620	16,213	12,954	—	2,513,688
Other income						140,521
Distribution expenses						(232,358)
Other expenses						(858,660)
Share result of associate						(6,800)
Share result of jointly controlled entities						7,316
Finance costs						(1,619)
Profit before taxation						1,562,088
Income tax expense						(225,656)
Profit for the year						1,336,432
Other information						
Allowance for bad and doubtful debts	144,076	4,265	—	4,842	—	153,153
Amortisation	12,467	—	—	—	—	12,467

Geographical segments

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

5. Other expenses

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

Note: "5.12" Wenchuan Earthquake brought serious loss of staff and assets to the Company. In particular, the production base of Dongfang Steam Turbine Co. Ltd, a wholly-owned subsidiary of the Company, in Hanwang Town was severely damaged. The Company estimates the Earthquake caused the Company a direct loss of assets of no more than RMB1.6 billion and confirms a loss of fixed asset of RMB0.308 billion for this period. All the checks and assessment of the remaining amount of loss of assets is expected to be completed before 31 December 2008 and the amount of loss will be confirmed upon completion.

6. Income Tax Expense

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

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

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

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

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

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

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

7. Profit for the Period

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

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

8. Dividends

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

9. Earnings per Share

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

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

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

10. Property, Plant and Equipment

During the period, the Group allocated approximately RMB80,075,000 (For the six months ended 2007: RMB38,637,000) to acquire properties, plants and equipment.

11. Trade and Other Receivables

Part of the Group's revenue is generated through construction projects. Settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. For those long standing customers or those with good repayment history, they are entitled to a longer credit period, say two to three years.

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

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

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

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

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

12. Trade Payables and Other Payables

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

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

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

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

13. Post Balance Sheet Events

(1) On 16 May 2008, in the 2007 Annual General Meeting of the Company, it was approved that the proposal for the distribution of profits after tax of the Company for the year 2007, namely, the withdrawal of RMB64,861,813.02 for the statutory common reserves, the distribution of a final dividend of RMB0.24 per share in cash (including tax for A shares) for the year ended 31 December 2007 to holders of A shares of the Company and to holders of H shares whose names appeared on the register of members of the Company on 15 April 2008, which amounts to RMB196,080,000.00 in total, and that the remaining undistributed profit will be carried forward to the year 2008. Dividend for holders of H shares was settled in Hong Kong dollar. The exchange rate adopted for payment of dividends in Hong Kong dollar was the average closing exchange rates of Renminbi against Hong Kong dollar announced by the People's Bank of China in a week prior to the date of declaration of dividends (excluding the date on which the dividends were declared). The Company paid the declared dividend for H shares to Bank of China (Hong Kong) Trustees Limited which, on 15 July 2008, dispatched the dividend to holders of H Shares whose names appeared on the register of members of the Company on 15 April 2008.

(2) On 10 June 2008, Dongfang Boiler announced that Dongfang Electric Corporation proceeded with the procedure of acquisition of the remaining shares from Dongfang Boiler, through the service systems of the Shanghai Stock Exchange and Shanghai Branch of China Securities Depository and Clearing Company Limited. The term of acquisition of the remaining shares expired on 11 July 2008. Besides, the settlement and transfer procedures of this acquisition of remaining shares had already been completed on 28 July 2008. Hence, the amount of A shares (i.e. Consideration Shares) of DEC to be issued and circulated is 84,371 shares. The A shares of DEC exchanged in this acquisition of remaining shares by shareholders of the remaining shares of Dongfang Boiler will be listed and circulated on 4 August 2008.

Differences in requirements as applicable to the Group between the HKFRSs and the PRC Accounting Standards

Unit: RMB'000

	Net profit For the period	Net assets For the end of the period
The PRC Accounting Standards	442,955	1,203,290
Hong Kong Accounting Standards	452,454	743,845
Explanation of differences	Appreciation of the appraisal of Dongfang Turbine, coupled with the effect of government subsidies and deferred income tax	

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

During the reporting period, the Company accomplished output of power-generating equipment of 12,800MW. Among which, it produced 15 sets (3,265.5MW) of hydro-electric turbine generators, 22 sets (9,140MW) of steam turbine generators, 263 sets (394.5MW)of wind power generators, 34 sets (13,587MW) of power station boilers and 16 sets (6,330MW) of power station steam turbines.

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

Problems and Obstacles in Operation

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

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

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

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

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

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

OUTLOOK FOR THE SECOND HALF OF THE YEAR

Firstly, the Company will enhance planning management to guarantee the coordination among technology, material and production plan. By developing, specifying and implementing production plan in key projects, accelerate the manufacture of key components, cause the organisation and production efficient. Fully developing internal potential, strengthening and widening the supervision in production and delivery, following the completion plans strictly in order to meet the targets for the whole year.

Secondly, pursuant to the Company's overall aim of "Helping each other, rebuilding home" and "Increase revenues and cut expenditures", the Company will adopt effective measures to actively increase profits. The Company will strictly control production costs and expenses, so as to fulfil the target of cutting cost and enhancing efficiency.

Thirdly, set up new marketing strategy in order to strengthen customers' confidence in the Company; secure orders from the new power generation and resources market, including wind power and nuclear power, which are not affected by the earthquake, so as to fulfil the need of continuous development after re-construction.

Fourthly, the Company shall launch a plan for rebuilding Dongfang Turbine, obtain assistance in funding and policies so as to promote the construction of Dongfang Turbine's new production base in Deyang step by step.

FINANCIAL ANALYSIS

I. Financial status

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

1. Cash and bank deposits amounted to RMB9,376,609,000 (December 2007: RMB5,020,270,000), increasing by 86.77% over the beginning of the year. The main reason is that the Company has increased efforts to collect sales receivables in view of its liquidity shortage. Meanwhile, certain customers showed their support to the Company after the "5.12" earthquake by taking the initiative to pay retention receivables or project progress payments;

2. Trade and other receivables amounted to RMB17,446,509,000 (December 2007: RMB13,993,166,000), representing an increase of 24.68% over the beginning of the year. This was primarily attributable to an increase of 89.50% in prepayment of raw materials by the Company over the beginning of the year, as the Company procured more raw material to meet its arduous production target so as to maintain its high output and also due to the key resources constraint in the global market;

3. Inventories amounted to RMB13,921,584,000 (December 2007: RMB12,040,057,000), increasing by 15.63% over the beginning of the year, which is mainly due to the increased inventories of raw materials as well as semi-finished products for long-term production plan in the Company's expansion into the new energy business;

4. Property, plant and equipment amounted to RMB1,920,073,000 (December 2007: RMB2,337,910,000), decreased by 17.87% from the beginning of the year, which was mainly due to the recognition of loss from retirement of fixed assets caused by the earthquake during the period;

5. Construction in progress amounted to RMB557,775,000 (December 2007: RMB312,086,000), representing an increase of 78.72% over the beginning of the year, which was mainly due to the new acquisition of production equipment for enlarged production capacity, and additional investment in infrastructure and equipment for localization and bulk production of new products;

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

II. Cash Flows

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

III. Borrowings

As at 30 June 2008, the Company held short-term bank loan of RMB247,060,000 due within one year, which was obtained by discounted receivable notes to financial institutions. Such loan should be deemed as loans obtained by pledging receivable notes. The Company also held long-term bank loan of RMB5,820,000 due over one year but within two years. All loans, cash and cash equivalents are denominated in RMB. Such loans bore interest rates from 2.55% to 6.39%.

IV. Gearing Ratio

As at the end of the period, gearing ratio was 98.16%. The relatively high gearing ratio is mainly attributable to prepayment from customers (62.51% of total liability). Moreover, for the listing of the Company's entire assets, the residual payment and interest accrued thereon amounting to RMB6,052,906,000 payable for the acquisition of 100% equity interest of Dongfang Turbine and 68.05% equity interest of Dongfang Boiler remained outstanding, accounting for 13.28% of the total liabilities. Gearing ratios of individual statements ranged from 75% to 85%. Net assets and shareholdings of Dongfang Turbine and Dongfang Boiler are offset in the consolidated financial statements which lead to decrease in net assets and therefore the rise in gearing ratio.

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

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

The amount of deposit in foreign currency was minimal; therefore the Company was less susceptible to exchange rate fluctuation. In addition, foreign exchange under prepayment account was mainly used to cover normal production and operation expenses for imported raw material and equipment including letter of credit, collection, cash against delivery. Payments were made in various currencies, including: U.S. dollar, Japanese Yen, Euro, Swiss Franc and so on, thus minimize the risks of Renminbi appreciation or depreciation against certain currency and the impact on profit of the Company. Given the overall environment of Renminbi appreciation, the management considers risk of exchange rate fluctuation is minimal. Therefore, the Company actively reduced U.S. dollar deposit, and kept a close eye on exchange rate fluctuation and its risks. The Company is not taking hedge including currency forward contracts or other instruments to avoid foreign exchange risks for the time being.

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

VIII. Gross Profit Margin of Principal Business (in accordance with the PRC Accounting Standards)

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

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

2. The gross profit margin for wind power products was 14.69% for the period, representing an increase of 9.89 percentage points from 4.80% in the corresponding period last year. The main reason for the growth was that with rapid increase in batch production capacity of wind power production products and nationalization, the fixed cost per unit of product fell significantly. Meanwhile, the sales of wind power products accounted for approximately 12% of the revenue and resulted in the realization of economy of scale;

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

INVESTMENT OF THE COMPANY

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

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 or sell any of the shares of the Company.

EXTERNAL GUARANTEE AND PERFORMANCE

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

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

By order of the Board
Si Zefu
Chairman

Chengdu, Sichuan, the PRC
21 August 2008

As at the date of this announcement, the Board of the Company is comprised of:

Executive Directors:	Si Zefu and Wen Shugang
Non-executive Directors:	Zhang Xiaolun, Zhang Jilie and Li Hongdong
Independent non-executive Directors:	Zheng Peimin, Chen Zhangwu and Xie Songlin

Report of 2008 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 Limited (http://www.hkex.com.hk).