



To shareholders,

Year 2005 evidenced another story of DFEM for its compelling results over accomplishment of various tasks in production and sales. With soaring key economic indices, I am pleased to present the annual report of the Company for the year ended 31 December 2005.

In 2005, DFEM's accumulated output since its on-streaming hit a record 100,000MW in term of capacity of power-generating equipment. Production volume of power-generating equipment for the whole year broke through the 20,000MW threshold, coupled with outperforming operating indices and a noticeable growth in assets. Based on the HK GAAP, its turnover amounted to RMB3,048 million, up 48.58% over that of last year, with a profit after taxation of RMB535 million, up 111.69% over that of last year. In 2005, the Company was rated as one of the top 10 competitive listed companies of the PRC by Global Competitive Organisation. The Board of Directors has recommended an active dividend plan that a cash dividend cash of RMB0.50 per share, representing 42% of earnings per share, be proposed to general meeting in recognition of the favour of shareholders.

Like no other in its road, the past five years under the 10th Five-year Plan witnessed a fruitful DFEM through twists and turns. Despite difficulties from serious under-capacity running at the beginning, DFEM withstood a mix of internal and external challenges. Leveraging the unparalleled opportunities from power infrastructure construction, the Company managed to make a range of remarkable progresses in line with the changing power-generating equipment market, opening a new era for its development.

Looking forward, the future five years will mark a milestone for China's advance toward a comprehensive well-off society. In addition to booming demand from hydroelectricity market, growths are expected in 1,000MW nucleus power, 1,000MW ultra-supercritical thermal power and heavy-duty gas turbine markets. Also international power markets including south Asia and southeast Asia will see expanding demands. The future years will imply precious strategic opportunities along with numerous market challenges as foreseen.

Looking into our strategy for the 11th Five-year Plan period, we will build our core business of power-generating equipment into a world first-class brand, promoting technological innovations to catch up with global leading players. Further to the efforts for domestic market shares, we will extend an active presence in overseas market while widening our core product lines on a timely basis, aiming to sharpen competitive edges against operating risks for sustainable healthy development. In pursuit of top-tier team, technologies, management, know-how and products, we are committed to forging DFEM into a global leading manufacturer in the power-generating equipment industry.

Finally, I wish to express my gratitude to all shareholders for their trust and support through all the years.

Zhu Yuanchao
Chairman

20 April 2006