

To shareholders,

Year 2006, the starting year of the country's 11th Five-year Plan, witnessed the Company's remarkable progress targeting a world-class industry giant. So far, the Company has achieved rapid growth for five consecutive years. I am pleased to present the annual report of the Company for the year ended 31 December 2006.

With a diverse range of achievements in production, marketing and technological research and development, the Company's profitability continued to improve, hitting a record high during 2006. The Company accomplished output of power-generating equipment of 28,164 MW, representing an increase of 38.9% compared with last year. Based on the HKFRS, its turnover amounted to RMB4,698 million, increased by 54.14% over that of last year, the Company's profit after taxation amounted to RMB865 million, increased by 61.7% over that of last year, with earnings per share at RMB1.922.

On the marketing front, in response to the national energy policies and the latest power-generating equipment market, the Company took initiatives and secured contracts for a group of key projects, laying a solid foundation for its sustainable development. Meanwhile, with a favourable market environment for power-generating equipment in Asia, especially in Southeast Asia, the Company acquired substantial international market exposure. The Company's new orders for the year amounted to RMB4.8 billion, 18% of which were derived from exports.

Aiming at "reasonable scale, smooth workflow and focused strongpoint" during the year, the Company devised a systemic investment scheme to boost the implementation progress, leading to a significant improvement in its technical strengths. The Company further advanced the specialised management through a series of measures including improving management system, incentive mechanism, business workflows and execution force, thereby enhancing its overall operating efficiency obviously.

Looking into the future, we are committed in building ourselves into a global leading power-generating equipment manufacturer emphasising on our core business of power-generating equipment. By acquiring assets of Dongfang Boiler and Dongfang Turbine under DFEC to integrate the industry chain and optimize resources allocation, the Company expects to further consolidate its leading position among the power-generating equipment manufacturers both in the PRC and overseas so as to distinguish itself as a world-class power-generating supplier.

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

Si Zefu
Chairman

2 April 2007

