

To the Shareholders of
Dongfang Electrical Machinery Co., Ltd.

We have audited the accompanying financial statements of Dongfang Electrical Machinery Co., Ltd. ("the Company"), which comprise the consolidated balance sheet of the Company and its subsidiaries ("the Group") as at 31 December 2006, and the related consolidated statements of income and profit appropriation and cash flows for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of these financial statements in accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements of the Company have been prepared in accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises, and present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and the results of its operations and cash flows for the year then ended.

Deloitte Touche Tohmatsu Certified Public Accountants Ltd.
Shanghai • China

Chinese Certified Public Accountant



Gan Chang Ru

Chinese Certified Public Accountant



Tong Yu Jian

2 April 2007

Note: This auditor's report has been issued in Chinese. The following is an English translation prepared for your reference only. If there is any discrepancy between the Chinese and English version, the Chinese version shall prevail.

BALANCE SHEET

At 31 December 2006
(prepared under PRC Accounting Standards)

		Group		Company	
	NOTES	31/12/2006 RMB	31/12/2005 RMB	31/12/2006 RMB	31/12/2005 RMB
ASSETS					
CURRENT ASSETS					
Monetary funds	5	3,277,378,752.01	4,027,493,299.29	3,211,978,362.88	3,921,304,333.42
Notes receivable	6	45,930,000.00	18,629,152.00	43,280,000.00	6,261,000.00
Accounts receivable	7,9	1,025,946,017.13	852,384,702.76	1,120,853,375.49	859,771,253.97
Other receivables	8,9	73,921,113.15	39,532,097.00	120,022,615.38	54,370,131.68
Advances to suppliers	10	1,263,146,796.12	713,701,300.91	1,239,583,430.54	726,597,377.37
Inventories	11	2,990,694,541.56	2,053,573,638.91	2,787,089,563.67	1,895,961,878.37
Including: Amounts due from customers for contract work	12	569,812,026.41	259,550,474.06	569,812,026.41	235,903,612.06
Prepaid expenses		—	190,983.43	—	—
Total current assets		8,677,017,219.97	7,705,505,174.30	8,522,807,347.96	7,464,265,974.81
LONG-TERM INVESTMENTS					
Long-term equity investments	13	24,223,644.96	7,069,804.12	125,276,320.78	93,727,056.12
Including: Consolidation difference	13	(650,991.69)	(804,832.53)	—	—
Total long-term investments		24,223,644.96	7,069,804.12	125,276,320.78	93,727,056.12
FIXED ASSETS					
At cost	14	1,435,263,074.50	1,225,255,745.96	1,370,944,866.65	1,155,876,066.27
Less: Accumulated depreciation	14	741,472,775.99	655,060,709.86	690,867,536.53	607,355,429.77
Net		693,790,298.51	570,195,036.10	680,077,330.12	548,520,636.50
Less: Provision for impairment	14	—	1,160,754.10	—	1,160,754.10
Net book value		693,790,298.51	569,034,282.00	680,077,330.12	547,359,882.40
Construction materials	15	83,747,926.57	31,087,864.99	85,663,199.07	32,776,101.99
Construction in progress	16	73,821,683.45	120,565,260.60	70,915,034.25	118,857,476.82
Total fixed assets		851,359,908.53	720,687,407.59	836,655,563.44	698,993,461.21
INTANGIBLE AND OTHER ASSETS					
Intangible assets	17	28,403,635.85	28,502,581.86	28,396,973.99	28,480,845.48
Total intangible and other assets		28,403,635.85	28,502,581.86	28,396,973.99	28,480,845.48
Deferred taxes					
Deferred tax debits	18	48,815,462.07	—	48,132,023.62	—
TOTAL ASSETS		9,629,819,871.38	8,461,764,967.87	9,561,268,229.79	8,285,467,337.62

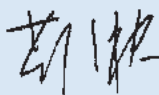
BALANCE SHEET (continued)

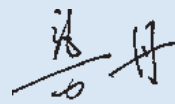
At 31 December 2006
(prepared under PRC Accounting Standards)

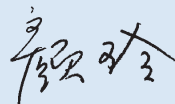
		Group		Company	
	NOTES	31/12/2006 RMB	31/12/2005 RMB	31/12/2006 RMB	31/12/2005 RMB
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	19	—	10,000,000.00	—	10,000,000.00
Notes payable	20	315,298,480.74	237,320,706.67	315,298,480.74	237,320,706.67
Accounts payable	21	639,689,954.68	450,197,991.13	602,112,619.89	434,054,884.91
Advances from customers	22	5,508,404,966.15	5,462,233,395.22	5,489,841,411.39	5,331,147,247.13
Including: Amounts received for uncompleted contract work	12	1,971,851,421.68	1,835,448,146.77	1,971,851,421.68	1,713,874,808.68
Salaries and wages payable	23	139,780,879.22	96,080,879.22	139,632,584.73	88,156,510.85
Employee benefits payable		25,278,360.63	25,068,810.87	20,673,120.07	19,841,315.58
Taxes payable	24	222,806,629.90	126,270,414.76	220,673,479.70	111,584,575.69
Other accruals		3,211,556.64	546,156.17	3,113,783.30	513,170.80
Other payables	25	76,279,229.62	60,976,263.91	72,315,357.53	54,129,572.31
Accrued expenses	26	61,038,901.46	33,410,088.63	57,866,156.22	27,182,493.80
Estimated liabilities	27	38,045,913.65	—	38,045,913.65	—
Total current liabilities		7,029,834,872.69	6,502,104,706.58	6,959,572,907.22	6,313,930,477.74
LONG-TERM LIABILITIES					
Long-term payables	28	685,252.84	685,252.84	685,252.84	685,252.84
Special payables	29	82,327,355.34	124,290,003.62	81,431,970.34	123,750,618.62
Total long-term liabilities		83,012,608.18	124,975,256.46	82,117,223.18	124,435,871.46
TOTAL LIABILITIES		7,112,847,480.87	6,627,079,963.04	7,041,690,130.40	6,438,366,349.20
MINORITY INTERESTS		1,783,665.79	1,274,298.89	—	—
SHAREHOLDERS' EQUITY					
Paid-in capital	30	450,000,000.00	450,000,000.00	450,000,000.00	450,000,000.00
Capital reserve	31	829,861,896.87	753,283,467.94	829,861,896.87	753,283,467.94
Surplus reserves	32	226,978,540.29	151,239,144.70	225,000,000.00	150,223,984.04
Including: Statutory public welfare reserve	32	—	58,546,895.97	—	58,208,521.08
Retained earnings	33	1,008,348,287.56	478,888,093.30	1,014,716,202.52	493,593,536.44
Including: Cash dividends approved to be distributed after the balance sheet date		90,000,000.00	225,000,000.00	90,000,000.00	225,000,000.00
TOTAL SHAREHOLDERS' EQUITY		2,515,188,724.72	1,833,410,705.94	2,519,578,099.39	1,847,100,988.42
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9,629,819,871.38	8,461,764,967.87	9,561,268,229.79	8,285,467,337.62

The accompanying notes form an integral part of the financial statements.

The financial statements on pages 2 to 49 were signed on 2 April 2007 by the following responsible persons.


Legal representative


Person in charge of
accounting function


Person in charge of
accounting department



STATEMENT OF INCOME AND PROFIT APPROPRIATION

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

			Group		Company
	NOTES	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Revenue from main operations	34	4,698,079,417.01	3,047,858,001.17	4,681,636,861.04	2,890,267,928.02
Less: Cost of main operations	34	3,378,189,403.60	2,094,601,972.91	3,450,485,755.85	2,052,180,807.04
Taxes and surcharge	35	10,328,044.11	5,132,604.12	8,611,073.16	4,017,815.97
Profit from main operations		1,309,561,969.30	948,123,424.14	1,222,540,032.03	834,069,305.01
Add: Profit from other operations	36	72,230,733.22	63,839,253.23	102,478,802.44	82,653,854.98
Less: Operating expenses		30,025,487.90	20,989,176.89	25,873,847.79	17,044,929.43
General and administrative expenses		478,705,816.61	410,286,735.23	447,498,749.99	348,010,566.26
Financial expenses	37	(50,425,885.44)	(30,618,001.51)	(51,064,979.57)	(30,127,795.44)
Operating profit		923,487,283.45	611,304,766.76	902,711,216.26	581,795,459.74
Add: Investment income	38	153,840.84	1,266,183.67	9,787,637.75	25,107,489.26
Subsidy income	39	—	100,000.00	—	—
None-operating revenue	40	4,041,378.93	1,090,588.64	4,002,210.55	811,534.90
Less: Non-operating expenditures	41	2,895,571.21	3,202,056.78	2,122,471.59	2,871,125.33
Profit before tax		924,786,932.01	610,559,482.29	914,378,592.97	604,843,358.57
Less: Income tax	42	94,243,573.51	82,213,090.23	93,479,910.93	71,748,351.92
Minority interest income		343,768.65	289,701.35	—	—
Net profit		830,199,589.85	528,056,690.71	820,898,682.04	533,095,006.65
Add: Retained earnings at the beginning of the year		478,888,093.30	85,095,528.05	493,593,536.44	94,462,780.79
Profit available for distribution		1,309,087,683.15	613,152,218.76	1,314,492,218.48	627,557,787.44
Less: Appropriation to statutory surplus reserve		75,739,395.59	53,509,416.97	74,776,015.96	53,309,500.67
Appropriation to statutory public welfare reserve		—	26,754,708.49	—	26,654,750.33
Profit available for distribution to shareholders		1,233,348,287.56	532,888,093.30	1,239,716,202.52	547,593,536.44
Less: Dividends payable - cash dividends for prior year approved at shareholders meeting		225,000,000.00	54,000,000.00	225,000,000.00	54,000,000.00
Retain earnings at the end of the year		1,008,348,287.56	478,888,093.30	1,014,716,202.52	493,593,536.44
Including: dividends approved to be distributed after the balance date		90,000,000.00	225,000,000.00	90,000,000.00	225,000,000.00

STATEMENT OF INCOME AND PROFIT APPROPRIATION *(continued)*

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

Supplementary Information

Item	Group		Company	
	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Gains on disposal of operating division or investee	—	—	—	—
Losses arising from natural disaster	—	—	—	—
Increase (decrease) in profit due to changes in accounting policies	—	—	—	—
Increase (decrease) in profit due to changes in accounting estimates	—	—	—	—
Losses arising from debt restructuring	—	—	—	—
Others	—	—	—	—

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

		Group		Company	
	NOTES	2006 RMB	2005 RMB	2006 RMB	2005 RMB
1. CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from sales of goods and rendering of services		4,703,316,647.03	4,468,197,774.80	4,712,887,238.88	4,366,736,176.26
Refunds of taxes		38,041,254.86	106,270,260.38	38,041,254.86	106,170,260.38
Other cash receipts relating to operating activities	43	93,550,861.32	212,105,103.56	96,558,673.48	220,814,650.48
Sub-total of cash inflows		4,834,908,763.21	4,786,573,138.74	4,847,487,167.22	4,693,721,087.12
Cash paid for goods and services		4,216,333,011.48	2,922,122,050.46	4,233,604,858.16	2,908,416,771.05
Cash paid to and on behalf of employees		572,695,809.60	448,815,111.83	527,944,120.77	423,029,601.14
Tax payments		198,273,671.93	185,732,664.80	164,944,297.76	173,123,729.58
Other cash payments relating to operating activities	44	130,557,544.55	220,799,946.17	178,009,178.48	205,166,140.24
Sub-total of cash outflows		5,117,860,037.56	3,777,469,773.26	5,104,502,455.17	3,709,736,242.01
Net Cash Flows from Operating Activities		(282,951,274.35)	1,009,103,365.48	(257,015,287.95)	983,984,845.11
2. CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash received from disposal of investments		—	147,140,092.72	—	147,140,092.72
Cash received from return on investments		—	1,155,348.00	384,615.38	2,877,207.71
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,172,170.00	2,415,468.30	3,487,470.00	2,127,333.60
Sub-total of cash inflows		3,172,170.00	150,710,909.02	3,872,085.38	152,144,634.03
Cash paid to acquire fixes assets, intangibles assets and other long-term assets		202,464,576.93	178,613,846.97	195,416,359.27	172,635,933.65
Cash paid to acquire investments		17,000,000.00	153,445,017.13	17,000,000.00	153,445,017.13
Sub-total of cash outflows		219,464,576.93	332,058,864.10	212,416,359.27	326,080,950.78
Net Cash Flows from Investing Activities		(216,292,406.93)	(181,347,955.08)	(208,544,273.89)	(173,936,316.75)

CASH FLOW STATEMENT *(continued)*

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

		Group		Company
NOTES	2006 RMB	2005 RMB	2006 RMB	2005 RMB
3. CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash received from borrowings	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00
Sub total of cash inflows	10,000,000.00	10,000,000.00	10,000,000.00	10,000,000.00
Cash repayments of borrowings	20,000,000.00	66,840,950.50	20,000,000.00	66,840,950.50
Dividends paid, profit distributed or interest paid	221,847,352.23	55,836,016.63	221,831,967.61	55,836,016.63
Sub-total of cash outflows	241,847,352.23	122,676,967.13	241,831,967.61	122,676,967.13
Net Cash Flows from Financing Activities	(231,847,352.23)	(112,676,967.13)	(231,831,967.61)	(112,676,967.13)
4. EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS:				
	(340,744.31)	(601,436.18)	(340,744.31)	(601,436.18)
5. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:				
	(731,431,777.82)	714,477,007.09	(697,732,273.76)	696,770,125.05

CASH FLOW STATEMENT (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

Supplementary Information

		Group		Company	
	NOTES	2006 RMB	2005 RMB	2006 RMB	2005 RMB
1. RECONCILIATION OF NET PROFIT TO CASH FLOW FROM OPERATING ACTIVITIES:					
Net Profit		830,199,589.85	528,056,690.71	820,898,682.04	533,095,006.65
Add: Minority interest		343,768.65	289,701.35	—	—
Provision for impairment of assets		47,035,499.56	7,102,285.81	59,187,562.76	7,543,798.24
Depreciation of fixed assets		105,230,703.69	96,464,257.75	101,790,670.51	90,906,564.19
Amortization of intangible assets		1,382,214.61	1,646,104.08	1,367,140.09	1,631,029.5
Decrease in prepaid expenses		190,983.43	704,518.54	—	400,830.59
Increase in accrued expenses (or deduct: decreas)		27,628,812.83	(6,563,888.67)	30,683,662.42	(4,574,738.64)
Increase in estimated liabilities (or deduct: decrease)		38,045,913.65	—	38,045,913.65	—
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)		(1,223,935.35)	983,168.33	(1,236,860.81)	974,001.94
Financial expenses		654,713.75	1,271,816.63	313,969.44	1,271,816.63
Investments losses		(153,840.84)	(1,266,183.67)	(9,787,637.75)	(25,107,489.26)
Deferred tax debits		(48,815,462.07)	—	(48,132,023.62)	—
Decrease in inventories (or deduct: increase)		(947,009,798.19)	(900,789,230.00)	(901,448,149.80)	(831,610,970.43)
Decrease in operating receivables (or deduct: increase)		(840,306,332.81)	(389,158,669.95)	(941,422,062.32)	(433,132,730.34)
Increase in operating payables (or deduct: decrease)		503,845,894.89	1,670,362,794.57	592,723,845.44	1,642,587,725.98
Net Cash Flows from Operating Activities		(282,951,274.35)	1,009,103,365.48	(257,015,287.95)	983,984,845.11
2. INVESTING AND FINANCING ACTIVITIES THAT DO NOT INVOLVE CASH RECEIPTS AND PAYMENTS:		—	—	—	—
3. NET INCREASE IN CASH AND CASH EQUIVALENTS:					
Cash at the end of the year	5(2)	3,141,807,892.22	3,873,239,670.04	3,085,916,286.59	3,783,648,560.35
Less: Cash at the beginning of the year	5(2)	3,873,239,670.04	3,158,762,662.95	3,783,648,560.35	3,086,878,435.30
Net Increase/(Decrease) in Cash and Cash Equivalents		(731,431,777.82)	714,477,007.09	(697,732,273.76)	696,770,125.05

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

1. GENERAL

Dongfang Electrical Machinery Co., Ltd. (the “Company”) was established as a joint stock limited company with Dongfang Electrical Machinery Works (“DFEW”) as its sole promoter, pursuant to documents issued by the State Commission for Restructuring the Economic Systems (Ti Gai Sheng [1992] No.67) and the State-owned Assets Administration Bureau (“SAAB”) (Guo Zi Qi Han Fa [1993] No.100). The operating assets and relevant liabilities entrusted to DFEW by the State were injected into the Company in consideration for the shares of the Company.

The Company was formally established according to the approval released on 17 December 1993 by the State Commission for Restructuring the Economic Systems (Ti Gai Sheng [1993] No.214). The Company obtained its business license numbered 20511548-5-1 on 28 December 1993.

Under the document (Ti Gai Sheng [1994] No.42) released on 12 April 1994 by the State Commission for Restructuring the Economic Systems, the Company issued foreign shares (H-Shares) in Hong Kong on 31 May 1994, which were listed on the Stock Exchange of Hong Kong Limited on 6 June 1994. The Company further made public issuance of RMB ordinary shares (A-Shares) in the People’s Republic of China (“the PRC”) on 4 July 1995 and the domestic shares were listed on the Shanghai Stock Exchange on 10 October 1995. The Company completed its changes in commercial and industrial registration on 19 July 1995.

As per Reply on Certain Issues Regarding Transfer of State-owned Shares Held by Dongfang Electrical Machinery Co., Ltd. (Guo Zi Chan Quan [2005] No.1604) issued by the State-owned Assets Supervision and Administration Commission of the State Council on 30 December 2005, 48.89% equity (i.e. 220,000,000 state-owned shares) held by DFEW, the biggest shareholder of the Company, was transferred to Dongfang Electric Corporation (“DEC”). Consequently, DEC becomes the largest shareholder of the Company.

The Company and its subsidiaries (the “Group”) are principally engaged in production and sales of hydro power generators, steam power generators, AC/DC electrical motors, controlling equipments, etc.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting System and Accounting Standards

The Company implements the Accounting Standards for Business Enterprises, the *Accounting System for Business Enterprises and the supplementary provisions thereto*.

Basis of Accounting and Principle of Measurement

The Company adopts an accrual basis for accounting and uses the historical cost convention as the principle of measurement. If any subsequent impairment loss arises, provision for impairment losses will be made in accordance with the appropriate standards.

Accounting Year

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

Recording Currency

The recording currency of the Company is Renminbi (“RMB”).

Foreign Currency Translation

Transactions denominated in foreign currencies (currencies other than the recording currency) are translated into RMB at the applicable mid-price of the market exchange rate (hereinafter “market exchange rate”) prevailing at the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into those in RMB at the applicable market exchange rate prevailing at the balance sheet date. Exchange gains or losses incurred on a specific borrowing for the acquisition or construction of a fixed asset are capitalized as part of the cost of the fixed asset before the fixed asset has reached working condition for its intended use; exchange gains or losses arising in the pre-operating period are recognized as the long-term prepayments; and other exchange gains or losses are dealt with as financial expenses.



Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Accounting for Bad Debts

(1) Criteria for recognition of bad debts

Bad debts are recognized in the following circumstances:

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures;

The irrecoverable amount of a debtor who has deceased and has insufficient estate to repay;

The amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

(2) Accounting treatment for bad debt losses

Bad debt is accounted for using the allowance method and provided according to the recoverability of receivables at the year-end. The appropriate percentages of provision for bad debts relating to significant receivable accounts are reasonably determined based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated, based on aging analysis, as follows:

Age	Percentage of provision
Within 1 year	5%
1-2 years	10%
2-3 years	20%
3-4 years	40%
4-5 years	50%
Over 5 years	100%

Discount of Notes Receivable

For the notes receivable discounted with financial institutions, if the Company has transferred to the financial institutes the risks and rewards relating to the debtors discounted, the difference between the carrying amount of the debtors (as deducted by any related taxes) and the actual amounts received is charged to the income statement in the period. If the related risks and rewards have not transferred out, such debtors are treated as secured bank loans.

Inventories

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories mainly include raw materials, work in progress and finished goods.

Upon issuance of inventories, the specific identification method is adopted in accounting for finished goods and goods in progress, while the planned cost method is adopted in accounting for raw materials. Variance in cost is written off at the end of the month and the planned cost is adjusted to the actual cost.

Low-value consumables are written off in full when issued for use.

The Company adopts the perpetual inventory system.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

Provision for Decline in Value of Inventories

Inventories are measured at the lower of cost and net realizable value at the end of the period. Where the net realizable value is lower than the cost, the difference is recognized as a provision for decline in value. Provision for decline in value of inventories is made by comparing cost with net realizable value on an individual item basis. As for inventories with low price and large quantities, provision for decline in value is provided according to different classes of the inventories.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to completion, the estimated expenses and the related taxes necessary to make the sale.

Construction Contracts

Construction contracts are accounted for at actual cost, which includes direct and indirect costs incurred and attributable to the contract for the period from the date the contract was signed to the final completion of the contract. The sum of accumulated costs incurred and accumulated gross profit (loss) recognized for the construction contract is presented in the balance sheet after netting off against the progress billings. An excess of the sum of accumulated costs incurred and accumulated gross profit (loss) recognized over the progress billing is presented as "Inventories - Amounts due from customers for contract work" under current assets. An excess of the progress billing over the sum of accumulated costs incurred and accumulated gross profit (loss) recognized is presented as "Advances from customers - amounts received for uncompleted contract work" under current liabilities.

Long-term Investments

(1) Accounting for long-term investments

A long-term investment is initially recorded at its cost on acquisition.

The cost method is used to account for a long-term equity investment when the Company does not have control, joint control or significant influence over the investee. The equity method is used when the Company is able to control, jointly control or has significant influence over the investee.

When the cost method is adopted, the amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee that has arisen after the investment was made. The amount of profits or cash dividends declared by the investee in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

When the equity method is adopted, the investment income for the current period is recognized according to the share of the net profits or losses of the investee. Where net losses has incurred by the investee, the share of losses is recognized to the extent that the carrying amount of the investment is reduced to zero. If the investee realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's share of profits over that of unrecognized losses.

When a long-term equity investment is accounted for using the equity method, the excess of the initial investment cost of the Company over its share of owners' equity of the investee is accounted for as the debit balance of equity investment difference and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, an excess of the initial investment cost over the Company's share of owners' equity of the investee is amortized over a period of not more than 10 years. A shortfall of the initial investment cost below the Company's share of owners' equity of the investee, incurred prior to the issuance of Document of Cai Kuai [2003] No.10, is accounted for as the credit balance of equity investment difference and amortized on a straight-line basis and charged to the income statement accordingly. The shortfall incurred after the issuance of Document of Cai Kuai [2003] No.10, is credited to capital reserve. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not less than 10 years.

Notes to the Consolidated Financial Statements (continued)

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2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

Long-term Investments (continued)

(2) Provision for impairment of long-term investments

At the end of each period, the Company determines whether a provision for impairment should be made for a long-term investment by considering the indications that such a loss may have occurred. Where the recoverable amount of any long-term investment is lower than its carrying amount, a provision for impairment loss on the long-term investment is made for the difference.

Fixed Assets and Depreciation

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives from the month after they are put into use. With the consideration of the expected realization method of the economic benefits relating to the fixed assets, the fixed assets are depreciated mainly using straight-line method and certain fixed assets are depreciated using double-declining-balance method. The estimated residual value rate, useful life and annual depreciation rate of each category of fixed assets are as follows using straight-line method:

Category of fixed assets	Residual value rate	Useful life	Annual depreciation rate
Buildings	5%	20-25Years	4.75%-3.80%
Machinery and equipments	5%	10Years	double-declining-balance method
Instruments	5%	5-6Year(s)	double-declining-balance method
Transportation equipments	5%	6Year(s)	15.83%

Subsequent expenditure relating to a fixed asset will be added to the net book value of the asset when the expenditure will result in the expected future economic benefits to the enterprise in excess of those originally assessed. The revised amount cannot exceed the recoverable amount of the asset.

Provision for Impairment of Fixed Assets

At the end of each period, the Company determines whether an impairment loss should be recognized for a fixed asset by considering the indications that such a loss may have occurred. Where the recoverable amount of any fixed asset is lower than its carrying amount, a provision for impairment loss on the fixed asset is made for the difference.

As for a fix asset of which provision has been set aside, if there is evidence indicating the recoverable amount of the fixed asset is in excess of its carrying amount due to changes in factors based on which provision has been made during previous period, the carrying amount shall be increased but not exceeding that would have been determined had no impairment loss been recognized for the asset in prior years.

Construction in Progress

Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction in progress before it has reached the working condition for its intended use, and other related expenses. A construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for construction in progress.

At the end of each period, the Company determines whether an impairment loss should be recognized for construction in progress by considering the indications that such a loss may have occurred. Where the recoverable amount of any construction in progress is lower than its carrying amount, a provision for impairment loss on construction in progress is set aside for the difference.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

Intangible Assets

Intangible assets are recorded at the actual cost upon acquisition. For an intangible asset received as a capital contribution by an investor, the actual cost is the value agreed by all investing parties. For a self-developed intangible asset that is obtained by legal application, the actual cost capitalized is the amount of expenditure incurred for the legal application for obtaining the asset, such as registration fees and legal fees. Other costs incurred in the research and development process are expensed in the current period. For a purchased intangible asset, the actual cost is the actual purchase price.

Land use right purchased or acquired by payment of land transfer fees before the adoption of the Accounting System for Business Enterprises, are accounted for as intangible assets and are amortized evenly. Those purchased or acquired after the adoption of the Accounting System for Business Enterprises, are accounted for as intangible assets before construction work for own-use purpose or development commences and are amortized evenly. Upon using the land to construct fixed assets for own use, the carrying amount of the land use right is transferred to the cost of fixed assets under construction.

The cost of an intangible asset is amortized evenly in the income statement over its expected useful life from the month in which it is obtained. If the expected useful life exceeds the beneficial period prescribed in the relevant contract or the effective period stipulated by law, the amortization period is limited to the shorter of the beneficial period and the effective period. If the relevant contract does not prescribe the beneficial period nor does the law stipulate the effective period, the amortization period is 10 years.

Provision for Impairment of Intangible Assets

At the end of each period, the Company determines whether an impairment loss should be recognized for an intangible asset by considering the indications that such a loss may have occurred. Where the recoverable amount of any intangible asset is lower than its carrying amount, a provision for impairment of the intangible asset is made for the difference.

Estimated Liabilities

The obligation related to a contingency is recognized as a liability when it meets all of the following conditions:

- (1) The obligation is a present obligation of the Company;
- (2) It is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and
- (3) A reliable estimate can be made for the amount of the obligation.

Where some or all of the expenditure required to settle a liability that meets the above recognition criteria is expected to be reimbursed by a third party or other parties, the reimbursement is separately recognized as an asset when, and only when, it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

Borrowing Costs

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred on a specific borrowing for the acquisition or construction of a fixed asset, are capitalized as the cost of the fixed asset to the extent that they are incurred before the fixed asset has reached the working condition for its intended use and limited to the amount calculated by applying the capitalization rate to the weighted average amount of accumulated expenditure for the fixed asset. Other borrowing costs are recognized as expenses and included as financial costs in the period in which they are incurred.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2006
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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Revenue Recognition

Revenue from Sales of goods

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the economic benefits associated with the transaction will flow to the Company, and the relevant amount of revenue and costs can be measured reliably.

Revenue from Rendering of Services

Revenue is recognized using the percentage of completion method at the balance sheet date when the outcome of service provided can be measured reliably. The stage of completion is determined by the proportion of costs incurred to the expected aggregate cost of the services.

When the outcome of service provided cannot be measured reliably, revenue from rendering of services is recognized only to the extent of the costs incurred that are recoverable, and the costs are expensed during the period. Revenue will not be recognized in case the cost incurred is estimated not to be recovered.

Construction Contract Revenue

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized using the percentage of completion method at the balance sheet date. The stage of completion of a contract is determined by the proportion of costs incurred to the expected aggregate contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of the costs incurred that are recoverable, and contract costs are recognized as expenses in the period in which they are incurred. If the contract costs are not recoverable, they are recognized as expenses immediately when incurred, and contract revenue is not recognized.

If expected aggregate contract costs exceed the expected aggregate contract revenue, the expected loss is recognized as an expense in the current period.

Interest Income

Interest income is measured based on the length of time for which the enterprise's cash is used by others and the applicable interest rate.

Subsidy Income

Subsidy income is recognized upon actual receipt.

Lease

A financial lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. All other leases are classified as operating leases.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

Accounting for operating leases by the lessee

Payments made under operating leases are expensed on a straight-line basis over the period of the leases.

Accounting for operating leases by the lessor

Receipts of lease payment under operating lease are recognized as revenue on a straight-line basis over the period of the leases.

Income Tax

Income tax is provided under the tax effect accounting method. Income tax expense for the year is calculated based on the income tax provision and tax effect of timing difference. The income tax provision is calculated based on the accounting results for the year as adjusted in accordance with the relevant tax laws. Due to different recognition periods for revenue, expenses and losses under the tax rules and accounting requirements, there are timing differences between accounting profit before tax and taxable income. The tax effect of timing differences, computed under the liability method, is recognized as deferred tax in the financial statements. However, a deferred tax debit resulting from timing differences is recognized and presented as a deferred tax debit only if there will be sufficient taxable income during the period of their reversal. Otherwise, the differences are treated as if they were permanent differences.

Basis of Consolidation

(1) Scope of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and its associates. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of the equity, or whose operating activities are controlled by the Company through other mechanisms. An associate is an enterprise whose operating activities are jointly controlled by the Company, or its subsidiaries, and the other investors.

(2) Accounting for consolidation

The accounting policies used by the subsidiaries conform to those used by the Company.

The date when all the risks and rewards of ownership of equity acquired or disposed of are effectively transferred is recognized as the date of acquisition or disposal. The operating results and cash flows of the subsidiaries after the date of acquisition or disposal are appropriately included in the consolidated income statement and consolidated cash flow statement.

All significant transactions and balances between the group enterprises are eliminated on consolidation

The assets, liabilities, revenue, expenses and profit of the associates are consolidated on the proportion basis. All significant accounts and transactions between the Company or its subsidiaries and the associates are eliminated on a proportion basis upon consolidation.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
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3. TAXATION

Value Added Tax

Value added tax ("VAT") payable is the net difference between output and deductible input VAT. Output VAT is calculated at 17% of sales revenue as per the relevant tax rules.

Income Tax

According to the document (filed as Guo Shui Han Fa [1994] No.062) issued by the State Administration of Taxation, the enterprise income rate applicable to the Company is 15%.

The enterprise income rate applicable to the subsidiaries of the Company, including DFEM Control Equipment Company Limited, DFEM Power System Company Limited, DFEM Tooling & Moulding Company Limited and DFEM Equipment Engineering Company Limited, is 33%.

Other Taxes

Business tax is provided at 5% of the taxable revenue.

Urban maintenance and construction tax is determined at 7% of the VAT payable and business tax payable.

Property tax is determined at 1.2% of 70% of the original cost of the property. Properties under lease are levied at 12% of the lease revenue.

Land usage tax is calculated based on the actual occupation area multiplied by the applicable tax rate that is RMB 4.00 per square meter.

4. SCOPE OF CONSOLIDATION, SUBSIDIARIES AND ASSOCIATES

Details of subsidiaries of the Company are as follows:

Name of Subsidiary	Place of Registration	Equity directly held by the Company %	Registered Capital RMB	Principal Business	Type of Enterprises	Legal Representative	Consolidated or not
DFEM Control Equipment Manufactory Co. Ltd	De Yang, Sichuan Province	96.15	13,000,000.00	Design, production and sales of power generating equipment and A.C. and D.C. motors	Limited liability company	Wang Yansong	Yes
DFEM Power System Co. Ltd	De yang, Sichuan Province	98.83	42,754,300.00	Design, production and sales of large and medium A.C. and D.C. motors and special motors	Limited liability company	Cao Jianmian	Yes
DFEM Tooling & Manufactory Molding Co. Ltd.	De Yang, Sichuan Province	99.32	14,600,000.00	Molding, design, manufacturing; sales of knife, machinery, parts producing and sales	Limited liability company	Chen Xianhai	Yes
DFEM Equipment Engineering Co. Ltd.	De Yang, Sichuan Province	97.78 ^{note}	13,500,000.00	Repair of machinery, technology improvement, sales machine system manufacturing, environment protection facilities, specified tailored-made facilities, design, sales, etc.	Limited liability company	Ding Yihong	Yes

Note: DFEM Power System Co. Ltd transferred 0.74% equity in DFEM Equipment Engineering Co. Ltd to the Company during the year. Hence, the equity in DFEM Equipment Engineering Co. Ltd directly held by the Company has risen to 97.78%.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

4. SCOPE OF CONSOLIDATION, SUBSIDIARIES AND ASSOCIATES (continued)

Details of the associate held by the Company are as follows:

Name of Subsidiary	Place of Registration	Equity directly held by the Company %	Registered Capital RMB	Principal Business	Type of Enterprises	Legal Representative	Consolidated or not
Areva-dongfang Reactor Coolant Pumps Co., Ltd.	De Yang Sichuan province	50	85,000,000	Design, production and sales of nuclear reactor cooling, and improvement, maintenance and after sales service of drive motor equipment and relative product.	Limited liability company	Wu Jiandong	No

Note: DF Joint Venture Operating Contract was entered into between the Company and AREVA on 23 August 2005, under which Areva-dongfang Reactor Coolant Pumps Co., Ltd. will be established with investments from both parties totalled RMB 85,000,000, and each accounting for 50% (RMB 42,500,000).

As of 31 December 2006, the Company has invested RMB 23,375,000 and AREVA has invested EUR 2,322,571.87 (equivalent to RMB 23,375,000.00), which have been verified by Sichuan Ling Tong CPA who issued the capital verification reports filed as Chuan Lin Suo Yan Zi (2005) No.105 & 119 and Chuan Lin Suo Yan Zi (2006) No.57 & 143. Areva-dongfang Reactor Coolant Pumps Co., Ltd. obtained its business license registered as Qi He Chuan De Zong Zi No. 00352 on 21 December 2005.

As the total assets, revenue arising from sales and net profit of Areva-dongfang Reactor Coolant Pumps Co., Ltd. are less than 10% of the total assets, aggregate revenue arising from sales and the net profit of the Group, this company is accounted for using the equity method in the consolidated financial statements, instead of being included in the scope of consolidation in accordance with the requirements of *Reply to Enquiry Regarding Consolidation Scope for the Purpose of Consolidated Financial Statements* (Cai Kuai Er Zi [1996] No. 2).

	31/12/2006		2006	
	Total Assets RMB	Net Assets RMB	Revenue RMB	Net profit RMB
Areva-dongfang Reactor Coolant Pumps Co., Ltd.	63,778,592.71	46,709,372.66	—	—

The scope of the consolidation during the year is the same as that for the prior year.

5. MONETARY FUNDS

(1) Monetary funds

Item	Original Currency	31/12/2006	RMB	Original Currency	31/12/2005	RMB
		Ex. Rate			Ex. Rate	
Cash on hand						
RMB	29,362.58	—	29,362.58	24,030.77	—	24,030.77
Cash in bank						
RMB	3,137,836,159.78		3,137,836,159.78 (note1)	3,855,277,031.09	—	3,855,277,031.09 *
USD	504,868.91	7.8087	3,942,369.86	2,222,820.77	8.0702	17,938,608.18
Other monetary funds						
RMB	135,570,859.79	—	135,570,859.79 (note2)	154,253,629.25	—	154,253,629.25 **
			3,277,378,752.01			4,027,493,299.29

Note1: Cash in bank includes the amounts deposited with Dongfang Electric Corporation Finance Co., Ltd. ("DEC Finance Co.") comprising a demand deposit of RMB 17,659,598.60 and a fixed term deposit of RMB 200,000,000 (due within 3 months).

Note2: The other monetary funds mainly represent security deposits for bank acceptances, bidding and contracts.



Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
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5. MONETARY FUNDS (continued)

(2) Cash and cash equivalents

	31/12/2006 RMB	31/12/2005 RMB
Monetary funds (Note)	3,277,378,752.01	4,027,493,299.29
Less: Other restricted amount	135,570,859.79	154,253,629.25
	3,141,807,892.22	3,873,239,670.04

Note: Upon preparing the cash flow statement for the prior year, the fixed-term deposits due over 3 months were excluded in the cash. However, considering that the Company is entitled to withdraw such fixed-term deposits at its own discretion, they are treated as cash and the comparative figures have been restated upon preparing the cash flow statement for the current year.

6. NOTES RECEIVABLE

	31/12/2006 RMB	31/12/2005 RMB
Bank acceptance	45,930,000.00	18,629,152.00

7. ACCOUNTS RECEIVABLES

(1) The aging analysis of the accounts receivable is as follows:

	31/12/2006				31/12/2005			
	Amounts RMB	Ratio %	Bad debt provision RMB	Net book value RMB	Amounts RMB	Ratio %	Bad debt provision RMB	Net book value RMB
Within 1 year	719,368,906.05	61.01	49,504,045.31	669,864,860.74	606,238,439.66	63.10	31,004,986.26	575,233,453.40
1to2years	266,117,227.04	22.57	26,611,722.70	239,505,504.34	196,047,944.71	20.41	19,604,794.48	176,443,150.23
2to3years	109,080,155.35	9.25	21,816,031.07	87,264,124.28	87,031,322.17	9.06	17,406,264.43	69,625,057.74
3to4years	44,392,470.71	3.77	23,367,719.56	21,024,751.15	37,386,994.60	3.89	14,954,797.84	22,432,196.76
4to5years	22,670,668.06	1.92	14,871,234.03	7,799,434.03	14,975,439.54	1.56	7,632,719.77	7,342,719.77
Over 5 years	17,452,895.23	1.48	16,965,552.64	487,342.59	19,026,528.63	1.98	17,718,403.77	1,308,124.86
	1,179,082,322.44	100.00	153,136,305.31	1,025,946,017.13	960,706,669.31	100.00	108,321,966.55	852,384,702.76

Note: As at 31 December 2006, included in the accounts receivable is a deposit for product warranty of RMB 758,670,142.65 (31 December 2005: 481,453,731.58) that will be recovered upon expiry of the warranty period (generally 2 to 3 years), of which a deposit of RMB 30,671,018.80 is highly uncertain and full provision thereon has been made using specific identification method.

(2) The five largest accounts receivable are as follows:

Five largest accounts receivable RMB	Percentage of the total accounts receivable %
227,053,155.13	19.26

(3) The accounts receivable from shareholders that hold more than 5% of the Company's shares are detailed in note 47(3).

Notes to the Consolidated Financial Statements (continued)

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8. OTHER RECEIVABLES

(1) The aging analysis of the other receivables is as follows:

	31/12/2006				31/12/2005			
	Amounts RMB	Ratio %	Bad debt provision RMB	Net book value RMB	Amounts RMB	Ratio %	Bad debt provision RMB	Net book value RMB
With 1 year	72,702,507.30	57.01	1,089,651.68 ^{TM1}	71,612,855.62	36,972,475.36	37.11	885,486.67	36,086,988.69
1to 2 years	1,341,501.83	1.05	134,150.18	1,207,351.65	590,218.26	0.59	59,021.83	531,196.43
2to 3years	480,460.00	0.38	96,092.00 ^{TM2}	384,368.00	450,000.00	0.45	90,000.00	360,000.00
3to 4years	—	—	—	—	2,750,000.00	2.76	1,100,000.00	1,650,000.00
4to 5years	—	—	—	—	—	—	—	—
Over 5years	53,001,581.57	41.56	52,285,043.69	716,537.88	58,881,321.57	59.09	57,977,409.69	903,911.88
	127,526,050.70	100.00	53,604,937.55	73,921,113.15	99,644,015.19	100.00	60,111,918.19	39,532,097.00

Note: The interest revenue accrued on the fixed deposits is RMB 44,130,663.14 during the year, of which no bad debt provision has been set aside.

(2) The five largest other receivables

Five largest other receivables RMB	Percentage of the total other receivables %
104,466,041.94	81.92

(3) The details of the five largest other receivables are as follows:

	31/12/2006 RMB	31/12/2005 RMB	Year of Inception
Chongqing Xinglongda Real Estate Development Co. Ltd.	32,000,000.00 (Note)	36,000,000.00	1999
Interest on fixed-term deposit	44,130,663.14	19,262,742.11	2005
Dongle Heavy Piece Handling Co., Ltd.	7,165,378.80	9,039,118.80	1999
Chengdu Dayang Property Co., Ltd.	7,030,000.00 (Note)	7,030,000.00	1996
Sichuan DFEC Real Estate Development Co., Ltd.	14,140,000.00	2,000,000.00	2006

Note: The receivables are long overdue and thus bad debt provision has been made in full.

(4) There are no other receivables from shareholders that hold more than 5 % of the Company's shares.

9. PROVISION FOR BAD DEBTS

	Accounts receivable RMB	Other receivables RMB	Total RMB
At the beginning of the year	108,321,966.55	60,111,918.19	168,433,884.74
Additions	45,250,762.26	—	45,250,762.26
Reversals	—	6,506,980.64	6,506,980.64
Other transfer-out	436,423.50	—	436,423.50
At the end of the year	153,136,305.31	53,604,937.55	206,741,242.86



Notes to the Consolidated Financial Statements (continued)

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10. ADVANCES TO SUPPLIERS

The aging analysis of the prepaid expenses is as follows:

	31/12/2006		31/12/2005	
	Amount RMB	Ratio %	Amount RMB	Ratio %
Within 1 year	1,065,581,076.51	84.36	623,971,262.89	87.43
1-2 years	167,840,178.54	13.29	86,729,318.08	12.15
2-3 years	28,664,311.07	2.27	3,000,719.94	0.42
Over 3 years	1,061,230.00	0.08	—	—
	1,263,146,796.12	100.00	713,701,300.91	100.00

The advances to suppliers aging over 1 year mainly represent the amounts incurred on materials purchased that have not arrived and thus have not been written-off.

The advances to shareholders that hold more than 5% of the shares of the Company are detailed in Note 47(3).

11. INVENTORIES AND PROVISION FOR DECLINE IN VALUE

	Amount RMB	31/12/2006 Provision for decline in value of inventories RMB	Net book value RMB	Amount RMB	31/12/2005 Provision for decline in value of inventories RMB	Net book value RMB
Raw materials	1,099,187,380.35	20,254.06	1,099,167,126.29	888,793,710.33	20,254.06	888,773,456.27
Work-in-progress	999,626,559.18	1,455,828.47	954,359,234.89	535,741,447.67	1,337,098.36	534,404,349.31
Finished goods	333,204,084.15	537,847.77	332,557,869.43	362,578,845.44	1,502,540.17	361,076,305.27
Amount due from customers for contract work	580,865,392.24	11,053,365.83	569,812,026.41	259,868,982.06	318,508.00	259,868,982.06
Low-valued consumables	2,171,921.51	—	2,171,921.51	5,978,622.29	—	5,978,622.29
Materials on consignment for further processing	33,848,293.26	—	33,848,293.26	3,790,431.71	—	3,790,431.71
	3,003,761,837.69	13,067,296.13	2,990,694,541.56	2,056,752,039.50	3,178,400.59	2,053,892,146.91

Movement of the provision for decline in value of inventories is as follows:

	31/12/2005 RMB	Additions RMB	Other transfer-out RMB	31/12/2006 RMB
Provisions				
Raw materials	20,254.06	—	—	20,254.06
Work-in-progress	1,337,098.36	145,412.57	26,682.46	1,455,828.47
Finished goods	1,502,540.17	323,555.50	1,288,247.90	537,847.77
Provision for expected losses Construction contract (note)	318,508.00	10,734,857.83	—	11,053,365.83
Total	3,178,400.59	11,203,825.90	1,314,930.36	13,067,296.13

Note: The climbing-up price in raw materials etc. gives rise to the excess of the expected aggregate cost over the expected aggregate revenue on certain construction contracts. Such excess is recognized as the expected losses.

Notes to the Consolidated Financial Statements (continued)

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12. CONSTRUCTION CONTRACTS

	31/12/2006 RMB	31/12/2005 RMB
Contracts in progress at the balance sheet date		
Amounts due from customers for contract works included in inventories under current assets	569,812,026.41	259,550,474.06
Amounts received for uncompleted contract works included in advances from customers under current liabilities	(1,940,147,941.27)	(1,835,448,146.77)
	(1,402,039,395.27)	(1,575,579,164.71)
Analysis of contracts in progress		
Aggregate costs incurred	1,714,945,108.47	897,471,407.18
Gross profit recognized	331,704,294.71	160,705,260.90
Less: Progress billings	3,437,635,432.62	2,633,755,832.79
Less: Expected losses on contract	11,053,365.83	318,508.00
	(1,402,039,395.03)	(1,575,579,164.71)

Total amounts of the construction contracts in progress are RMB 8,365,144,167.77 (VAT exclusive) as at 31 December 2006.

13. LONG-TERM EQUITY INVESTMENTS

	31/12/2006 RMB	31/12/2005 RMB
Long-term stock investment	44,263.24	44,263.24
Investments in joint ventures	23,375,000.00	6,375,000.00
Investments in associates	—	—
Other equity investments	1,766,314.66	1,766,314.66
Equity investment difference	(65,0991.69)	(804,832.53)
Total	24,534,586.21	7,380,745.37
Less: Provision for impairment of long-term equity investment	310,941.25	310,941.25
Long-term equity investments-net	24,223,644.96	7,069,804.12

(1) Movements of the provision for impairment of long-term equity investments are as follows:

	RMB
At the beginning of the year	310,941.25
Additions	—
Reversals	—
Other transfer-out	—
At the end of the year	310,941.25

Notes to the Consolidated Financial Statements (continued)

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13. LONG-TERM EQUITY INVESTMENTS (continued)

(2) Details of the long-term stock investment are as follows:

Name of investee	Type of shares	Quantity of shares	Ratio against of invested Company %	Initial investment RMB	Provision for impairment RMB	Net value at year end RMB	Initial cost of investment RMB
Sichuan Sofcra Special Tyaped Fiber Co., Ltd	A shares	46,602	0.02	44,263.24	—	44,263.24	44,263.24

Sichuan Sofcra Special Tyaped Fiber Co., Ltd. completed its split share reform on 28 March 2006, under which the non-circulating shareholder paid to circulating A-share holders by equal price with non-circulating share. Hence, the number of the shares held by the Company in Sichuan Sofcra Special Tyaped Fiber Co., Ltd was changed to 46,602.

(3) Investments in joint ventures which are not included in consolidation are as follows:

Name of investee	Investment term	Ratio against invested company %	Initial investment RMB	31/12/2005				31/12/2006			
				Balance RMB	Provision for impairment RMB	Increase in initial investments RMB	Increase/ (Decrease) in equity RMB	Cash dividends received RMB	Accumulated equity RMB	Balance RMB	Provision for impairment RMB
Areva DongFang Reactor Coolant Pumps Company *	2005.10	50.00	6,375,000.00	6,375,000.00	—	17,000,000.00	—	—	—	23,375,000.00	—

(4) Investments in associates are as follows:

Name of investee	Investment term	Ratio against invested company %	Initial investment RMB	31/12/2005				31/12/2006			
				Balance RMB	Provision for impairment RMB	Increase in initial investments RMB	Increase/ (Decrease) in equity RMB	Cash dividends received RMB	Accumulated equity RMB	Provision for impairment RMB	
Associate (s)											
Dongle Heavy Piece Handling Company	1997.7	49.00	490,000.00	—	—	—	—	—	490,000.00	—	—

Notes to the Consolidated Financial Statements (continued)

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13. LONG-TERM EQUITY INVESTMENTS (continued)

- (5) Other equity investments of the Company and its subsidiaries are listed as follows:

Name of investee	Date of establishment	Ratio against invested company %	Initial investment RMB	Provision for loss on long-term equity investment RMB	Year-end carrying amount RMB
Southwest Production Materials Trade Center	1984.12	No detail	60,000.00	60,000.00	—
Deyang Electric Equipment Import and Export Company	1988.6	No detail	100,941.25	100,941.25	—
Wuxi Electrical Power Hotel	1988.7	2.30	150,000.00	150,000.00	—
Chengdu Sandian Co., Ltd	1992.9	0.62	455,373.41	—	455,373.41
DFEC Real Estate Development Co. Ltd.	2001.4	12.50	1,000,000.00	—	1,000,000.00
Total			1,766,314.66	310,941.25	1,455,373.41

- (6) Equity investment difference are listed in detail as follows:

Name of investee	Initial investment RMB	Amortization term (Months)	31/12/2006 RMB	Additions RMB	Amortization RMB	Other decrease RMB	31/12/2006 RMB	Remaining term of Amortization (Months)
DFEM Tooling and Molding	(1,082,220.62)	120	(550,128.53)		108,222.12		(441,906.41)	49
DFEM Equipment	(624,538.25)	120	(254,704.00)		45,618.72		(209,085.28)	55
	(1,706,758.87)		(804,832.53)		153,840.84		(650,991.69)	

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

14. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings RMB	Plant and machine RMB	Electronic equipment furniture & fixtures RMB	Transportation equipment RMB	Land RMB	Total RMB
Cost						
1 January 2006	342,508,365.66	789,079,570.40	81,352,714.08	12,315,095.82	—	1,225,255,745.96
Additions	—	951,948.00	447,272.52	—	—	1,399,220.52
Transfer-in from construction in progress	98,558,122.26	119,593,079.45	7,787,847.86	2,057,254.00	2,525,806.00	230,522,109.57
Disposals	6,386,733.27	8,943,455.88	5,055,286.92	1,528,525.48	—	21,914,001.55
31 December 2006	434,679,754.65	900,681,141.97	84,532,547.54	12,843,824.34	2,525,806.00	1,435,263,074.50
Accumulated depreciation						
1 January 2006	143,429,685.98	445,998,571.95	59,221,431.41	6,411,020.52	—	655,060,709.86
Provision for the year	15,636,274.91	79,385,669.29	8,876,891.52	1,331,867.97	—	105,230,703.69
Disposals	5,050,855.01	7,568,218.16	4,837,120.57	1,362,443.82	—	18,818,637.56
31 December 2006	154,015,105.88	517,816,023.08	63,261,202.36	6,380,444.67	—	741,472,775.99
Provision for impairment loss						
1 January 2006	—	1,160,754.10	—	—	—	1,160,754.10
Additions	—	—	—	—	—	—
Reversals	—	1,160,754.10	—	—	—	1,160,754.10
31 December 2006	—	—	—	—	—	—
Net book value						
1 January 2006	199,078,679.68	341,920,244.35	22,131,282.67	5,904,075.30	—	569,034,282.00
31 December 2006	280,664,648.77	382,865,118.89	21,271,345.18	6,463,379.67	2,525,806.00	693,790,298.51

Note: As of 31 December 2006, title certificate on the buildings of the Company valued RMB 204,489,146.55 has not been obtained, title transfer on the buildings valued RMB 2,140,113.42 has not been completed, and the fixed assets valued RMB 9,523,323.91 are still under use after fully depreciated.

15. CONSTRUCTION MATERIALS

Type	31/12/2006 RMB	31/12/2005 RMB
Advances paid for large equipments	83,747,926.57	31,087,864.99

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
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16. CONSTRUCTION IN PROGRESS

Project Name	Projected Amount RMB	31/12/2005 RMB	Additions RMB	Capitalized interest in 2006 RMB	Transferred to fixed assets RMB	31/12/2006 RMB	Source of funds	Progress %
Research Center	80,000,000.00	36,974,627.69	81,545,978.30	—	118,520,605.99	—	Self-financing	100.00
260 boring machine	39,000,000.00	33,492,469.65	15,232.26	—	33,507,701.91	—	Self-financing	100.00
Material Input Center Factory	10,000,000.00	7,896,983.68	3,387,950.47	—	11,284,934.15	—	Self-financing	100.00
							Listing proceeds SanXian	
130 boring machine	9,500,000.00	4,387,015.75	2,510,671.93	—	6,897,687.68	—	Tax refund SanXian	100.00
Eltromotor Factory Power supply								
Network reconstruction	5,200,000.00	2,722,062.26	192,876.64	—	—	2,914,938.90	Tax refund SanXian	56.06
Network reconstruction	3,900,000.00	2,620,441.64	—	—	—	2,620,441.64	Tax refund SanXian	67.19
Eltromotor Factory	9,000,000.00	1,668,176.15	206,417.20	—	—	1,874,593.35	Self-financing SanXian	20.83
Digital Plano Milling machine	3,840,000.00	1,262,328.52	—	—	—	1,262,328.52	Tax refund SanXian	32.87
Digital Control Lathe	1,200,000.00	1,095,978.08	16,060.00	—	1,112,038.08	—	Tax refund SanXian	0.00
Digital Plano Milling machine	1,200,000.00	1,073,254.64	275,245.00	—	1,348,499.64	—	Tax refund SanXian	0.00
Filing Center	12,000,000.00	1,061,850.44	9,443,369.54	—	—	10,505,219.98	Self-financing SanXian	65.66
Hypervelocity lab construction in progress	9,800,000.00	—	8,663,499.60	—	—	8,663,499.60	Tax refund SanXian	88.40
"Er Chao" Electrical control equipment & debugger	9,500,000.00	—	4,813,212.33	—	—	4,813,212.33	Tax refund SanXian	50.67
Large new sealing anneal furnace	4,700,000.00	—	3,257,706.22	—	—	3,257,706.22	Tax refund SanXian	69.31
Intermediate frequency inductive sealing equipment (nuclear power)1 set	2,500,000.00	—	2,385,436.30	—	—	2,385,436.30	Tax refund SanXian	95.42
Revolution of electrical capacity in Molding factory	3,100,000.00	34,388.86	2,221,237.74	—	—	2,255,626.60	Tax refund SanXian	72.76
Gear case	1,850,000.00	—	1,839,994.30	—	—	1,839,994.30	Tax refund SanXian	99.46
Laser tracker	2,000,000.00	—	1,784,514.62	—	—	1,784,514.62	Self-financing SanXian	89.23
Others (note)	—	26,275,683.24	61,219,129.97	—	57,850,642.12	29,644,171.09	—	—
Total	208,290,000.00	120,565,260.60	183,778,532.42	—	230,522,109.57	73,821,683.45	—	—

Note: Other constructions in progress amount are not significant; hence, they are collectively presented.

During the year, the decrease in construction in progress by RMB 230,522,109.57 is due to transfer-to the fixed assets after completion.

Notes to the Consolidated Financial Statements (continued)

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17. INTANGIBLE ASSETS

	Acquisition method	Cost RMB	31/12/2005 RMB	Additions RMB	Amortization RMB	31/12/2006 RMB	Remaining period of amortization (Month)
Land use right (Note)	From investor	35,626,000.00	27,075,759.56	—	712,520.04	26,363,239.52	444
Proprietary technology	Purchase	2,556,000.00	127,800.00	—	127,800.00	—	
Software	Purchase	2,067,254.15	1,299,022.30	1,283,268.60	541,894.57	2,040,396.33	1 - 46
		40,249,254.15	28,502,581.86	1,283,268.60	1,382,214.61	28,403,635.85	

Note: Approved by the State Land Administration in 28 January 1994, a land use right amounting to RMB35,626,000.00 on an area of 470,955.31 square meters was injected into the Company by the holdings company DFEW on 28 January 1994. Such land use right was amortized over 50 years on a straight-line basis.

18. DEFERRED TAX

	31/12/2006 RMB	31/12/2005 RMB
Deferred tax debits	48,815,462.07	—

During the year, the Company expects that sufficient taxable income will be available in the future periods in which the timing difference is reversed; hence, tax consequence of the timing difference is recognized and is presented as the deferred tax debits.

19. SHORT-TERM LOANS

	31/12/2006 RMB	31/12/2005 RMB
Credit loans	—	10,000,000.00

20. NOTES PAYABLE

	31/12/2006 RMB	31/12/2005 RMB
Commercial acceptance	69,179,275.47	47,910,388.99
Bank acceptance	246,119,205.27	189,410,317.68
	315,298,480.74	237,320,706.67

21. ACCOUNTS PAYABLE

Trade creditors over three years are mainly deposits for project warranty.

Amounts due to shareholders that hold more than 5% of the Company's shares are detailed in Note 47(3).

22. ADVANCE FROM CUSTOMERS

Advance from customers aging over one year amounting of RMB 1,805,982,091.65 mainly represents the amounts received in advance from dynamotor equipment.

Advance from customers include the settled outstanding payment of RMB1,971,851,421.68 (31 December 2005: RMB1,835,448,146.77).

The advances from shareholders that hold more than 5% of the Company's shares are detailed in note 47(3).

Notes to the Consolidated Financial Statements (continued)

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23. WAGE AND SALARY PAYABLE

	31/12/2006 RMB	31/12/2005 RMB
	139,780,879.22	96,080,879.22

Wages and salaries payable are determined based on performance as per approval.

24. TAXES PAYABLE

	31/12/2006 RMB	31/12/2005 RMB
Value added tax	64,824,376.03	36,998,929.38
Business Tax	725,233.57	811,071.62
Urban maintenance and construction tax	5,462,414.72	505,264.67
Enterprise income tax	149,742,627.06	87,456,291.65
Property tax	495,483.41	251,665.23
Individual income tax	1,556,495.11	247,192.21
	222,806,629.90	126,270,414.76

25. OTHER PAYABLES

The other payables aging over one year of RMB 70,227,366.47 mainly represent deposits, medical insurance and state-controlled fund contribution payable.

26. ACCRUED EXPENSES

	31/12/2006 RMB	31/12/2005 RMB	Reason
Cost of hydro power product and outsource processing expenditure	58,747,814.86	30,879,340.81	Unpaid
Freight	1,847,794.00	—	Unpaid
Consulting expenses	—	1,080,000.00	Unpaid
Others	443,292.60	1,450,747.82	
	61,038,901.46	33,410,088.63	

27. ESTIMATED LIABILITIES

	31/12/2006 RMB	31/12/2005 RMB
Losses from sales return, repair and refund	38,045,913.65	—

28. LONG-TERM PAYABLES

	31/12/2006 RMB	31/12/2005 RMB
Authorized reserve fund	685,252.84	685,252.84

Notes to the Consolidated Financial Statements (continued)

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29. SPECIAL PAYABLES

	31/12/2006 RMB	31/12/2005 RMB
Research and development grant	11,833,072.92*	18,154,098.93
Special subsidy to San-xian enterprise for the purpose of demolition & renovation	69,683,282.42**	104,485,519.69
Other subsidies	811,000.00	1,650,385.00
	82,327,355.24	124,290,003.62

*: Research and development grant mainly represents the governmental grant to the Company for research and development regarding Three Gorges Project.

**: According to Circular on Tax Policy on San-Xian Enterprises in the Tenth Five Year Plan (Cai Shui [2001] No.133) issued by the Ministry of Finance and National Administration of Taxation and Notice Regarding DFEW's Entitlement for Tax Policy Applicable to San-Xian Enterprises released by the Ministry of Finance (Cai Shui [2002] No.145), Sichuan Provincial Financial Supervisor Office under the Ministry of Finance approved on 3 November 2006 to refund the VAT of the Company and its subsidiaries for prior year totaled RMB 38,041,254.86 as per Reply on Application for VAT Refund Filed by DFEC (Cai Zhu Chuan Jian Tui Zi [2006] No.387). Such tax refund can only be used for demolition and renovation of Sanxian enterprises, but not for any other purposes. The Company received the refund totaled RMB 38,041,254.86 in two installments and recognized it as special payables.

The company used the demolition & renovation fund for San-xian enterprise amounting to RMB 82,949,903.14 during the year, of which an amount of RMB 75,962,490.89 has been capitalized into fixed assets and transferred from special payables to capital reserve.

30. SHARE CAPITAL

Movement of share capital during the year is as below:

	31/12/2005 Shares	Increase (decrease) Shares	31/12/2006 Shares
Non-circulating shares			
Promoters' shares:			
— Domestic legal person shares (Note)	220,000,000	(220,200,000)	
Shares with restricted conditions for sale			
— Domestic legal person shares	—	203,800,000	203,800,000
Circulating shares:			
Foreign shares listed overseas (H-Share)	170,000,000	—	170,000,000
Domestic listed ordinary shares (A-Share)	60,000,000	16,200,000	76,200,000
Total number of circulating shares	230,000,000	—	246,200,000
Total number of shares issued	450,000,000	—	450,000,000

The par value per share is RMB1.00.

China Securities Depository and Clearing Corporation Limited Shanghai Branch issued the Scrip recognition on the transfer of 220,000,000 shares of the Company held by DFEW to DEC on 17 February 2006.

The Company completed its split share reform on 17 April 2006. DEC, the only non-circulating share holder of the Company, exchanged certain non-circulating shares with tradable A-share holders. Under the arrangement, the circulating A-share holders obtained consideration paid by the non-circulating shareholders on the basis of 2.7 shares for every 10 shares. The total number of shares involved is 16,200,000. The non-circulating shares held by DEC became tradable on the first trading date after the implementation of this split share reform. DFEC made commitment that such shares would not be traded or transferred on the Shanghai Stock Exchange within 12 months since 18 April 2006.

Notes to the Consolidated Financial Statements (continued)

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30. SHARE CAPITAL (continued)

Movement of share capital for the prior year is as below:

	31/12/2005 Shares	Increase (decrease) Shares	31/12/2006 Shares
Non-circulating shares:			
— Domestic legal person shares	220,000,000	—	220,000,000
Circulating shares:			
Foreign shares listed overseas (H-shares)	170,000,000	—	170,000,000
Domestic listed ordinary shares (A Share)	60,000,000		60,000,000
	230,000,000		230,000,000
	450,000,000		450,000,000

The par value of the share is RMB1.00.

The above capital contribution has been verified by Pan-China Schinda Certified Public Accountants who issued the capital verification report filed as Xin De Yan Zi Bao Zi (1994) No.9.

31. CAPITAL RESERVE

	31/12/2005 RMB	Additions RMB	Reversals RMB	31/12/2006 RMB
Capital premium	522,548,287.37	—	—	522,548,287.67
Restricted capital				
reserve arising from				
non-cash asset donations	323,000.00	—	—	323,000.00
Restricted reserve arising				
from equity investment	1,710,733.37	5,046,242.29	—	6,756,975.66
Other capital reserves	228,701,447.20	71,532,186.64	—	300,333,633.84
	753,283,467.94	76,578,428.93	—	829,861,896.87

Note: The Company capitalized the demolition & renovation fund for San-xian enterprises amounting to RMB 76,926,490.89 into fixed assets, and transferred from special payables to capital reserve.

	31/12/2005 RMB	Additions RMB	Reversals RMB	31/12/2006 RMB
Capital premium	522,548,287.37	—	—	522,548,287.37
Restricted capital				
reserve arising from				
non-cash asset donations	323,000.00	—	—	323,000.00
Restricted reserve arising				
from equity investment	1,710,733.37	575.00		1,710,733.37
Other capital reserves	139,286,983.68	89,544,937.20 (Note)	130,473.68	228,701,447.20
	663,868,429.42	89,545,512.20	130,473.68	753,283,467.94

Note: The Company capitalized the demolition & renovation fund for San-xian enterprise amounting to RMB 88,459,432.24 into fixed assets, and transferred from special payables to capital reserve.

Notes to the Consolidated Financial Statements (continued)

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32. SURPLUS RESERVES

2006	Statutory surplus reserve RMB	Statutory public welfare fund RMB	Total RMB
At the beginning of the year	92,692,248.73	58,546,895.97	151,239,144.70
Additions	75,739,395.59	—	75,739,395.59
Statutory public welfare fund transferred to statutory surplus reserve	58,546,895.97	(58,546,895.97)	—
Decrease	—	—	—
At the end of the year	226,978,540.29	—	226,978,540.29

Since 1 January 2006, the Company ceased appropriation to statutory public welfare fund and the beginning balance thereof is transferred to statutory surplus reserve.

2005	Statutory surplus reserve RMB	Statutory public welfare fund RMB	Total RMB
At the beginning of the year	39,182,831.76	31,792,187.48	70,975,019.24
Additions	53,509,416.97	26,754,708.49	80,264,125.46
Decrease	—	—	—
At the end of the year	92,692,248.73	58,546,895.97	151,239,144.70

33. RETAINED EARNINGS

	2006 RMB	2005 RMB
At 1 January 2006	478,888,093.30	85,095,528.05
Add: Net profit for the year	830,199,589.85	528,056,690.71
Less: Appropriation to statutory surplus reserve (1)	75,739,395.59	53,509,416.97
Appropriation to statutory public welfare fund (2)	26,754,708.49	—
Profit available for distribution to shareholders	1,233,348,287.56	532,888,093.30
Less: Dividends payable - cash dividends approved for prior year at the shareholders' meeting (3)	225,000,000.00	54,000,000.00
At 31 December 2006	1,008,348,287.56	478,888,093.30
Including: Cash dividends approved to be distributed after the balance sheet date. (4)	90,000,000.00	225,000,000.00

(1) Appropriation to statutory surplus reserve

Pursuant to the Articles of the Associations of the Company, the statutory surplus reserve is appropriated at 10% of the net profit for the year. Appropriation of statutory surplus reserve ceases when aggregate figure is more than 50% of the registered capital of the Company.

(2) Appropriation to statutory public welfare fund

The Company ceases the appropriation to statutory public welfare fund since 1 January 2006.

Notes to the Consolidated Financial Statements (continued)

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32. SURPLUS RESERVES (continued)

(3) Cash dividends for prior year approved at annual general meeting

The cash bonus is paid on the basis of RMB 5.00 for every ten shares for 450,000,000 shared (RMB1.00 per share) issued up to 2006.

(4) Profit distribution proposed after the balance sheet date

The directors proposed a profit distribution to its shareholders on the basis of RMB 2.00 for every 10 shares for 450,000,000 shared (RMB1.00 per share). The proposed distribution is subject to the shareholder's meeting.

34. REVENUE AND COST OF SALES

	2006		2005	
	Revenue RMB	Cost RMB	Revenue RMB	Cost RMB
Revenue from sales of goods	2,308,715,239.06	1,367,358,792.02	1,566,681,273.68	885,746,393.09
Revenue from rendering of services	59,702,913.32	39,723,087.48	145,454,211.93	107,793,825.12
Construction contract revenue	2,329,661,264.63	1,971,107,524.10	1,335,722,515.56	1,101,061,754.70
	4,698,079,417.01	3,378,189,403.60	3,047,858,001.17	2,094,601,972.91

Revenue from sales to the five largest customers amounts to RMB 1,184,846,945.55 accounting for 25.22% of the total revenue.

Revenue and cost of sales by products and services are as follow:

	2006		2005	
	Revenue RMB	Cost RMB	Revenue RMB	Cost RMB
Revenue from sales of power generating equipments	4,638,376,503.69	3,338,466,316.12	2,902,403,789.24	1,986,808,147.79
Revenue from rendering of services and technology improvement	59,702,913.32	39,723,087.48	145,454,211.93	107,793,825.12
	4,698,079,417.01	3,378,189,403.60	3,047,858,001.17	2,094,601,972.91

Since revenue from sales of power generating equipments accounts for over 99% of the total revenue from sales and there is no significant difference in risks and rewards of sales in different areas, it is not necessary to disclose the segmental information or regional information.

35. TAXES AND SURCHARGES

	2006 RMB	2005 RMB
Urban construction and maintenance tax	6,539,592.92	3,189,873.27
Educational surcharge	3,736,910.28	1,825,996.24
Business tax	51,540.91	116,734.61
	10,328,044.11	5,132,604.12

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
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36. OTHER OPERATING PROFIT

	Other operating revenue		Other operating expenses		Other operating profit	
	2006	2005	2006	2005	2006	2005
	RMB	RMB	RMB	RMB	RMB	RMB
Sales of materials and semi-finished goods	98,489,343.05	88,400,877.99	52,064,293.22	30,826,131.11	46,425,049.83	57,574,746.88
Sales of energy	8,968,946.65	10,866,167.68	4,566,927.77	11,927,758.07	4,402,018.88	(1,061,590.39)
Others	25,167,332.30	9,958,664.06	3,763,667.79	2,632,567.32	21,403,664.51	7,326,096.74
	132,625,622.00	109,225,709.73	60,394,888.78	45,386,456.50	72,230,733.22	63,839,253.23

37. FINANCIAL EXPENSES

	2006	2005
	RMB	RMB
Interest expenses	313,969.44	1,271,816.63
Less: Interest income	63,464,037.32	47,036,374.30
Exchange losses	24,733,692.49	17,579,661.74
Less: Exchange gains	18,133,106.98	6,928,367.97
Others	6,123,596.93	4,495,262.39
	(50,425,885.44)	(30,618,001.51)

38. INVESTMENT INCOME

	2006	2005
	RMB	RMB
Amortization of long-term equity investment differences	153,840.84	153,840.84
Losses on disposal of long-term equity investment	—	(43,005.17)
Other investment gains	—	1,155,348.00
	153,840.84	1,266,183.67

There is no major restriction on remittance of investment income.

39. SUBSIDY INCOME

	2006	2005
	RMB	RMB
Other subsidy income	—	100,000.00

40. NON-OPERATING REVENUE

	2006	2005
	RMB	RMB
Gains on disposal of fixed assets	3,739,039.88	962,515.74
Penalty revenue	118,158.56	—
Others	184,180.49	128,072.90
	4,041,378.93	1,090,588.64

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

41. NON-OPERATING EXPENSES

	2006 RMB	2005 RMB
Losses on disposal of fixed assets	2,515,104.53	1,945,684.07
Donations	630,000.00	—
Provision for impairment of fixed assets	(1,160,754.10)	—
Others	911,220.78	1,256,372.71
	2,895,571.21	3,202,056.78

42. INCOME TAX

	2006 RMB	2005 RMB
Taxes provided for the year	143,059,035.58	82,213,090.23
Tax effects of timing difference incurred during the year	(48,815,462.07)	—
	94,243,573.51	82,213,090.23

43. OTHER CASH RECEIPTS RELATING TO OPERATING ACTIVITIES

	2006 RMB	2005 RMB
Receipt of refund of guarantee deposit, etc.	21,118,128.89	122,799,371.98
Interest income	38,598,116.29	27,345,715.02
Receipt of returned sales amounts	—	25,806,296.17
Receipt of bid warranty	17,767,503.72	27,709,254.24
Receipt of trade receivables	5,873,740.00	—
Granted funds for experiment, trial production and large scientific research projects	3,910,000.00	—
Others	6,283,372.42	8,444,466.15
	93,550,861.32	212,105,103.56

44. OTHER CASH PAYMENTS RELATING TO OPERATING ACTIVITIES

	2006 RMB	2005 RMB
Payment of guarantee deposit, etc.	2,435,359.43	135,761,499.70
Refund of bid warranty	38,748,116.32	39,134,251.48
Payment of operating and administrative expenses	50,253,045.95	32,058,754.93
Others	39,121,022.85	13,845,440.06
	130,557,544.55	220,799,946.17

Notes to the Consolidated Financial Statements (continued)

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45. NET PROFIT AFTER DEDUCTING NON-RECURRING GAINS/LOSSES

	2006 RMB	2005 RMB
Net profit	830,199,589.85	528,056,690.71
Less: Non-recurring gains/losses	6,819,287.68	(1,712,534.54)
Including:		
Gains on disposal of long-term equity investment, fixed assets, construction in progress, intangible assets and other long-term assets	1,223,935.35	(997,203.65)
Non-operating revenue to be deducted	302,339.05	128,072.90
Non-operating expenses to be deducted	(1,541,220.78)	(1,242,337.39)
Government subsidiary	—	100,000.00
Reversal of provision recognized for prior years	7,667,734.74	471,895.31
Effects of minority interest	(11,419.03)	(1,600.36)
Effects of income tax of non-recurring gains/losses	(822,081.65)	(171,361.35)
	823,380,302.17	529,769,225.25

46. NOTES TO MAJOR ACCOUNTS IN THE FINANCIAL STATEMENTS OF PARENT'S COMPANY

(1) Accounts receivable

The aging analysis of the accounts receivable is as follows:

	31/12/2006				31/12/2005			
	Amount	Ratio	Bad debt provision	Net book value	Amount	Ratio	Bad debt provision	Net book value
Within 1 year	805,373,293.47	62.95	53,804,264.67	751,569,028.80	623,853,091.35	64.67	31,994,520.51	591,858,570.84
1-2 years	282,069,398.60	22.05	28,206,939.86	253,862,458.74	196,044,736.45	20.32	19,604,473.65	176,440,262.80
2-3 years	107,949,755.35	8.44	21,589,951.07	86,359,804.28	80,469,712.17	8.34	16,093,942.43	64,375,769.74
3-4 years	44,077,410.71	3.45	23,241,695.56	20,835,715.15	31,593,269.15	3.28	12,637,307.66	18,955,961.49
4-5 years	22,508,051.06	1.76	14,789,925.53	7,718,125.53	13,665,128.48	1.42	6,832,564.24	6,832,564.24
Over 5 years	17,394,549.63	1.35	16,886,306.64	508,242.99	19,026,528.63	1.97	17,718,403.77	1,308,124.86
	1,279,372,458.82	100.00	158,519,083.33	1,120,853,375.49	964,652,466.23	100.00	104,881,212.26	859,771,253.97

Particulars of the five largest accounts receivable are as follows:

Aggregate of five largest accounts receivable RMB	% of the accounts receivable %
307,095,389.14	24.00

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
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46. NOTES TO MAJOR ACCOUNTS IN THE FINANCIAL STATEMENTS OF PARENT'S COMPANY (continued)

(2) Other receivables

The aging analysis of the other receivables is as follows:

	31/12/2006				31/12/2005			
	Amount	Ratio	Bad debt provision	Net book value	Amount	Ratio	Bad debt provision	Net book value
Within 1 year	105,481,920.73	59.49	3,067,562.88	102,414,357.85	52,591,459.23	45.63	1,666,435.86	50,925,023.37
1-2years	18,341,501.83	10.34	1,834,150.18	16,507,351.65	590,218.26	0.51	59,021.83	531,196.43
2-3years	480,460.00	0.27	96,092.00	384,368.00	450,000.00	0.39	90,000.00	360,000.00
3-4years	—	—	—	—	2,750,000.00	2.39	1,100,000.00	1,650,000.00
4-5 years	—	—	—	—	—	—	—	—
Over5years	53,001,581.57	29.90	52,285,043.69	716,537.88	58,881,321.57	51.08	57,977,409.69	903,911.88
	177,305,464.13	100.00	57,282,848.75	120,022,615.38	115,262,999.06	100.00	60,892,867.38	54,370,131.68

Particulars of the five largest other receivables is as follows:

Aggregate of five largest other receivables RMB	% of the accounts receivable %
96,814,364.43	54.60

(3) Provision for bad debts

	Accounts receivable RMB	Other receivables RMB	Total RMB
At the beginning of the year	104,881,212.26	60,892,867.38	165,774,079.64
Additions	54,074,294.57	—	54,074,294.57
Reversals	—	3,610,018.63	3,610,018.63
Other transfer-out	436,423.50	—	436,423.50
At the end of the year	158,519,083.33	57,282,848.75	215,801,932.08

(4) Long-term equity investments

	31/12/2006 RMB	31/12/2005 RMB
Stock investment	44,263.24	44,263.24
Investment in subsidiaries	101,052,675.82	86,657,252.00
Investment in joint ventures	23,375,000.00	6,375,000.00
Investment in associates	—	—
Other equity investments	1,766,314.66	1,766,314.66
Equity investment difference	(650,991.69)	(804,832.53)
Total	125,587,262.03	94,037,997.37
Less: Provision for impairment of long-term equity investments	310,941.25	310,941.25
Long-term equity investments - net	125,276,320.78	93,727,056.12



Notes to the Consolidated Financial Statements (continued)

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46. NOTES TO MAJOR ACCOUNTS IN THE FINANCIAL STATEMENTS OF PARENT'S COMPANY (continued)

(4) Long-term equity investments (continued)

(a) Movements of the provision for impairment of long-term equity investments are as follows:

	Amount RMB
At the beginning of the year	310,941.25
Additions	—
Reversals	—
Other transfer-out	—
	<hr/>
At the end of the year	<u>310,941.25</u>

(b) Details of long-term stock investment

Name of investee	Type of share	Number of shares	% in the registered capital of the investee %	Investment amount RMB	Provision for loss RMB	Year-end book value RMB	Initial cost of investment RMB
Sichuan Sofra Special Typed Fiber Co., Ltd	A share	46,602	0.02	44,263.24	—	44,263.24	44,263.24

(c) Details of investments in subsidiaries, joint ventures are as follows:

Name of investee	Date of establishment investment period	Share in the Registered capital of the investee %	Initial cost of investment RMB	31/12/2005 Amount RMB	Provision for impairment RMB	Increase in Initial Investment RMB	Increase (decrease) in equity RMB	Cash dividends received RMB	Increase (decrease) in equity RMB	Provision for impairment RMB	31/12/2006 Amount RMB
Subsidiaries											
DFEM Control Equipment Co., Ltd.	2000.5.18-2010.5.17	96.15	12,500,000.00	13,603,183.63	—	—	12,627,018.73	(384,615.38)	13,345,586.98	25,845,586.98	—
DFEM Power System Co., Ltd	2000.7.10-2010.7.9	98.83	42,254,340.02	43,302,099.50	—	—	126,661.14	—	1,174,420.62	43,428,760.64	—
DFEM Tooling & Molding Co., Ltd.	2001.3.13-2021.3.12	99.32	14,500,000.00	15,929,352.27	—	—	1,192,990.47	—	2,622,342.74	17,122,342.74	—
DFEM Equipment Engineering Co., Ltd.	2001.8.16-2021.8.15	97.78	13,200,000.00	13,822,616.60	—	100,000.00	733,368.86	—	1,455,985.46	14,655,985.46	—
			82,454,340.02	86,657,252.00	—	100,000.00	14,580,039.20	(384,615.38)	18,598,335.80	101,052,675.82	—
Joint ventures											
Areva-dongfang Reactor Coolant Pumps Co., Ltd.	2005.10.28-2055.10.27	50.00	23,375,000.00	6,375,000.00	—	17,000,000.00	—	—	—	23,375,000.00	—

Notes to the Consolidated Financial Statements (continued)

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46. NOTES TO MAJOR ACCOUNTS IN THE FINANCIAL STATEMENTS OF PARENT'S COMPANY (continued)

(4) Long-term equity investments (continued)

(d) Details of investment in associate(s) are as follows:

Name of investee	Date of establishment investment period	Share in the Registered		31/12/2005		Increase in		Increase		31/12/2006	
		capital of	Initial cost	Provision for	Initial	(decrease)	Cash dividends	(decrease)	Provision for		
		the investee	of investment	Amount	impairment	Investment	in equity	received	in equity	Amount	impairment
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Associate(s)											
Dongle Heavy											
Piece Handling Co.	1997.7	49.00	490,000.00	—	—	—	—	—	490,000.00	—	—

(e) Other equity investments

Name of investee	Date of establish	registered capital of the investee %	Initial cost of investment RMB	Share in the Provision for loss RMB	Year-end book value RMB
Southwest Production Materials Trade Center	1984.12	No detail	60,000.00	60,000.00	—
Deyang Electric Equipment Import and Export Co.	1988.6	No detail	100,941.25	100,941.25	—
Wuxi Electrical Power Hotel	1988.7	2.30	150,000.00	150,000.00	—
Chengdu Sandian Co., Ltd.	1992.9	0.62	455,373.41	—	455,373.41
Sichuan DFEM Real Estate Development Co., Ltd.	2001.4	12.50	1,000,000.00	—	1,000,000.00
			1,766,314.66	310,941.25	1,455,373.41

(f) Details of equity investment difference are as follows:

Name of investee	Initial investment RMB	Amortization term (month)	Remaining 31/12/2005 RMB	Amortization RMB	31/12/2006 RMB	term (month)
DFEM Tooling & Molding Co., Ltd.	(1,082,220.62)	120	(550,128.53)	108,222.12	(441,906.41)	49
DFEM Equipment Engineering Co., Ltd.	(624,538.25)	120	(254,704.00)	45,618.72	(209,085.28)	55
	(1,706,758.87)		(804,832.53)	153,840.84	(650,991.69)	

Notes to the Consolidated Financial Statements (continued)

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46. NOTES TO MAJOR ACCOUNTS IN THE FINANCIAL STATEMENTS OF PARENT'S COMPANY (continued)

(5) Revenue and Cost of sales

	2006		2005	
	Revenue RMB	Cost RMB	Revenue RMB	Cost RMB
Revenue from sales of goods	2,318,271,486.53	1,458,392,240.87	1,609,669,634.43	977,647,160.04
Revenue from rendering of services	33,704,109.88	20,985,990.88	131,217,351.44	96,706,337.35
Construction contract revenue	2,329,661,264.63	1,971,107,524.10	1,149,380,942.15	977,827,309.65
	4,681,636,861.04	3,450,485,755.85	2,890,267,928.02	2,052,180,807.04

Revenue from sales to the five largest customers amounts to RMB1,184,846,945.55, accounting for 25.31% of the total revenue from sales.

(6) Investment income

	2006 RMB	2005 RMB
Amortization of equity investment differences	153,840.84	153,840.84
Net increase (decrease) from adjustment under equity method	9,633,796.91	23,841,305.59
Gains (losses) on disposal of long-term equity investments	—	(43,005.17)
Other investment income	—	1,155,348.00
	9,787,637.75	25,107,489.26

There is no material restriction on remittance of investment income.

(7) Cash and cash equivalents

	31/12/2006 RMB	31/12/2005 RMB
Monetary funds	3,211,978,362.88	3,921,304,333.42
Less: restricted amount	126,062,076.29	137,655,773.07
	3,085,916,286.59	3,783,648,560.35

47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Breakdown of the related party relationships is as below:

(a) Related parties where a control relationship exists

Place of Name	Nature or type registration	Legal Principal business	Relationship	of business	representative
DEC (Note)	115 Yihuan Road West 1st part, Chengdu, Sichuan, PRC	Manufacturing and selling equipments for hydropower stations, thermal power stations and nuclear power stations, contracting complete set of design and technical service	Holding Company	Wholly state-owned	Wang Ji
DFEW(Note)	188 Huanghe West Road Deyang, Sichuan, PRC	Manufacturing and Selling of Power Generating Equipment, AC & DC Motors	Holding Company	Wholly state-owned	Zhu Yuan Chao

Note: As disclosed in note 1, 220,000,000 state-owned shares held by DFEW in the Company were transferred to DEC on 30 December 2005.

(b) For the related parties where a control relationship exists, the registered capital of the related parties and the changes

Name	31/12/2005 RMB	Increase RMB	Decrease RMB	31/12/2006 RMB
DEC	872,743,000.00	—	—	872,743,000.00
DFEW	128,420,000.00	—	—	128,420,000.00
DFEM Control Equipment Co., Ltd.	13,000,000.00	—	—	13,000,000.00
DFEM Power System Co., Ltd.	42,754,340.02	—	—	42,754,340.02
DFEM Tooling & Molding Co., Ltd.	14,600,000.00	—	—	14,600,000.00
DFEM Equipment Engineering Co.	13,500,000.00	—	—	13,500,000.00

Notes to the Consolidated Financial Statements (continued)

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47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(continued)

(1) Breakdown of the related party relationships is as below: (continued)

- (c) For the related parties where a control relationship exists, the proportion of equity interest held by the related parties and changes therein are as follows:

Name	31/12/2005		Increase		Decrease		31/12/2006	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	RMB	%	RMB	%	RMB	%	RMB	%
DEC	220,000,000.00	48.89			16,200,000.00	3.60	203,800,000.00	45.29
DFEM Control								
Equipment Co., Ltd.	12,500,000.00	96.15	—	—	—	—	12,500,000.00	96.15
DFEM Power								
System Co., Ltd.	42,254,344.02	98.83	—	—	—	—	42,254,344.02	98.83
DFEM Tooling &								
Molding Co., Ltd.	14,500,000.00	99.32	—	—	—	—	14,500,000.00	99.32
DFEM Equipment								
Engineering Co.	13,100,000.00	97.04	100,000.00	0.74	—	—	13,200,000.00	97.78

- (d) Related parties where a control relationship does not exist:

Name	Relationship
Dongle Heavy Piece Handling Co.	Associate
Areva-dongfang Reactor Coolant Pumps Company	Joint venture
Finance Company of Dongfang Group	Subsidiary of DEC
SiChuan Dongfang Electrical Engineering United Co., Ltd (Dongfang Electrical Engineering Co., Ltd)	Subsidiary of DEC
Sichuan Dongfang Electronic auto-control Co. Ltd. (Dongfang Electronic auto-control Co., Ltd)	Subsidiary of DEC
Dongfang Steam Turbine Works	Subsidiary of DEC
Sichuan Dongfang Electric Machinery Supplementary Equipment Company (DFEM Supplementary Equipment Company)	Subsidiary of DFEW
Sichuan Dongfang Electric Machinery General Equipment Company (DFEM General Co., Ltd.)	Subsidiary of DFEW
Sichuan DFEM Matal Framework Accessory Co., Ltd. (DFEM Matal Framework Accessory Co., Ltd.)	Subsidiary of DFEW
Sichuan DFEM insulating material Co., Ltd. (DFEM Insulating Material Co., Ltd)	Subsidiary of DFEW
Sichuan DFEM real estate development Co., Ltd (DFEM real estate Co., Ltd)	Share holder
Guangdong Dongfang Power Station Set of Equipment Co., Ltd	Subsidiary of DEC
Deyang Dongfang Mobile Equipment Technology Co., Ltd (Dongfang Mobile Equipment Technology Co., Ltd)	Subsidiary of DEC
DFEW Technology School machinery and electric process work	Subsidiary of DEC
Dongfang Boiler Group Co., Ltd.	Subsidiary of DEC
Sichuan Dongfang energy teclogy Technology Co.	Subsidiary of DEC
Dongfang Steam Turbine Works	Subsidiary of DEC
Sichuan Dongfang Industrial Development Co., Ltd (Dongfang Industrial Co., Ltd)	Subsidiary company of DEC before 1 January 2006
Sichuan DFEM Property management Co., Ltd (DFEM property Co., Ltd)	Subsidiary company of DFEW before 1 January 2006
DFEW	Subsidiary company of DEC
Sichuan Dongdian vehicle repairing replacement Co.	Subsidiary company of DFEW
Directors, General Manager and other Senior management personnel	Key management personnel

Notes to the Consolidated Financial Statements (continued)

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47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(continued)

(2) Related party transactions

(a) The details of service expenses owing to DFEW by the Group are as follows:

Items	2006 RMB	2005 RMB
Staff accommodation management fees	—	2,460,864.81
Environmental, hygiene and greenery expenses	—	3,368,939.63
Nursery service for children of employees	1,504,501.00	1,327,500.00
Staff retirement plan	3,097,083.00	2,610,534.67
Transportation and repair	73,115,782.61	63,030,764.72
Rental and land use fees	3,596,050.00	3,648,401.00
Security guard fees	1,043,001.00	341,796.77
	82,356,417.61	76,788,801.60

Above expenses are incurred according to the Service Agreement with DFEW.

(b) The details of raw material, fixed assets purchase and labor charges from related parties by the Group are as follows:

Items	Company name	2006 RMB	2005 RMB
Purchase of raw materials	DFEW	—	5,211,441.68
	DFEM Metal Framework Accessory Co., Ltd.	333,948.73	25,374,523.34
	DFEM Insulating Material Co., Ltd.	24,914,303.50	26,732,430.10
	DFEM Supplementary Equipment Company	50,396,334.00	43,124,204.40
	DFEM General Co., Ltd.	36,214,120.52	19,208,467.60
	Sub-total	111,858,706.75	119,651,067.12
Labor charges	DFEW	53,546.00	5,976,387.44
	DFEM Metal Framework Accessory Co., Ltd.	35,466,444.64	—
	DFEM General Co., Ltd.	477,933.33	—
	Sichuan Dongdian vehicle repairing replacement Co	5,470.09	—
	Sub-total	36,003,394.06	5,976,387.44
	Total	147,862,100.81	125,627,454.56

Transaction prices and payments of raw material purchased, fixed assets purchase and labor charges are incurred according to agreement with related companies.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(continued)

(2) Related party transactions (continued)

- (c) The details of receivables from DFEW for raw material and finished product sales and labor charges by the Group:

Items	Company name	2006 RMB	2005 RMB
Sales of raw material and finished goods	DFEW and its subsidiaries	41,644,419.86	47,562,410.54
	Sub-total	41,644,419.86	47,562,410.54
Sales of energy	DFEW and its subsidiaries	6,458,799.82	5,757,256.74
	DFEM Real Estate Co., Ltd.	1,706.46	—
	Sub-total	6,460,506.28	5,757,256.74
Rendering services	DEC	398,191.76	6,125,921.07
	DFEW and its subsidiaries	2,829,545.31	—
	DFEM real estate Co., Ltd	202,617.39	—
	Areva-dongfang Reactor Coolant Pumps Co.	350,000.00	—
	Dongfang Boiler Holding Co. Ltd.	53,382.05	—
		3,833,736.51	6,125,921.07
Sales of finished	DEC and its subsidiaries		
	Goods	179,457,027.11	156,864,131.40
	DFEW and its subsidiaries	5,618,513.40	—
	Guangdong Dongfang Power Station Set of Equipment Co., Ltd	152,495.73	17,769,555.56
	Dongfang Electrical Engineering Co., Ltd.	233,137,475.60	11,399,862.97
	Dongfang Steam Turbine Works	124,826.85	1,662,393.16
		418,490,338.69	187,695,943.09
	Total	470,429,001.34	247,141,531.44

Transaction prices and receivables of raw material and finished goods sales and labor services are incurred according to agreement with related parties.

- (d) As of 31 December 2006, the Company has deposited with Finance Company of Dongfang Group an amount of RMB 17,659,598.60 on demand, interest accrued on which is based on bank interest rate of the same period, and a fixed-term of amount of RMB 200,000,000.00 (annual interest rate is 2.25 %). Interest income for such savings accrued during the year amounts to RMB5,319,129.26.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(continued)

(2) Related party transactions (continued)

(e) Remunerations for key management personnel

	2006 RMB	2005 RMB
remunerations for key management personnel	2,877,545.00	1,724,236.00

(3) Amounts due to /from related parties

Accounts	Related parties	31/12/2006	% of the balance %	31/12/2005	balance %
		Amount RMB		% of the Amount RMB	
Accounts receivable	DFEM Metal Framework Accessory Co., Ltd.	42,353,783.68	3.59	35,186,993.12	3.66
	Dongfang Electrical Engineering Co., Ltd	21,262,500.00	1.80	20,186,022.73	2.10
	DFEM General Co., Ltd.	20,244,647.24	1.72	6,856,644.68	0.71
	Dongfang Steam Turbine Works	4,406,400.00	0.37	4,406,400.00	0.46
	DFEM Supplementary Equipment Company	6,976,103.20	0.59	3,130,448.50	0.33
	Dongfang Industrial Co., Ltd	—	—	1,815,600.00	0.19
	Dongfang Electronic auto-control Co., Ltd	1,048,570.00	0.09	1,195,070.00	0.12
	DFEM Insulating Material Co., Ltd	1,254,728.02	0.11	303,843.46	0.03
	DFEW	111,036.12	0.01	40,362.12	0.01
	Dongfang Mobile Equipment Technology Co., Ltd	—	—	28,400.00	0.01
	Sichuan Dongfang Energy Technology Co.	1,644,375.00	0.14	—	—
	Guangdong Dongfang Power Station Set of Equipment Co., Ltd	1,871,250.00	0.16	1,754,380.00	0.18
	DEC	74,937,602.78	6.36	81,718,760.26	8.51
		176,110,996.04	14.94	156,622,924.87	16.31
Prepayments	DFEM Metal Framework Accessory Co., Ltd.	—	—	3,068,400.00	0.43
	Dongfang Electrical Engineering Co., Ltd	2,925,434.74	0.23	—	—
	DFEM Supplementary Equipment Company	9,364,772.60	0.74	—	—
	DFEW	4,493,500.00	0.36	—	—
	Sichuan Dongfeng Electric Machinery Factory Co.	3,631,296.00	0.29	—	—
	DEC Sourcing Co.	2,058,000.00	0.16	—	—
		22,473,003.34	1.78	3,068,400.00	0.43
Other receivables	Dongle Heavy Piece Handling Co	7,165,378.80	5.62	9,039,118.80	9.07
	DFEM real estate Co., Ltd	14,140,000.00	11.09	2,000,000.00	2.07
	Areva-dongfang Reactor Coolant Pumps Company	350,000.00	0.27	359,012.69	0.36
	DFEW	2,096,986.42	1.64	71,560.00	0.07
	DFEM Supplementary Equipment Company	359,437.43	0.28	—	—
	DFEM Insulating Material Co., Ltd.	125,009.08	0.10	—	—
	DFEM Metal Framework Accessory Co., Ltd.	26,398.22	0.02	—	—
		24,263,209.95	19.02	11,469,691.49	11.57

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(3) Amounts due to /from related parties (continued)

Accounts	Related parties	31/12/2006		31/12/2005	
		Amount RMB	% of the balance %	Amount RMB	% of the balance %
Advances from customers	DEC	220,870,304.03	4.01	96,974,012.63	1.78
	DREW	518.40	—	1,611.48	—
	Dongfang Electrical Engineering Co., Ltd	243,850,672.95	4.43	37,256,605.61	0.68
	Dongfang Steam Turbine Works	1,536,000.00	0.03	768,000.00	0.01
	Dongfang Industrial Co., Ltd	—	—	605,200.00	0.01
	DFEM Insulating Material Co., Ltd	—	—	201,631.79	—
	DFEM General Co., Ltd.	758,408.00	0.01	—	—
	DFEM Metal Framework Accessory Co., Ltd	2,000,000.00	0.04	—	—
	DFEM Supplementary Equipment Company	107,801.90	—	—	—
	Sichuan Dongfang Energy Technology Co.	17,926,250.00	0.32	—	—
	Areva Dongfang Reactor Coolant Pumps Company	3,369,018.60	0.06	—	—
	Guangdong Dongfang Power Station Set of Equipment Co., Ltd	527.00	—	—	—
	DFEM real estate Co., Ltd	611.86	—	—	—
	DREW Technology School machinery and electric process work	52,702.84	—	—	—
		490,472,815.58	8.90	135,807,061.51	2.48
Other payables	DREW	5,197,751.10	6.81	3,103,615.05	5.09
	DFEM property Co., Ltd	—	—	39,506.50	0.06
	Dongfang Boiler Factory	200,600.00	0.26	—	—
		5,398,351.10	7.07	3,143,121.55	5.15
Accounts payable	DFEM General Co., Ltd.	41,006,870.65	6.41	12,018,895.23	2.67
	DFEM Supplementary Equipment Company	22,115,549.38	3.46	16,826,819.11	3.74
	DFEM Insulating Material Co., Ltd	9,369,137.68	1.46	6,083,730.21	1.35
	DFEM Metal Framework Accessory Co., Ltd.	563,220.00	0.09	2,378,310.44	0.53
	DREW	585,982.75	0.09	2,221,663.00	0.49
	DEC Sourcing Co.	1,759,298.24	0.28	—	—
		75,400,058.70	11.79	39,529,417.99	8.78
Notes payable	DFEM Supplementary Equipment Company	11,294,750.00	3.58	825,000.00	0.35
	DFEM General Co., Ltd.	1,188,677.32	0.38	—	—
	DFEM Insulating Material Co., Ltd	1,390,888.57	0.44	2,332,077.20	0.98
		13,874,315.89	4.40	3,157,077.20	1.33

48. CONTINGENCY

There exists no material contingency necessary for disclosure.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

49. CAPITAL COMMITMENTS

As of 31st December 2006, the capital expenditures approved by the Company are detailed as follows:

	31/12/2006 RMB	31/12/2005 RMB
Capital expenditure contracted for but not provided in the financial statements:		
— Commitment for acquisition of long-term assets	99,226,355.80	123,506,520.51
— Commitment for investments	19,125,000.00	36,125,000.00

50. FINANCIAL COMMITMENTS

Irrevocable letter of credit issued by the Company as of 31st December 2006 amounts to RMB 917,004,859.86.

Letter of guarantee issued by the Company as of 31st December 2006 amounts to RMB 1,606,231,520.64.

51. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

- (1) According to the resolution of the 8th meeting of the 5th board of directors, a cash dividend of RMB 90,000,000.00 for the year of 2006 has been approved to be distributed on 2 April 2007.
- (2) The Company has adopted the new Accounting Standards for Business Enterprises since 1 January 2007 in accordance with Order No.33 by Ministry of Finance and requirements in Notice on Circulating 38 Specific Standards Including Accounting Standards for Business Enterprises No.1 °V Inventories. The Company has established the appropriate accounting policies and made reasonable accounting estimates based on the new Accounting Standards for Business Enterprises with consideration of the actual circumstances of the Company, which have been approved by the board of directors. For effects on shareholders' equity at 1 January 2007 of changes in accounting policies arising from implementation of new Accounting Standards for Business Enterprises, reconciliation of difference in shareholders' equity under new and old Standards has been prepared by the Company which is disclosed as supplementary information to the financial statements.
- (3) According to the resolution of the 6th meeting of the 5th board of directors held on 4 January 2007, the Company plans to purchase shares in Dongfang Boiler Holding Co., Ltd. after its share reform and 100% share in Dongfang Steam Turbine Works, both held by Dongfang Electrical Machinery Group. The Company plans to issue A-Share shares numbered 367,000,000.00 (par value of 1.00 RMB per Share) to Dongfang Electrical Machinery Group as the consideration for acquisition of the above equity. The shortfall will be deferred in cash.

52. OTHER SIGNIFICANT EVENTS

The shares held by Dongfang Electrical Machinery Group in the Company after implementation of the split share reform scheme will not be traded or demised on Shanghai Stock Exchange within twelve months commencing on 18 April 2007.

Upon expiry of above term, the shares to be sold by Dongfang Electrical Machinery Group via Shanghai Stock Exchange will not exceed 5% of the total shares of the Company (calculated based on the current shares) within 12 months, and not exceed 10% of the total shares of the Company within 24 months, and the transaction price must be or above 150% of the closing price (e.g. RMB23.39/share) quoted on the trading day before announcement of the share reform scheme. When profit distribution or capital reserve transferred to share capital gives rise to changes in shareholders' equity or cash bonus, ex-right or ex-dividend shall be made accordingly.

Dongfang Electrical Machinery Group committed that, for the number of shares traded on Shanghai Stock Exchange, it shall release announcement within 2 working days once the number arrives 1% of the total shares of the Company, and there is no need to suspend dealing during the period of announcement.

Notes to the Consolidated Financial Statements *(continued)*

For the year ended 31 December 2006
(prepared under PRC Accounting Standards)

53. COMPARATIVE FIGURES

The comparative figures of investment properties and the cost and accumulated depreciation of property, plant and have been reclassified to conform to the current year's presentation

54. APPROVAL OF THE FINANCIAL STATEMENT

The financial statements were approved and authorized for issuance by the board of directors on 2 April 2007.

EARNING RATIO ON NET ASSETS AND EARNINGS PER SHARE FOR THE YEAR ENDED 31 DECEMBER 2006

	Earning ratio on net asset (%)				Earnings per share (RMB/share)			
	Fully diluted 2006	2005	Weighted average 2006	2005	Fully diluted 2006	2005	Weighted average 2006	2005
Profit from principal operations	52.07	51.71	60.78	63.10	2.910	2.107	2.910	2.107
Operating profit	36.72	33.34	42.86	40.69	2.052	1.358	2.052	1.358
Net profit	33.01	28.80	38.53	35.15	1.845	1.173	1.845	1.173
Net profit after deducting non-recurring Gains/losses	32.74	28.90	38.21	35.26	1.830	1.177	1.830	1.177

STATEMENT OF PROVISIONS FOR IMPAIRMENT OF ASSETS FOR THE YEAR ENDED 31 DECEMBER 2006

	31/12/2005 RMB	Increase RMB	Reversal RMB	Decrease Other transfer out RMB	Total RMB	31/12/2006 RMB
Provision for bad-debt	168,433,884.74	45,250,762.26	6,506,980.64	436,423.50	6,943,404.14	206,741,242.86
Including: Accounts receivable	108,321,966.55	45,250,762.26	—	436,423.50	436,423.50	153,136,305.31
Other receivables	60,111,918.19	—	6,506,980.64	—	6,506,980.64	53,604,937.55
Provision for decline in value of current investment	—	—	—	—	—	—
Including: Stock investment	—	—	—	—	—	—
Provision for decline in value of inventories	3,178,400.59	11,203,825.90	—	1,314,930.36	1,314,930.36	13,067,296.13
Including: Raw materials	20,254.06	—	—	—	—	20,254.06
Work in process	1,337,098.36	145,412.57	—	26,682.46	26,682.46	1,455,828.47
Finished goods	1,502,540.17	323,555.50	—	1,288,247.90	1,288,247.90	537,847.77
Unsettled construction (Provision for contract losses)	318,508.00	10,734,857.83	—	—	—	11,053,365.83
Provision for impairment of long-term investment	310,941.25	—	—	—	—	310,941.25
Including: Long-term equity investment	310,941.25	—	—	—	—	310,941.25
Provision for impairment of fixed assets	1,160,754.10	—	—	—	—	—
Including: Machinery and equipment	1,160,754.10	—	—	—	1,160,754.10	—
Total	173,083,980.68	56,454,588.16	7,667,734.74	1,751,353.86	9,419,088.60	220,119,480.24

STATEMENT OF UNUSUAL CHANGES FOR THE YEAR ENDED 31 DECEMBER 2006

	31/12/2006 RMB	01.01.2006 RMB	Ratio of Changes (%)
Monetary funds	3,277,378,752.01	4,027,493,299.29	(18.62)
Accounts receivable	1,025,946,017.13	852,384,702.76	20.36
Advances to customers	1,263,146,796.12	713,701,300.91	76.99
Inventories	2,990,694,541.56	2,053,573,638.91	46.15
Long-term investments	24,223,644.96	7,069,804.12	242.64
Deferred taxes	48,815,462.07	—	100.00
Accounts payable	639,689,954.68	450,197,991.13	42.09
Accrued expenses	61,038,901.46	33,410,088.63	82.70
Revenue from main operations	4,698,079,417.01	3,047,858,001.17	54.14
Costs of sales	3,378,189,403.60	2,094,601,972.91	61.28
Other operating profit	72,230,733.22	63,839,253.23	13.14
Income tax	94,243,573.51	82,213,090.23	14.63

- A. Decrease in monetary funds is mainly derived from increase in amounts for raw materials purchase on purchase contracts signed during the year.
- B. Increase in accounts receivable is mainly due to the increased sales during the year.
- C. Increase in advances to customers is mainly generated from the increased demand for raw material purchase as more sales contracts inked during the year.
- D. Increase in inventories is mainly originated from considerable increase in production and new business.
- E. Increase in long-term investments mainly represents the injection in Areva-dongfang on the third and forth installment in accordance with join venture contract.
- F. Increase in deferred tax debits is recognized as the Company predicts that the deductible timing difference may be reversed in the subsequent periods due to the profit growth.
- G. Increase of accounts payable is mainly due to increase in raw material purchase during the year.
- H. Increase in prepaid expenses is arising from increase in cost of sub-contract due to expansion of sales amount during the year.
- I. Increase in revenue is mainly derived from significant update in business during the year.
- J. Increase in cost of sales is resultant from significant expansion of business.
- K. Increase in other operating profit is mainly due to increase in sales of scraps during the year.
- L. Increase in income tax is mainly due to the provision for income tax arising from significant increase in profit during the year.

RECONCILIATION FOR FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONGKONG AND PRC ACCOUNTING STANDARDS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Net assets 31/12/2006 RMB	Net profit 2006 RMB
Net assets/net profit as reported in accordance with Hong Kong GAAP		2,338,164,688.93	864,707,931.57
Adjustments:			
— Capital Reserve	1, 2	169,879,086.75	—
— Non-operating income	1, 2	—	(42,641,105.91)
Including: Accounting difference in fixed assets arising from transfer-in from demolition & renovation fund for San-xian enterprise	1	—	(42,524,185.00)
Accounting difference in unpaid accounts payable	2	—	(116,920.91)
— Investment income	3	(650,991.69)	153,840.84
— Others		(182,982.62)	—
— General and administrative expenses	4	7,978,923.35	7,978,923.35
Net increase/(decrease)		177,024,035.79	(34,508,341.72)
Net assets/net profit in accordance with PRC Accounting Standards for Business Enterprises		2,515,188,724.72	830,199,589.85

1. Capital reserve

The fixed assets arising from transfer-in from demolition & renovation fund for San-xian enterprises amount to RMB 215,385,930.98 including RMB 55,148,530.42 of 2004, RMB 88,459,432.24 of 2005 and RMB 71,777,968.32 of 2006, and that from environmental protection fund amount to RMB700,000.00 including RMB 200,000.00 of 2004 and RMB500,000.00 of 2006 respectively, technology fund amounting to RMB2,149,095.19 including RMB 824,572.62 of 2005 and RMB1,324,522.57 of 2006 respectively, technology rebuilding fund RMB2,360,000.00 of 2006, and technology from 3 programs fund amount to RMB680,000.00, totaled RMB221,275,026.17. In accordance with the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China, the above funds were transferred from special payables to capital surplus. While in accordance with HKFRS, demolition & renovation fund of RMB 215,385,930.98, environmental protection fund of RMB700,000.00 and technology fund of RMB2,149,095.19, technology rebuilding fund RMB2,360,000.00, technology from 3 programs fund RMB680,000.00 are recognized as deferred income and amortized over the estimated useful life of the fixed assets acquired in the income statement with RMB51,395,939.42 including RMB42,524,185.90 of 2006. And accordingly decreased the closing balance of the Company's Capital Surplus to RMB 169,879,086.75.

2. Non-operating revenue

The company transferred the accounts payable amounting to RMB 116,920.91, which is unable to repay, to capital surplus according to the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China. In accordance with the HKFRS, the accounts payable, which is unable to repay, should be recognized in the income statement in the current period.

**RECONCILIATION FOR FINANCIAL STATEMENTS PREPARED IN
ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING
PRINCIPLES IN HONGKONG AND PRC ACCOUNTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)**

3. Investment income

In accordance with HKFRS, the difference on equity investment was recognized in the income statement when occurred. In accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China, a difference on equity investment amounting to RMB 804,832.53 was amortized over 10 years, thus increasing the Company's net profit by RMB 153,840.84 during the year.

4. General and administrative expenses

In accordance with HKFRS, the welfare of internal retiree was recognized in the current year profit and loss account with RMB7,978,923.35; in accordance with Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China, the welfare of internal retiree was expensed as it actually occurred and was not calculated separately, so that the net profit was increased by RMB7,978,923.35.

D. S. B. (S). Zi, No. PSZ013

To Dongfang Electric Machinery Company Limited

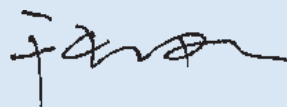
Dear Shareholders,

We have reviewed the attached Consolidated Shareholders' Equity Reconciliation between New and Old Accounting Standards (the "Reconciliation") prepared by Dongfang Electric Machinery Company Limited ("DFEM") according to the basis of preparation as set out in Note 2. It is the responsibility on the management of your company to prepare the Reconciliation according to the basis of preparation as set out in Note 2. We are responsible for preparation of this review report on the Reconciliation based on our review work.


In accordance with the Notice of Financial and Accounting Information Disclosure related to the New Accounting Standards issued by China Securities Regulatory Commission (Zheng Jian Fa [2006] No. 136), we have reviewed the Reconciliation with reference to the Standard on Review Engagements for CPAs of China "No.2101 - Review of Financial Statements". We are required to plan and execute the review so as to acquire limited assurance on whether the Reconciliation contains no misstatements according to the standard. The review scope is limited to inquiry to relevant personnel of DFEM about relevant accounting policies and all significant recognitions for the Reconciliation, investigation of the calculation process of the adjusted amount in the Reconciliation, reading of the Reconciliation to consider the compliance with the basis of preparation as set out in Note 2 and implementation of the analysis procedure when necessary. The review provides less assurance than audit. We have not audited the same and thus shall not give auditing opinions.

Based on our review, we found no event under which we would be convinced that the said Reconciliation fail to be prepared in all material respects according to the basis of preparation as set out in Note 2.

Besides, as stated in the important note of the attached Reconciliation, user of this Reconciliation is advised to pay attention to the possible difference between the consolidated Shareholders' Equity as at 1 January 2007 (under new accounting standards), as presented in the Reconciliation, and the corresponding data to be presented in the financial statements of DFEM for 2007. In order to better understand the attached Reconciliation, the Reconciliation should be read together with the audited financial statements of DFEM.

Deloitte Touche Tohmatsu CPA Ltd., Shenzhen Branch
CPA (China)

Shanghai, the PRC


CPA (China)

2 April 2007

Consolidated Shareholders' Equity Reconciliation between New and Old Accounting Standards

Prepared by: Dongfang Electric Machinery Company Limited

Unit: RMB

Item	Note	Amount
Consolidated shareholders' equity (current accounting standards) on 31 December 2006		2,515,188,724.72
1 Difference in long term equity investment Including: Difference in long-term equity investment from consolidation of enterprises under common control	III(1)	650,991.69 650,991.69
Other difference in long-term equity investment accounted for using equity method (credit balance)		—
2 Real estate held for investment valued in fair value model		—
3 Additional provision of depreciation for preceding years due to accrued asset retirement expenses		—
4 Dismissal compensation qualified as accrued liabilities	III(2)	(7,978,923.35)
5 Share-based payment		—
6 Restructuring obligations qualified as accrued liabilities		—
7 Consolidation of enterprises Including: Book value of goodwill from consolidation of enterprises under common control		—
Provision for diminution in value of goodwill under new accounting standards		—
8 Financial assets measured at fair value through profit or loss and available-for-sale financial assets		—
9 Financial liabilities measured at fair value through profit or loss		—
10 Equity increased by splitting financial instruments		—
11 Derivative financial instruments		—
12 Income tax		—
13 Minority interests	III(3)	1,783,665.79
14 Others	III(4)	(169,874,589.39)
Including: Governmental subsidy related to assets	III(4)	(169,879,086.75)
Consolidated shareholders' equity (new accounting standards) for 1 January 2007		<u>2,339,769,869.46</u>

Important note: the Company has executed the Accounting Standards for Business Enterprises (new accounting standards) promulgated by the Ministry of Finance in 2006 since 1 January 2007. It has been currently appraising the impact of the new accounting standards on the Company's financial position, operation results and cash flow. Following further appraising and prudently considering the further explanation made by the Ministry of Finance in respect of implementation of the new accounting standards and actual situations of the Company, the Company may adjust relevant accounting policies or significant recognitions adopted in preparing Consolidated Shareholders' Equity Reconciliation between New and Old Accounting Standards (the "Reconciliation") when preparing the 2007 financial statements. Therefore, there may be a difference between the consolidated shareholder' equity as at 1 January 2007 (under new accounting standards), as presented in the above Reconciliation, and the corresponding data to be presented in the financial statements for 2007.

Attached notes to the Reconciliation are integral part of the Reconciliation.

The Reconciliation is signed by the following principals:

Corporate Principal

Principal in charge of accounting

Accounting Manager



Notes to the Consolidated Shareholders' Equity Reconciliation between New and Old Accounting Standards

(Unless otherwise specified, the unit of amount is RMB)

I. PURPOSE OF PREPARATION

Dongfang Electric Machinery Company Limited (the "Company") has adopted the Accounting Standard for Business Enterprises ("new accounting standards") promulgated by the Ministry of Finance on 15 February 2006 since 1 January 2007. In order to analyze and disclose the impact of implementing the new accounting standards on the Company's financial position, the Company has prepared the reconciliation between the consolidated shareholders' equity (under current accounting standards) as at 31 December 2006 and the consolidated shareholders' equity (under new accounting standards) as at 1 January 2007 (the "Reconciliation") in accordance with relevant regulations for the Notice of Financial and Accounting Information Disclosures related to the New Accounting Standards ("Notice") issued by China Securities Regulatory Commission (Zheng Jian Fa [2006] No.136), Accounting Standards for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises ("No.38 Standard"), the Panel's Opinions on Implementation Problems on Accounting Standards for Business Enterprises and the Certain Issues from Transition of New and Old Accounting Standards - Work Memorandum (No. 4) of 2006 Annual Report (II) issued by Shanghai Stock Exchange.

II. BASIS OF PREPARATION

As a listed company both in A shares and H shares, the Company simultaneously provides financial statements according to China accounting rules and regulations and IFRS. The Reconciliation is prepared pursuant to the importance principle based on the 2006 Consolidated Financial Statements, in accordance with the Notice, Article 5 and Article 19 of No. 38 Standard, the Panel's Opinions on Implementation Problems on Accounting Standards for Business Enterprises and the Certain Issues from Transition of New and Old Accounting Standards - Work Memorandum (No. 4) of 2006 Annual Report (II) issued by Shanghai Stock Exchange. As to transactions and events without difference between the new accounting standards and IFRS, the Company adopts the retroactive adjustment approach to adjust the consolidated shareholders' equity (under current accounting standards) as at 31 December 2006 on the basis of the financial statements prepared under IFRS. Please refer to Note 3 to the Reconciliation for adjustments to specific items.

Minority interests are presented as a type of shareholder's equity under the new accounting standards, and the impact of the changed presentation mode on the consolidated shareholders' equity has been reflected in the separate item of the Reconciliation.

The Company's consolidated shareholders' equity (under current accounting standards) as at 31 December 2006 was the consolidated shareholders' equity amount in the 2006 Financial Statements prepared by the Company according to the current Accounting Standards for Business Enterprises and Accounting System for Business Enterprises ("current accounting standards"). The Company's financial statements for 2006 have been audited by Deloitte Touche Tohmatsu CPA Ltd. which issued an unqualified auditors' report (De. Si. Bao. (Shen) Zi. No. PSZ012) on 2 April 2007.

**Notes to the Consolidated Shareholders' Equity Reconciliation
between New and Old Accounting Standards** *(continued)*
(Unless otherwise specified, the unit of amount is RMB)

III. NOTES TO MAJOR ITEMS

1. Difference in long-term equity investment

The amortised amount of difference in long-term equity investment (credit balance) as at 31 December 2006 was RMB650,991.69, which arose from consolidation of enterprises under common control. The difference in the equity investment (credit balance) is amortised and recognised in profit or loss over 10 years on the straight line basis, and the amortised amount is stated as "Consolidation difference" in the consolidated financial statements in accordance with the current accounting standards. Pursuant to the requirement for the first time adoption of the new accounting standards (No. 38 Standard), the outstanding difference in the equity investment arising from consolidation of enterprises under common control shall be fully written off. Therefore, the retained earnings as at 1 January 2007 was increased by RMB650,991.69.

2. Dismissal compensation qualified as accrued liabilities

In accordance with the current accounting standards, the dismissal welfare is recognized as the current expense upon actual payment; in accordance with the new accounting standards, the dismissal welfare is recognized when an official plan is prepared and will be implemented by the enterprise, and shall not be unilaterally cancelled. As to the dismissal welfare qualified as accrued liabilities on the first execution day, it shall be recognized and the retained earnings shall be adjusted pursuant to requirements on implementation of the new accounting standards (No. 38 Standard). Therefore, the Company's consolidated shareholders' equity as at 1 January 2007 was decreased by RMB7,978,923.35.

3. Minority interests

The minority interests of the subsidiaries as at 31 December 2006 were RMB1,783,665.79. Under the current accounting standards, the minority interests shall be separately presented between liabilities and shareholders' equity in the consolidated financial statements. Under the new accounting standards, the minority interest shall be included in shareholders' equity. Therefore, the consolidated shareholders' equity 1 January 2007 was increased by RMB 1,783,665.79.

4. Others

(1) Governmental subsidy related to assets

Under the current accounting standards, governmental subsidy related to assets received by the Company shall be stated as special payables, and transferred into "Capital Reserve" upon completion of relevant assets. Under the new accounting standards, governmental subsidy related to assets shall be stated as deferred income, and credited to current profit or loss on a straight line basis over the use life of relevant assets. Therefore, the Company's consolidated shareholders' equity as at 1 January 2007 was decreased by RMB169,879,086.75.