

Report of Supervisory Committee

I. MEETINGS OF SUPERVISORY COMMITTEE HELD DURING THE REPORTING PERIOD

During the reporting period, the Supervisory Committee convened a total of 2 meetings, details of which are as follows:

1. The 5th meeting of the fourth Supervisory Committee was held on 19 March 2004 for approving the 2003 report of the Supervisory Committee; the 2003 financial statements of the Company; the 2003 profit after taxation distribution plan of the Company; the 2003 annual report and its summary and the 2004 financial budget of the Company.
2. The 6th meeting of the fourth Supervisory Committee was held on 25 August 2004 for considering and approving the unaudited interim financial statements for 2004, the interim report for 2004, the interim profit appropriation plan for 2004, proposed change in the depreciation method of fixed assets, the proposed change in the proportion of bad debt provisions in the account receivables, the proposed recognition of certain long-term receipts in advance as income, the proposed write-off of certain account receivables, the proposed retirement of certain fixed assets, and the proposed change in investment method in DFEM Power Equipment Company Limited and DFEM Equipment Engineering Company Limited.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS IN 2004

1. Operations of the company are in compliance with the laws

Pursuant to the relevant laws and regulations of the State, the Supervisory Committee has exercised its supervisory and inspection power to oversee the convening procedures and resolutions passed at the shareholders' meetings and meetings of the Board of Directors, and the implementation of the resolutions of the shareholders' meetings by the Board of Directors, operation of the management system, and general management efficiency of the Company in 2004. The Supervisory Committee considered that the performance of the Company's Board of Directors in 2004 was strictly in compliance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Listing Rules, the Articles of Association and other laws and regulations. Their operating decisions were scientific and reasonable, and they had further enhanced the internal management and internal control systems of the Company. On such basis, the Company's business achieved a significant growth.

2. Inspection of the financial position of the company

The Supervisory Committee of the Company carried out serious and careful inspections on the Company's 2004 Financial Report, the Company's profit after taxation distribution plan for 2004, the audit report for the year 2004 issued by Shenzhen Pan-China (Schinda) Certified Public Accountants and other documentation to be approved at the Annual General Meeting. The Committee is of the opinion that the Company's 2004 financial statements have truly, accurately, and objectively reflected the financial position and the operation results of the Company. The Committee consented to the audit report issued by the PRC and international auditors and the Company's profit after taxation distribution plan for 2004.

3. Use of proceeds

The proceeds were used to increase the production capability of hydroelectric generation units, supplement the operating funds, and repay loans incurred in the 7th Five-year Plan and the 8th Five-year Plan as planned and scheduled.

4. Connected transaction

During the reporting period, all connected transactions between the Company and the relevant parties were considered fair and reasonable. No act detrimental to the Company's interest was found.

Report of Supervisory Committee *(continued)*

5. Execution of resolutions passed at the general meetings

Members of the Supervisory Committee attended the Board meetings and general meetings and had no dissenting view on any report or proposal submitted by the Board at the general meetings. The Supervisory Committee reviewed the execution of resolutions passed at the general meetings and was of the opinion that the Board has diligently executed resolutions passed at the general meetings.

III. PERFORMANCE OF DUTIES BY THE SUPERVISORY COMMITTEE

The Supervisory Committee exercised its supervision on the directors and the senior management of the Company in accordance with the laws and the Articles of Association, and was of the opinion that the directors and senior management have performed their duties in accordance with laws. It is and was not aware of any acts which amounts to violation of laws, regulations and the Articles of Association or which are detrimental to the interests of the Company. The Supervisory Committee also oversaw and reviewed the Company's materials, purchase of equipment, construction of projects, disposal of waste and old materials and the use of large sum of fund to safeguard the interests of the Company.

By order of the Supervisory Committee
Li Hongdong

Chairman of the Supervisory Committee

21 March 2005