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東方電氣股份有限公司

Dongfang Electric Corporation Limited

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

(Stock Code: 1072)

**PRELIMINARY ANNOUNCEMENT OF
2014 INTERIM RESULTS**

RESULTS HIGHLIGHTS

Total revenue from operations of the Group in the first half of 2014 amounted to RMB19,000 million, representing a decrease of 7.25% compared with the same period last year;

Net profit attributable to shareholders of the Group in the first half of 2014 amounted to RMB839 million, representing a decrease of 29.24% compared with the same period last year;

Earnings per share of the Group in the first half of 2014 amounted to RMB0.42, as compared with RMB0.59 for the same period last year; and

New orders of the Group in the first half of 2014 amounted to RMB20,300 million.

The board (the “**Board**”) of directors (the “**Directors**”) of Dongfang Electric Corporation Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2014 (the “**Period**”) prepared in accordance with the China Accounting Standards for Business Enterprises. The interim results have been reviewed by the audit committee of the Company.

I. FINANCIAL INFORMATION

Consolidated Balance Sheet

At 30 June 2014

Unit: RMB

| Item | <i>Notes</i> | Amount at the end of the period | Amount at the beginning of the year |
|---|--------------|--|---|
| Current assets: | | | |
| Monetary fund | | 10,917,603,783.25 | 12,131,648,112.18 |
| Balances with clearing companies | | | |
| Placements with banks and other financial institutions | | | |
| Held-for-trading financial assets | | 26,026,652.51 | 26,608,362.14 |
| Bills receivable | | 3,141,629,389.52 | 2,784,861,591.44 |
| Trade receivables | 2 | 17,767,984,751.63 | 17,032,484,330.47 |
| Prepayments | | 4,318,214,620.34 | 4,716,518,840.61 |
| Premiums receivable | | | |
| Reinsurance accounts receivable | | | |
| Deposits receivable from reinsurance treaty | | | |
| Interests receivable | | 119,629,922.17 | 101,620,018.51 |
| Dividends receivable | | 39,087.80 | 39,087.80 |
| Other receivables | | 386,345,917.31 | 352,960,215.57 |
| Purchases of resold financial assets | | | |
| Inventories | | 28,939,270,429.53 | 27,301,842,960.20 |
| Non-current assets due within one year | | | |
| Other current assets | | 1,253,624.66 | |
| Total current assets | | 65,617,998,178.72 | 64,448,583,518.92 |

| Item | <i>Notes</i> | Amount at the end of the period | Amount at the beginning of the year |
|--|--------------|--|--|
| Non-current assets: | | | |
| Loans and advances granted | | | |
| Available-for-sale financial assets | | 331,214,963.00 | 306,816,665.00 |
| Held-to-maturity investments | | | |
| Long-term receivables | | | |
| Long-term equity investments | | 828,039,822.15 | 784,129,880.78 |
| Investment properties | | 71,038,910.13 | 72,798,574.45 |
| Fixed assets | | 8,844,631,393.86 | 9,243,610,975.06 |
| Construction in progress | | 863,383,767.98 | 685,790,408.06 |
| Construction materials | | 113,464.96 | 113,464.96 |
| Disposal of fixed assets | | | 11,958.08 |
| Productive biological assets | | | |
| Oil and gas assets | | | |
| Intangible assets | | 988,913,463.27 | 1,013,339,900.46 |
| Development expenses | | | |
| Goodwill | | | |
| Long-term deferred expenditures | | 632,843.13 | 509,000.14 |
| Deferred income tax assets | | 1,286,334,497.13 | 1,280,998,708.21 |
| Other non-current assets | | | |
| Total non-current assets | | 13,214,303,125.61 | 13,388,119,535.20 |
| Total assets | | 78,832,301,304.33 | 77,836,703,054.12 |

| Item | <i>Notes</i> | Amount at the end of the period | Amount at the beginning of the year |
|---|--------------|--|--|
| Current liabilities: | | | |
| Short-term borrowings | | 2,912,744,119.28 | 3,453,072,066.14 |
| Borrowings from central bank | | | |
| Deposit taking and deposit in inter-bank market | | | |
| Placements from banks and other financial institutions | | | |
| Held-for-trading financial liabilities | | | |
| Bills payable | | 4,958,089,387.15 | 4,865,094,372.76 |
| Trade payables | 3 | 15,005,648,722.49 | 14,224,698,923.21 |
| Receipts in advance | | 32,910,949,860.32 | 32,284,212,140.25 |
| Disposal of repurchased financial assets | | | |
| Handling charges and commissions payable | | | |
| Staff remuneration payable | | 386,326,054.12 | 394,611,720.83 |
| Taxes payable | | -448,596,803.53 | 53,907,111.62 |
| Interests payable | | | |
| Dividends payable | | 3,346,316.82 | 3,389,732.02 |
| Other payables | | 1,957,279,644.21 | 1,805,192,953.82 |
| Reinsurance accounts payable | | | |
| Deposits for insurance contracts | | | |
| Customer deposits for trading in securities | | | |
| Amounts due to issuer for securities underwriting | | | |
| Non-current liabilities due within one year | | 36,320,000.00 | 86,320,000.00 |
| Other current liabilities | | 61,035,992.07 | 79,943,075.58 |
| Total current liabilities | | 57,783,143,292.93 | 57,250,442,096.23 |

| Item | <i>Notes</i> | Amount at the end of the period | Amount at the beginning of the year |
|--|--------------|--|--|
| Non-current liabilities: | | | |
| Long-term borrowings | | 56,200,000.00 | 39,400,000.00 |
| Debentures payable | | | |
| Long-term payables | | 685,252.84 | 685,252.84 |
| Special payables | | 58,062,614.63 | 58,042,614.63 |
| Estimated liabilities | | 1,259,485,765.34 | 1,392,616,607.65 |
| Deferred income tax liabilities | | 1,426,136.65 | 1,838,036.52 |
| Other non-current liabilities | | 540,849,852.40 | 500,287,825.52 |
| Total non-current liabilities | | 1,916,709,621.86 | 1,992,870,337.16 |
| Total liabilities | | 59,699,852,914.79 | 59,243,312,433.39 |
| Shareholders' equity | | | |
| Share capital | | 2,003,860,000.00 | 2,003,860,000.00 |
| Capital reserve | | 4,990,032,601.35 | 4,969,294,048.05 |
| Less: Treasury shares | | | |
| Special reserve | | 30,083,143.19 | 15,684,408.62 |
| Surplus reserve | | 578,473,906.12 | 578,473,906.12 |
| General risk provision | | | |
| Undistributed profit | 4 | 10,640,908,570.41 | 10,162,309,001.98 |
| Difference arising from translation of foreign currency financial statements | | -31,678,977.53 | -35,852,378.54 |
| Total equity attributable to shareholders of the Company | | 18,211,679,243.54 | 17,693,768,986.23 |
| Minority interests | | 920,769,146.00 | 899,621,634.50 |
| Total shareholders' equity | | 19,132,448,389.54 | 18,593,390,620.73 |
| Total liabilities and shareholders' equity | | 78,832,301,304.33 | 77,836,703,054.12 |

Consolidated Income Statement

For the six months ended 30 June 2014

Unit:RMB

| Item | <i>Notes</i> | Amount for the Period | Amount for the same period last year |
|--|--------------|--------------------------|--|
| I. Total revenue from operations | | 18,984,168,298.81 | 20,467,106,740.89 |
| Including: Revenue from operations | 5 | 18,984,168,298.81 | 20,467,106,740.89 |
| Interest income | | | |
| Insurance premiums earned | | | |
| Income from fees and commissions | | | |
| II. Total cost of operations | | 18,069,976,218.98 | 19,168,798,771.16 |
| Including: Cost of operations | 5 | 15,959,657,175.55 | 16,713,119,226.23 |
| Interest expenses | | | |
| Fee and commission expenses | | | |
| Surrender payment | | | |
| Net expenditure for compensation payments | | | |
| Net provision for insurance contracts | | | |
| Expenditures for insurance policy dividend | | | |
| Reinsurance costs | | | |
| Business tax and surcharges | | 114,238,005.20 | 154,592,062.67 |
| Selling expenses | | 312,608,613.19 | 431,688,349.95 |
| Administrative expenses | | 1,450,255,930.65 | 1,558,124,480.21 |

| Item | <i>Notes</i> | Amount for the Period | Amount for the same period last year |
|--|--------------|----------------------------------|--|
| Finance costs | | -105,785,546.50 | -45,060,691.01 |
| Impairments loss of assets | | 339,002,040.89 | 356,335,343.11 |
| Add: Gains from change in fair value (loss is represented by “-”) | | -581,709.63 | 21,784,388.52 |
| Gain from investment (loss is represented by “-”) | | 46,468,285.97 | 67,325,202.92 |
| Including: Gains from investment in associates and joint ventures | | 44,007,465.77 | 65,446,195.92 |
| Exchange gain (loss is represented by “-”) | | | |
| III. Operating profit (loss is represented by “-”) | | 960,078,656.17 | 1,387,417,561.17 |
| Add: Non-operating income | | 46,048,632.81 | 72,347,038.76 |
| Less: Non-operating expense | | 2,903,050.22 | 23,984,916.20 |
| Including: Loss from disposal of non-current assets | | 1,488,576.57 | 1,326,673.02 |
| IV. Total profit (total loss is represented by “-”) | | 1,003,224,238.76 | 1,435,779,683.73 |
| Less: Income tax expense | 6 | 134,457,344.74 | 223,705,752.38 |

| Item | <i>Notes</i> | Amount for the Period | Amount for the same period last year |
|--|--------------|----------------------------------|--|
| V. Net profit (net loss is represented by “-”) | | 868,766,894.02 | 1,212,073,931.35 |
| Net profit attributable to the shareholders of the Company | | 839,294,368.43 | 1,186,154,894.33 |
| Minority interests | | 29,472,525.59 | 25,919,037.02 |
| VI. Earnings per share: | 7 | | |
| (I) Basic earnings per share | | 0.42 | 0.59 |
| (II) Diluted earnings per share | | 0.42 | 0.59 |
| VII. Total comprehensive income | | 24,911,954.31 | -93,967,565.17 |
| Including: Items not to be re-classified into profit or loss | | | |
| Items to be re-classified into profit or loss when satisfied the stipulated conditions in the subsequent accounting period | | 24,911,954.31 | -93,967,565.17 |
| VIII. Total comprehensive income | | 893,678,848.33 | 1,118,106,366.18 |
| Total comprehensive income attributable to the shareholders of the Company | | 864,206,322.74 | 1,092,187,329.16 |
| Total comprehensive income attributable to minority interests | | 29,472,525.59 | 25,919,037.02 |

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared on a going concern basis, in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC. Meanwhile, the financial statements disclose relevant information in accordance with the stipulations of Rules for Preparation of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions of Financial Report (as amended in 2010) issued by China Securities Regulatory Commission, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

2. TRADE RECEIVABLES

Unit: RMB

| Age | Amount at the end of the period | | | Amount at the beginning of the period | | |
|---------------------|---------------------------------|-------------------|----------------------------|---------------------------------------|-------------------|----------------------------|
| | Carrying amount | | Provision for bad debts | Carrying amount | | Provision for bad debts |
| | Amount | Percentage (%) | | Amount | Percentage (%) | |
| Within one year | 9,519,821,952.72 | 41.51 | 475,991,097.63 | 8,956,385,206.51 | 40.87 | 447,819,260.36 |
| One to two years | 4,841,393,997.33 | 21.11 | 547,882,140.72 | 4,542,315,379.84 | 20.73 | 537,973,919.05 |
| Two to three years | 2,718,809,295.87 | 11.86 | 543,761,859.16 | 3,293,957,814.77 | 15.03 | 658,791,562.94 |
| Three to four years | 2,614,832,024.51 | 11.40 | 1,045,932,809.81 | 2,117,849,215.78 | 9.66 | 847,139,686.33 |
| Four to five years | 1,373,390,777.13 | 5.99 | 686,695,388.61 | 1,254,772,284.55 | 5.73 | 641,071,142.30 |
| Above five years | 1,864,861,308.20 | 8.13 | 1,864,861,308.20 | 1,748,190,087.87 | 7.98 | 1,748,190,087.87 |
| Total | <u>22,933,109,355.76</u> | <u>100</u> | <u>5,165,124,604.13</u> | <u>21,913,469,989.32</u> | <u>100</u> | <u>4,880,985,658.85</u> |

The part of the Group's construction contractual revenue is settled in accordance with relevant terms specified in the contracts governing the projects. The Group normally offers a longer credit period (such as two to three years) to larger or long-established companies and customers with good repayment history.

For sales of products, settlement is made in accordance with relevant terms specified in the contracts. One-year credit period is normally granted to large or long-established companies and customers with good repayment history. As to small or new companies or short-term customers, receivables are normally expected to be immediately settled in 180 days after provision of services or delivery of goods.

3. TRADE PAYABLES

| | <i>Unit: RMB</i> | |
|--------------------|--|--|
| Age | Amount at the end of the period | Amount at the beginning of the year |
| Within one year | 10,462,485,951.83 | 10,781,307,023.02 |
| One to two years | 1,379,039,229.83 | 1,044,275,359.05 |
| Two to three years | 1,838,200,149.76 | 943,654,519.10 |
| Above three years | 1,325,923,391.07 | 1,455,462,022.04 |
| Total | <u>15,005,648,722.49</u> | <u>14,224,698,923.21</u> |

The average credit period for purchase of goods is 180 days. With financial risk management policies in place, the Group ensures that all payables are settled within the credit timeframe.

4. UNDISTRIBUTED PROFIT

Unit: RMB

| Age | Amount at the end of the period | Amount at the beginning of the year |
|---|---------------------------------------|---|
| Amount at the end of last year | 10,162,309,001.98 | 8,158,283,796.26 |
| Add: Adjustment on undistributed profit at beginning of the year Including: change in scope of consolidation under common control | | |
| Amount at the beginning of the year | 10,162,309,001.98 | 8,158,283,796.26 |
| Add: Net profit attributable to shareholders of the Company for the year | 839,294,368.43 | 2,349,431,591.08 |
| Less: Transfers to statutory surplus reserves | | 124,981,785.36 |
| Dividends payable on ordinary shares | 360,694,800.00 | 220,424,600.00 |
| Others | | |
| Amount at the end of the year | <u>10,640,908,570.41</u> | <u>10,162,309,001.98</u> |

The distribution of dividends on ordinary shares to shareholders of the Company was made by the Company according to the plan for distribution of profits after tax for 2013 approved at the 2013 annual general meeting held on 29 April 2014, namely, a cash dividend of RMB1.80 (tax inclusive) per 10 shares to each shareholder, totaling RMB360,694,800 (tax inclusive), as calculated based on the Company's total share capital of 2,003,860,000 as at 31 December 2013.

5. REVENUE FROM OPERATIONS AND COST OF OPERATIONS

Unit: RMB

| Item | Amount for the Period | Amount for the same period last year |
|-----------------------------------|----------------------------------|---|
| Revenue from principal operations | 18,837,757,392.66 | 20,330,627,515.53 |
| Revenue from other operations | 146,410,906.15 | 136,479,225.36 |
| Cost of operations | <u>15,959,657,175.55</u> | <u>16,713,119,226.23</u> |

6. INCOME TAX EXPENSES

Unit: RMB

| Item | Amount for the Period | Amount for the same period last year |
|---------------------------|----------------------------------|--|
| Income tax for the period | 110,043,846.58 | 228,638,363.54 |
| Deferred income tax | <u>24,413,498.16</u> | <u>-4,932,611.16</u> |
| Total | <u>134,457,344.74</u> | <u>223,705,752.38</u> |

Except that the companies in India were taxed at 32.445% and certain companies were entitled to a preferential rate of 15% for enterprise income tax, all other enterprises of the Group were subject to enterprise income tax at a rate of 25%.

7. EARNINGS PER SHARE

Unit: RMB

| Item | Amount for the Period | Amount for the same period last year |
|---|--------------------------|--|
| Net profit attributable to shareholders of the Company | 839,294,368.43 | 1,186,154,894.33 |
| The weighted average number of the Company's ordinary shares in issue | 2,003,860,000.00 | 2,003,860,000.00 |
| Basic earnings per share | <u>0.42</u> | <u>0.59</u> |

Diluted earnings per share was the same as basic earnings per share for the Period as there were no diluting events (For the same period last year: nil) during the Period.

8. SEGMENT INFORMATION

Reporting segment for the Period

Unit: RMB

| Item | Clean high-efficiency power generation equipments | New Energy | Water energy and environmental equipments | Engineering and Services | Unallocated | Eliminations | Total |
|--|--|------------------|---|-----------------------------|--------------------|-------------------|-------------------|
| Operating revenue | 16,696,619,809.19 | 2,637,774,035.41 | 2,132,210,284.63 | 2,729,331,109.11 | 146,410,906.15 | 5,358,177,845.68 | 18,984,168,298.81 |
| Including: external sales | 11,887,442,477.01 | 2,160,256,146.00 | 1,976,227,988.71 | 2,813,830,780.94 | 146,410,906.15 | | 18,984,168,298.81 |
| inter-segment sales | 4,809,177,332.18 | 477,517,889.41 | 155,982,295.92 | -84,499,671.83 | | 5,358,177,845.68 | |
| Operating expenses | 14,577,216,285.97 | 2,366,044,765.55 | 1,832,223,066.30 | 2,466,356,503.30 | 1,485,284,541.79 | 4,703,035,520.27 | 18,024,089,642.64 |
| Operating profit (losses) | 2,119,403,523.22 | 271,729,269.86 | 299,987,218.33 | 262,974,605.81 | -1,338,873,635.64 | 655,142,325.41 | 960,078,656.17 |
| Total assets | | | | | 115,824,547,089.29 | 36,992,245,784.96 | 78,832,301,304.33 |
| Total liabilities | | | | | 87,218,066,120.60 | 27,518,213,205.81 | 59,699,852,914.79 |
| Supplemental information | | | | | | | |
| Depreciation and amortization expenses | | | | | 599,906,839.72 | | 599,906,839.72 |
| Capital expenditure | | | | | | | |
| Non-cash expenses other than depreciation and amortization | | | | | | | |

Reporting segment for the same period last year*Unit: RMB*

| Item | Clean | New Energy | Water energy and environmental equipments | Engineering and Services | Unallocated | Eliminations | Total |
|--|---|------------------|---|-----------------------------|--------------------|-------------------|-------------------|
| | high-efficiency power generation equipments | | | | | | |
| Operating revenue | 14,008,357,063.36 | 5,318,930,907.91 | 2,117,370,766.27 | 2,783,627,964.85 | 136,479,225.36 | 3,897,659,186.86 | 20,467,106,740.89 |
| Including: external sales | 10,754,580,223.18 | 4,708,292,450.16 | 2,102,242,667.93 | 2,765,512,174.26 | 136,479,225.36 | | 20,467,106,740.89 |
| inter-segment sales | 3,253,776,840.18 | 610,638,457.75 | 15,128,098.34 | 18,115,790.59 | | 3,897,659,186.86 | |
| Operating expenses | 12,028,778,625.95 | 4,533,611,847.15 | 1,695,452,726.89 | 2,295,155,715.88 | 1,746,937,726.24 | 3,220,247,462.39 | 19,079,689,179.72 |
| Operating profit (losses) | 1,979,578,437.41 | 785,319,060.76 | 421,918,039.38 | 488,472,248.97 | -1,610,458,500.88 | 677,411,724.47 | 1,387,417,561.17 |
| Total assets | | | | | 108,239,586,991.53 | 31,368,457,423.12 | 76,871,129,568.41 |
| Total liabilities | | | | | 81,186,411,208.73 | 21,754,253,137.63 | 59,432,158,071.10 |
| Supplemental information | | | | | | | |
| Depreciation and amortization expenses | | | | | 629,932,984.36 | | 629,932,984.36 |
| Capital expenditure | | | | | | | |
| Non-cash expenses other than depreciation and amortization | | | | | | | |

9. NET CURRENT ASSETS*Unit: RMB*

| Item | Amount at the end of the period | Amount at the beginning of the year |
|---------------------------|---------------------------------------|---|
| Current assets | 65,617,998,178.72 | 64,448,583,518.92 |
| Less: Current liabilities | 57,783,143,292.93 | 57,250,442,096.23 |
| Net current assets | 7,834,854,885.79 | 7,198,141,422.69 |

10. TOTAL ASSETS LESS CURRENT LIABILITIES

Unit: RMB

| Item | Amount at the end of the period | Amount at the beginning of the year |
|---------------------------------------|--|--|
| Total assets | 78,832,301,304.33 | 77,836,703,054.12 |
| Less: Current liabilities | 57,783,143,292.93 | 57,250,442,096.23 |
| Total assets less current liabilities | <u>21,049,158,011.40</u> | <u>20,586,260,957.89</u> |

11. DIVIDENDS

The Board does not recommend the payment of interim dividends for 2014 (Interim dividend for the same period in 2013: Nil).

II. MANAGEMENT DISCUSSION AND ANALYSIS

Review of the Overall Operation during the Reporting Period

During the reporting period, the Company encountered severe condition of industry development. Accordingly, the Company adhered to the “three changes” (change from emphasizing scale expansion to efficiency and profit growth, change from emphasizing capacity improvement to technical upgrading, and change from emphasizing manufacturing-based operations to manufacturing- and service-based operations). With the method of reform and innovation and centered around the economic results, the Company proactively implemented various production and operation activities in accordance with the principles of “scientific management, streamlined structure and high efficiency, highlighting effectiveness and stimulating vitality”. Therefore, the production target of completing half of the production volume within a half year was achieved. However, due to the slow growth of the domestic electricity market, the electricity demand decreased. In addition, the extremely intense market competition and continuous decrease in the sales prices of the products resulted in the obvious decrease in the Company’s profits.

Completion of Operation Indicators

During the reporting period, in accordance with the PRC Accounting Standards for Business Enterprises, the Company recorded a total operating revenue of RMB18,984 million, representing a decrease of 7.25% over the same period last year; net profit attributable to shareholders of the Company of RMB839 million, representing a decrease of 29.24% over the same period last year; earnings per share of RMB0.42; and gross profit margin for principal operations was 15.68%, representing a decrease of 2.37 percentage points over the same period last year.

Capacity of Power Generation Equipments

During the reporting period, the Company produced power generation equipments with total capacity of 17,873.5MW, up 1.0% year on year, fulfilling the production target of completing half of the production volume with a half year . These equipment included 17 hydro-electric turbine generator sets (2,344MW), down 44.0% year on year; 34 steam turbine generators (15,135MW), up 12.6% year on year; and 235 wind turbine generator sets (394.5MW), up 440.4% year on year; 28 power station boilers (10,640MW), down 0.3% year on year; and 46 power station steam turbines (15,885MW), up 5.0% year on year.

Market Orders

In the first half of this year, affected by the overseas and domestic macro-economy, the overall demand in the electricity equipment industry was low. Although the demand for wind power increased, the demand for thermal power and gas turbine decreased continuously with fiercer price competitions. In such difficult market situation, all of the staff of the Company endeavored to make some progress in an active manner through its unremitting efforts to ensure its share in hydroelectric and thermal power markets. In addition, the Company made some achievements in the aspects of wind power, nuclear power markets and others.

The Company's new orders amounted to RMB20.3 billion, of which export orders amounted to RMB908 million, accounting for 4.5%, while 59.3% of the new orders was attributable to high-efficiency clean energy, 24.1% to new energy, 6.1% to water energy and environmental protection, and 10.5% to engineering and services in the first half of this year.

As at 30 June 2014, the Company had orders in hand of approximately RMB138 billion, among which high-efficiency clean energy accounted for 64.5%, new energy accounted for 16.1%, water energy and environmental protection accounted for 3.9%, and engineering and services accounted for 15.5%. Export orders accounted for 14.8% of all of the Company's orders in hand.

Production and Project Construction

In the first half of this year, Xiluodu and Nuozhadu large-scale hydroelectric projects were successfully completed and the Gerry units in Brazil completed the full capacity test. The relevant technical innovation of ultra-supercritical thermal projects of Liuheng, Jiaozuo, Wanzhou, Anyuan and others made breakthrough successively with the steady progress as planned. The performance testing of the world's first 600MW supercritical circulating fluidized bed generating unit of Baima Project passed smoothly with various excellent indicators. Yangjiang No.1, Ningde No.2 and Hongyanhe No.2 nuclear power units successfully put into commercial operation. The first F4 improved Zhongshan No.1 combined cycle steam turbine unit (F4 改進型中山一號聯合循環燃汽輪機組) completed the 168-hour trial operation.

As at the end of June, there were 20 power station construction projects in progress (four of which were general contract projects) with the total capacity of 14,593MW. The important projects nodes basically reached the target. Four units of the Saudi Rabigh project and so on obtained PAC certificates, and the first gas turbine of Nandipu Project in Pakistan realized combined grid power generation in advance.

Reform and Innovation Motivated Vitality and Promoted Development

Concentrating on the "three changes", the Company steadily promoted comprehensive deep reform and consolidated rectification and special improvement for management weakness and bottleneck problems in order to motivate development of vitality and continuously improve core competitiveness. Through proactively improving capital operation, the Company conducted an innovative financing and fund raising projects to issue A share convertible corporate bonds with the aggregate carrying value of RMB4 billion to facilitate the stable development of the Company.

OUTLOOK FOR THE SECOND HALF

In the second half of 2014, under the impact of international and domestic macroeconomic environments, the domestic power generation equipment market will still maintain adjustment and steady progress. The hydropower market will usher in a high-tide period of development; the demand for thermal power will further decline; the construction of nuclear power projects will gradually resume; the demand for gas turbine will slightly decrease; the demand for wind power will grow; the power station service and energy-saving and environment protection industry will maintain sustainable development. The expansion of overseas markets will be a great challenge due to the impact of economy, policy, law, etc.

Confronted with the domestic and overseas market situation with challenges and opportunities, the Company will seize the strategic opportunity of energy reform and energy structure adjustment in the PRC and increase efforts for development of domestic and overseas markets with the acceleration of the “three changes” as the theme and deepening reform in a comprehensive way as the focus; boost independent innovation, vigorously promote the quality improvement, efficiency enhancement and performance optimization of leading products and continuously enhance the products’ competitiveness; solidly conduct quality management and promote stable improvement of product quality; constantly strengthen the costs management and control capacities and strive to increase revenue, reduce expenditure, decrease costs and increase benefits; elaborately organize production and increase project implementation efforts to ensure realization of annual goals, contain the decline of operating results, and achieve stable development of the Company.

(I) Analysis of Principal Operations

1. Analysis of changes in certain items in income statement and cash flow statement

Unit : RMB

| Item | Amount for the Period | Amount for the same period last year | Change (%) |
|--|--------------------------|--------------------------------------|------------|
| Operating revenue | 18,984,168,298.81 | 20,467,106,740.89 | -7.25 |
| Operating cost | 15,959,657,175.55 | 16,713,119,226.23 | -4.51 |
| Selling expenses | 312,608,613.19 | 431,688,349.95 | -27.58 |
| Administrative expenses | 1,450,255,930.65 | 1,558,124,480.21 | -6.92 |
| Finance costs | -105,785,546.50 | -45,060,691.01 | 134.76 |
| Net cash flows from operating activities | 131,877,492.15 | 886,961,511.14 | -85.13 |
| Net cash flows from investing activities | -451,631,145.18 | -379,658,649.70 | 18.96 |
| Net cash flows from financing activities | -891,801,628.25 | 534,276,095.50 | -266.92 |
| Research and development expenses | 378,657,576.57 | 370,730,462.00 | 2.14 |

2. Top five sales customers and suppliers

(1) Major sales customers

During the reporting period, the Company's revenue from operation derived from its top five customers amounted to RMB3,253 million, accounting for 17.14% of the Group's total revenue from operation.

(2) Major suppliers

During the reporting period, the Company's procurement from its top five suppliers amounted to RMB1,265 million, accounting for 9.45% of the Group's total procurement.

3. Cash flows

Unit : RMB

| Item | Amount for the Period | Amount for the same period last year | Change (%) |
|---|----------------------------------|---|-----------------------|
| Net cash flows from operating activities | 131,877,492.15 | 886,961,511.14 | -85.13 |
| Cash received from disposal of investments | 39,013,662.90 | | |
| Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets | 443,198,750.89 | 358,866,905.54 | 23.50 |
| Cash paid for investment | 51,000,000.00 | 28,000,000.00 | 82.14 |

- (1) Net cash out flows from operating activities decreased by 85.13% year-on-year, mainly due to the increase in the cash paid for procurement by the Company during the period.
- (2) Cash received from disposal of investments increased by RMB39 million year-on-year, mainly due to the cash of RMB29 million received from disposal of treasury bond investment by Dongfang Boiler and the deposit of RMB10 million by Sichuan International Trust.
- (3) Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets increased by 23.50% year-on-year, mainly due to the increase in investments in fixed assets by the Company in the period.

- (4) Cash paid for investment increased by 82.14% year-on-year, mainly due to the fact that the Company invested RMB15 million in Huadian Longkou Wind Power Company and made an addition investment of RMB36 million in Sichuan Wind Power Industry Investment Co., Ltd.

(II) Analysis of Operations by Industry, Product or Region

1. Principal operations by industry and product

Unit: RMB

| Product | Operating revenue | Operating costs | Gross profit margin (%) | Year-on-year increase/decrease in operating revenue (%) | Year-on-year increase/decrease in operating costs (%) | Year-on-year increase/ decrease in gross profit margin (%) |
|---|--------------------------|--------------------------|-------------------------|---|---|--|
| Clean high efficiency power generation equipments | 11,887,442,477.01 | 9,854,421,118.04 | 17.10 | 10.53 | 11.89 | -1.01 |
| New energy | 2,160,256,146.00 | 1,888,471,320.58 | 12.58 | -54.12 | -51.87 | -4.09 |
| Water energy and environmental equipments | 1,976,227,988.71 | 1,691,344,603.52 | 14.42 | -5.99 | 0.52 | -5.54 |
| Engineering and services | 2,813,830,780.94 | 2,449,727,980.24 | 12.94 | 1.75 | 9.02 | -5.80 |
| Total | <u>18,837,757,392.66</u> | <u>15,883,965,022.38</u> | <u>15.68</u> | <u>-7.34</u> | <u>-4.66</u> | <u>-2.37</u> |

- (1) The Company maintained the momentum of steady development in the Period, with sales revenue for the Period from principal operations decreasing by 7.34% as compared with the same period last year.
- (2) During the Period, the operating revenue from clean high-efficiency power generation equipments increased by 10.53% as compared with the same period last year mainly due to an increase of 11.42% in revenue from thermal power and an increase of 87.51% in revenue from gas turbines. The gross profit margin of clean high-efficiency power generation equipments decreased by 1.01 percentage points as compared with the same period last year, mainly attributable to a decline in the gross profit margin of thermal power.

- (3) During the Period, the revenue from the new energy decreased by 54.12% as compared with the same period last year, mainly due to the decrease of 62.65% in revenue from the wind power. Meanwhile, the gross profit margin of the new energy segment decreased by 4.09 percentage points, mainly due to the lower sales price of wind power in the Period.
- (4) During the Period, the revenue from water energy and environmental equipments decrease by 5.99% as compared with the same period last year, mainly due to the decrease of 18.73% in sales revenue of water energy. Meanwhile, the gross profit margin of water energy and environmental equipments declined by 5.54 percentage points, which mainly resulted from a decrease in the gross profit margin of hydropower in the Period.
- (5) During the Period, the gross profit margin of engineering and services decreased by 5.80 percentage points as compared with the same period last year, mainly due to the decrease in gross profit margin of engineering and power station services in the Period.

2. *Principal operations by region*

Unit: RMB

| Region | Operating revenue | Year-on-year increase/decrease in operating revenue (%) |
|---------------|---------------------------------|---|
| PRC | 14,527,657,179.83 | -10.07 |
| Overseas | 4,310,100,212.83 | 3.20 |
| Total | <u>18,837,757,392.66</u> | <u>-7.34</u> |

(III) Analysis of Major Subsidiaries and Investees

Unit: One hundred million RMB

| Company name | Equity interest held by the Company | Main products or services | Registered capital | Total assets | Net assets | Operating revenue | Operating profit | Net profit |
|---|-------------------------------------|--|--------------------|--------------|------------|-------------------|------------------|------------|
| DEC Dongfang Steam Turbine Co., Ltd. | 100% | Production, processing and sales of steam turbines, water turbine, gas turbines, compressors, fans, pumps and auxiliary equipments, wind generating sets , solar and renewable energy; industrial control and automation; the research, design, installation, alteration and maintenance services of the power stations and the corresponding equipments; mechanical equipment and accessories as well as the related import and export business | 18.46 | 376.48 | 39.56 | 75.60 | 1.63 | 1.27 |
| DEC Dongfang Electric Machinery Co., Ltd. | 100% | Design, manufacturing and sales of complete sets of power generation equipments, generators, AC and DC motors; the design manufacturing and sales of control equipments; the transformation of power stations, the installation of power station equipments | 20.00 | 134.61 | 40.76 | 30.25 | 1.33 | 1.37 |
| DEC Dongfang Boiler Group Co., Ltd. | 99.67% | Development, design, manufacturing, and sales of power station boilers, power station auxiliary equipments, industrial boilers, power station valves, petrochemical vessels, nuclear reaction equipment and environmental equipment, (desulfurisation, denitrification, wastewater and solid waste, treatment etc.) | 16.06 | 225.96 | 49.83 | 61.01 | 3.31 | 2.98 |
| Dongfang Electric (Guangzhou) Heavy Duty Machinery Co., Ltd | 65.1813% | The enterprise cannot produce and deal in the products prohibited by national laws and regulations; projects which are subject to special approval are prohibited without approval; other projects are free to run. | 11.51 | 36.50 | 15.10 | 5.27 | 0.36 | 0.32 |

(IV) Analysis of Financial Position and Operating Results of the Company during the Reporting Period

1. Analysis of operating results

Unit: RMB

| Item | Amount for the Peiod | Amount for the same period of last year | Year-on-year increase/decrease (%) |
|--|--------------------------|---|--|
| Operating revenue | 18,984,168,298.81 | 20,467,106,740.89 | -7.25 |
| Selling expenses | 312,608,613.19 | 431,688,349.95 | -27.58 |
| Administrative expenses | 1,450,255,930.65 | 1,558,124,480.21 | -6.92 |
| Finance costs | -105,785,546.50 | -45,060,691.01 | 134.76 |
| Impairment loss of assets | 339,002,040.89 | 356,335,343.11 | -4.86 |
| Total profit | 1,003,224,238.76 | 1,435,779,683.73 | -30.13 |
| Income tax expenses | 134,457,344.74 | 223,705,752.38 | -39.90 |
| Net profit | 868,766,894.02 | 1,212,073,931.35 | -28.32 |
| Net profit attributable to shareholders of the Company | 839,294,368.43 | 1,186,154,894.33 | -29.24 |

- (1) The Company maintained the momentum of steady development in the Period, with sales revenue for the Period decreased by 7.25% as compared with the same period last year.
- (2) Selling expenses for the Period decrease by 27.58% as compared with the same period last year, mainly due to a year-on-year decrease of 38.48% in service fees and provisions made for product quality warranty in 2014 according to relevant accounting policies.

- (3) Administrative expenses for the Period decreased by 6.92% as compared with the same period last year, mainly due to the employee's salaries and business entertainment expenses for the Period decreased by 6.41% and 52.12%, respectively. Meanwhile, the repair charge and legal costs also showed declines of varying extents.
- (4) Finance costs for the Period decreased by 134.76% as compared with the same period last year, mainly due to the decreased interest expenses on borrowings and increased interest income as the Company continually stepped up fund management efforts.
- (5) Total profit and net profit attributable to shareholders of the Company for the Period decreased by 30.13% and 29.24% as compared with the same period last year, respectively, mainly due to revenue of the Company for the Period recorded a year-on-year decrease, and the sales gross profit margin of principal operations witnessed a year-on-year decrease of 2.37% at the same time.

2. Financial Position and analysis of assets, liabilities and shareholders' equity

As at the end of the reporting period, the Company's total assets amounted to RMB78,832 million, up by 1.28% as compared with the beginning of the year, mainly attributable to a 6.00% increase in inventories and a 4.32% increase in account receivables; total liabilities amounted to RMB59,700 million, up by 0.77% as compared with the beginning of the year; and shareholders' equity amounted to RMB19.132 million, up by 2.90% as compared with the beginning of the year, mainly attributable to a 4.71% increase in undistributed profit.

3. *Gearing ratio*

Gearing ratio = total liabilities/total assets × 100%

| Item | As at the end of the Period | As at the beginning of the Period | Year-on-year increase/decrease (percentage point) |
|-------------------|--|--|--|
| Gearing ratio (%) | 75.73 | 76.11 | -0.38 |

The Company's gearing ratio as at the end of the Period was 75.73%, representing a decrease of 0.38 percentage point as compared with the beginning of the year. The financial position of the Company was further optimized and improved.

4. *Bank borrowings*

As at 30 June 2014, the Company had bank borrowings of RMB2,949 million due within one year and RMB56 million due beyond one year. The Company's borrowings and cash and cash equivalents are dominated in RMB. In particular, RMB2,949 million were fixed-rate borrowings. The Company has maintained favorable credit rating with banks and sound financing capacity.

5. *Exchange risk management*

With the increasing scale of the international operations of the Company, foreign exchange rate risk has become a more important element that affects the Company's operating results. With a view to effectively reduce the impact of fluctuations in foreign currency exchange rates on the Company's financial position and operating results, the Company prudently adopts exchange rate hedging instruments including forward exchange settlement for hedging purpose to limit the risks arising from exchange rate fluctuations.

6. *Pledge of assets*

At the end of the Period, the Company had pledged borrowings of RMB226 million, which were the borrowings from Dongfang Electric Finance Company Limited by pledging fixed assets and intangible assets from the Group.

7. *Contingent liabilities*

(1) Possible commercial risks in relation to the Saudi Rabigh project:

In July 2009, the consortium including the Company entered into an EPC contract for an independent power generation project with Saudi Arabia-based Rabigh Electricity Company (沙特拉比格電力公司). Pursuant to the contract, the Company undertook the supply of two major equipments and provision of relevant technical services. Due to problems of certain equipments and so on, the generating units were not put into commercial operation as scheduled.

After negotiations with the project owners from Saudi Arabia, the Company carried out rectification and improvement work after the end of the 2012 summer-peak season for power generation. On 14 June 2013, both of No. 1 and No. 2 generating units had obtained the preliminary receiving certificates. The project owners confirmed that No. 1 and No. 2 generating units were put into commercial operation on 14 December 2012 and 28 January 2013, respectively, and accordingly entered into quality guarantee periods.

Currently, the Company is in the process of negotiation with related parties in respect of the compensation for prolongation and settlement of the project.

(2) Arbitration over technology contract disputes with US-based Foster Wheeler:

Both parties have reached a memorandum of understanding, for details of which please see (IV) 2 set out in III. Other Matters below.

(V) Material Events

There has been no event since the end of the Period which materially affected the Company and its subsidiaries.

III. OTHER MATTERS

(I) PURCHASE, SALES OR REDEMPTION OF LISTED 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 listed securities.

(II) MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

For the six months ended 30 June 2014, there was no major acquisition or disposal of subsidiary or associate.

(III) EXTERNAL GUARANTEE AND PERFORMANCE

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

(IV) MATERIAL LITIGATION, ARBITRATION AND MATTERS COMMONLY QUESTIONED BY THE MEDIA

1. The Company was not involved in any material litigation, arbitration or matters commonly questioned by the media during the Period.
2. Other events

The Company disclosed arbitration over technology contract disputes with US-based Foster Wheeler in contingent events of every annual and interim reports from 2010 to 2013. On 21 May 2014, Dongfang Boiler Group Co. Ltd., Dongfang Electric Corporation and US-based Foster Wheeler reached consensus and entered into a memorandum of understanding in relation to the matter, both parties agreed on the mutual recognition of the integrity of each other's circulating fluidized-bed boilers technology, and each party can participate in market competition worldwide without restriction, and thus completely solved all disputes and disagreements under the license agreement. Resolution of the matter did not have an impact on the operating performance of the Company in the first half of 2014.

(V) EVENTS AFTER THE DATE OF BALANCE SHEET

On 10 July 2014, the Company public issued A Share convertible corporate bonds with a total nominal value of RMB4,000 million for a term of 6 years. Proceeds raised will be mainly used in the overseas EPC and BTG projects as well as in the R&D ability enhancement project.

(VI) EMPLOYEES

As at 30 June 2014, the Company had 26,856 employees. The Company carried out remuneration management in accordance with management rules for total remuneration, employee salary and labour employees and other relevant systems.

(VII) CORPORATE GOVERNANCE CODE

The Company has fully complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the Period.

(VIII) MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and supervisors of the Company on the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry to all Directors and supervisors of the Company, the Company confirms that as at 30 June 2014, the Directors and supervisors of the Company had complied with the provisions regarding the securities transactions by Directors and supervisors as set out in the Model Code.

(IX) AUDIT COMMITTEE

The Board has set up an audit committee comprising three independent non-executive Directors, namely, Mr. Li Yanmeng, Mr. Zhao Chunjun and Mr. Peng Shaobing. The audit committee has reviewed the 2014 interim results of the Company for the Period, and agreed with the accounting treatment method adopted by the Company.

(X) INFORMATION DISCLOSURE

This announcement will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>). The interim report of the Company for the period ended 30 June 2014, which contains all information as proposed in the Disclosure of Financial Information set out in the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be dispatched to shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited and the Company (<http://dfem.wsfg.hk>) in due course.

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

Chengdu, Sichuan, the People's Republic of China
29 August 2014

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

Directors: Si Zefu, Zhang Xiaolun, Wen Shugang,
Huang Wei, Zhu Yuanchao and Zhang Jilie

Independent Non-executive
Directors: Li Yanmeng, Zhao Chunjun and Peng Shaobing