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## **REPORT OF THE DIRECTORS**

*To all shareholders:*

The Board of Directors of Harbin Power Equipment Company Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2008, which were prepared in accordance with accounting principles generally accepted in Hong Kong. Such results have not been audited but have been reviewed by Yuehua Certified Public Accountants Company Limited.

### **RESULTS**

For the six months ended 30th June, 2008, the Group recorded net consolidated profit of Rmb558.08 million, a decrease of 9.26 per cent over the same period last year. Profit per share recorded Rmb0.41, a decrease of Rmb0.05 over the same period last year. The net assets at the end of the term recorded Rmb7,649.27 million, an increase of Rmb436.28 million over the beginning of the year. Net assets per share recorded Rmb5.56, an increase of Rmb0.32 over the beginning of the year.

### **INTERIM DIVIDEND**

The Board does not recommend an interim dividend for the period ended 30th June, 2008.

### **BUSINESS REVIEW**

For the first half of 2008, the global economy faces a significant downturn, despite China’s GDP continues to maintain stable growth at a year-on-year rate of 10.4 per cent. During the first half of the year, as market demand for domestic and overseas power generation grows, development continues to target at high parameter, low pollution, high capacity and environmentally friendly nuclear power generation equipment. Meanwhile, rising steel material and energy prices, global shortage of special steel materials and Renminbi appreciation have caused an unfavorable impact on our operations.

### **NEW CONTRACTS**

For the first half of 2008, the power generation equipment market continues to maintain an upward momentum. The newly acquired orders of the Group amounted to Rmb34.3 billion, representing an increase of 55 per cent over the same period last year.

## **PRODUCTION AND SERVICES**

As orders at hand being delivered, the Group's output during the first half remained relatively high. The output in utility boilers was 13,875MW (34 units), an increase of 5.43 per cent over the same period last year. The output in power plant turbine was 10,654MW (36 units), a decrease of 11.66 per cent over the same period last year. The output in power plant turbine generator was 12,715MW (34 units), an increase of 37.65 per cent over the same period last year. The output in hydropower turbine generator units was 2,978MW (24 units/sets), an increase of 28.09 per cent over the same period last year.

## **TURNOVER AND COST**

For the first half of 2008, the Group recorded a turnover of Rmb12,856.70 million, an increase of 7.46 per cent over the same period last year. Among which, turnover from thermal power main units was Rmb9,927.80 million, an increase of 4.15 per cent over the same period last year, represented 77 per cent of the Group's total turnover; turnover from hydropower main units was Rmb772.06 million, an increase of 3.24 per cent, represented 6 per cent of the Group's total turnover and turnover from power plant engineering and services was Rmb1,273.68 million, an increase of 20.51 per cent, represented 10 per cent of the Group's total turnover. And turnover from power plant auxiliaries and parts was Rmb214.74 million, an increase of 26.67 per cent, represented 2 per cent of the Group's total turnover. The turnover from AC/DC motor and other products and services was Rmb668.43 million, an increase of 45.85 per cent over the same period last year, represented 5 per cent of the Group's total turnover. The increase in turnover was caused by remarkable delivered equipments during the period.

During the period under review, the export sales of the Group was Rmb1,310.41 million, represented 10.19 per cent of the Group's total turnover. The main export destinations were countries in Asia and Africa.

During the period under review, the turnover of the Group was Rmb10,873.47 million, an increase of 4.06 per cent over the same period last year.

## **GROSS PROFIT AND PROFIT MARGIN**

During the period under review, the Group's gross profit of sales was Rmb1,983.23 million, an increase of 30.86 per cent over the same period last year. The profit margin was 15.43 per cent, an increase of 2.76 per cent over the same period last year.

Among which, the gross profit for thermal power main units was Rmb1,642.14 million and the profit margin was 16.54 per cent, an increase of 3.03 per cent over the same period last year. The gross profit for hydro power main units was Rmb156.13 million and the profit margin was 20.22 per cent, an increase of 9.49 per cent over the same period last year. The gross profit for power plant engineering and services was Rmb11.81 million and the profit margin was 0.93 per cent, a decrease of 1.83 per cent over the same period last year. The gross profit for power plant auxiliaries and parts was Rmb54.64 million and the profit margin was 25.44 per cent, an increase of 0.11 per cent over the same period last year. The gross profit for AC/DC motor and other products and services was Rmb118.52 million and the profit margin was 17.73 per cent, an increase of 1.27 per cent over the same period last year. The increase in profit margin was attributable to the ongoing effectiveness emerged in the Group's cost management policies.

## **EXPENSES DURING THE PERIOD**

For the first half of the year, the Group's expenses from operation and administration activities amounted to Rmb1,187.27 million, an increase of Rmb473.54 million or 66.53 per cent over the same period last year. The increase was caused by exchange loss etc.

## **ASSETS AND LIABILITIES**

As at 30th June, 2008, the total assets of the Group amounted to Rmb47,882.97 million, an increase of Rmb5,792.48 million and 13.76 per cent as compared to the beginning of 2008. Among which, the total current assets were Rmb43,587.52 million, representing 91.03 per cent of the total assets. The total non-current assets were Rmb4,295.45 million, representing 8.97 per cent of the total assets.

The Group's liabilities totaled Rmb38,900.59 million, an increase of Rmb5,222.51 million over the beginning of the year. Among which, the total current liabilities were Rmb32,963.34 million, representing 84.74 per cent of the total liabilities. The non-current liabilities were Rmb5,937.25 million, representing 15.26 per cent of the total liabilities. As at 30th June, 2008, the Group's assets/liabilities ratio was 81.24 per cent.

## **DEPOSITS AND CASH INFLOW**

As at 30th June, 2008, the bank deposits and cash of the Group amounted to Rmb8,460.90 million, a decrease of Rmb1,160.64 million over the beginning of the year. Among which, the time deposits were Rmb574.59 million. During the period, the net cash from operating activities amounted to Rmb142.73 million. The net cash used in financing activities amounted to Rmb748.64 million and the net cash used in investment activities was Rmb189.32 million.

## FUNDING AND BORROWING

The Group's funding for operation and development mainly has three sources, they are shareholder capital, customer loans and bank borrowings. The borrowings of the Group will be arranged according to specific projects. Except for those special situations, the loans will be separately conducted by subsidiaries under the Group. However, the capital investment borrowings must be approved by the Company in advance. As at 30th June, 2008, the total sums of the Group's borrowings are Rmb4,083.70 million. The Group's borrowings are loans from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among which, the Group's borrowings due within one year were Rmb599.08

## PROSPECT

For the second half of 2008, the domestic economy is expected to grow at a steady pace. Market demand for power generation equipment will gradually slow down, whilst high new-tech products featuring high capacity, high parameter, environment and high performance will see accelerated growth. Meanwhile, as the market demand for nuclear power generation speeds up its growth, the overseas market demand will remain strong. The power generation equipment market is entering a new phase of competition.

For the second half of the year, the Group will perform its work in a planned and systematic manner with abundant orders on hand and is expected to achieve satisfactory growth. Amid fierce market competition and onerous production duties, shortage of special raw materials, rising material and energy prices, ongoing Rmb appreciation and the pressing marketing demand for technologically advanced products, the Group will face tremendous challenges in the course of development.

The Group will continue to step up its efforts in the development and manufacturing of new model of power generation equipment represented by nuclear power; focus on absorbing and introducing technology and innovate on this basis; accelerate the domestic production and independent development of large scale gas turbines, nuclear power, super critical and ultra super critical coal-fired power plants and large scale pumped storage units, as well as speed up the technological renovations and production facilities construction, so as to fully enhance its market competitiveness.

In overcoming the difficulties, the Group will fully execute the orders on hand and establish sound market credibility; continue to improve internal management and strengthen cost control; formulate effective measures to minimize the adverse effects from rising raw material prices, tight supply and ongoing Rmb appreciation on the operations of the Company.

The Group will continue to consolidate and develop the domestic market, with a long-term goal to strengthen the market development of environmental friendly and IGCC products, so as to maintain a leading market position in the future. Meanwhile, the Group will actively expand to overseas markets, consolidate the market development in Asia and Africa and step up its efforts in developing the markets in Russia and Americas.

The Board will try to create conditions to support the Company's management to lead the whole staff to work hard in order to achieve new development. The Board is fully confident of the development prospect of the Company.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June, 2008, the Company's share capital in issue comprised 1,376,806,000 shares. The major shareholders included:

<b>Shareholder</b>	<b>Share category</b>	<b>Share number</b>	<b>Percentage in total share capital</b>	<b>Position of shares held</b>
Harbin Power Plant				
Equipment Corporation	State share	701,235,000	50.93%	Long position
HKSCC Nominees Limited	H share	674,312,598	48.98%	Long position

## **DIRECTOR'S, SUPERVISOR'S AND SENIOR MANAGEMENT'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

As at 30th June, 2008, none of the Directors, Supervisors or senior management, or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance).

## **MODEL CODE**

After inquiry to the directors, all directors complied with the provisions of the Model Code set out in Appendix 10 of the Listing Rules during period under review.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company now or at any time during the accounting period has complied with provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules.

## **AUDIT COMMITTEE**

The members of the Audit Committee of the Company are Li Hejun, Ding Xuemei and Duan Hongyi. The Board's Audit Committee has reviewed the interim results.



## AUDITORS

The Board of the Company appointed Yuehua Certified Public Accountants Company Limited and China Rightson YueHua Certified Public Accountants Company Limited as the auditors of the Company for the year 2008 according to the authority of the Shareholders' General Meeting. Auditors have reviewed the interim results.

## SHAREHOLDERS' MEETING

The Company's 2007 Annual General Meeting was held on 6th June, 2008 in Harbin city, and the result of the meeting has been published on Wenweipo and China Daily (English version) on 9th June, 2008.

## REFERENCE DOCUMENT

The original copies of interim report and audited financial statements for the six months ended 30th June, 2008 of the Company and the Articles of Association are available for inspection at Block B, 39 Sandadongli Road, Xiangfang District, Harbin, PRC.

By order of the Board

**Gong Jing-kun**

*Chairman*

Harbin, PRC, 29th August, 2008

## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

TO THE BOARD OF DIRECTORS OF HARBIN POWER EQUIPMENT COMPANY LIMITED

*(A joint stock company established in the People's Republic of China with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 9 to 22, which comprises the condensed consolidated balance sheet of Harbin Power Equipment Company Limited (the "Company"), its subsidiaries (together, the "Group") as of 30th June, 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCORE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".

#### **YUEHUA CPA LIMITED**

*Certified Public Accountants*

Hong Kong, 29th August, 2008

#### **HENG KWOO SENG**

Practising Certificate Number: P01087

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

		Six months ended	
	Notes	30.6.2008 <i>Rmb'000</i> (unaudited)	30.6.2007 <i>Rmb'000</i> (unaudited)
Revenue	3	<b>12,856,702</b>	11,964,667
Cost of sales		<u><b>(10,873,469)</b></u>	<u>(10,449,153)</u>
Gross profit		<b>1,983,233</b>	1,515,514
Other income		<b>158,502</b>	128,137
Distribution costs		<b>(162,818)</b>	(143,148)
Administrative expenses	4	<b>(1,024,446)</b>	(570,584)
Finance costs		<b>(97,936)</b>	(38,233)
Share of results of associates		<b>4,821</b>	8,821
Profit before taxation		<b>861,356</b>	900,507
Income tax expense	5	<u><b>(163,821)</b></u>	<u>(134,899)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2008

	Notes	<b>30.6.2008</b> <b>Rmb'000</b> <b>(unaudited)</b>	31.12.2007 <i>Rmb'000</i> (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>3,292,537</b>	2,856,048
Investment properties		<b>279,504</b>	287,605
Prepaid lease payments		<b>355,244</b>	358,098
Patents	9	<b>123,358</b>	126,202
Deferred tax assets		<b>86,084</b>	87,105
Interests in associates		<b>131,647</b>	128,101
Available-for-sale investments		<b>27,074</b>	28,074
		<b>4,295,448</b>	3,871,233
<b>Current assets</b>			
Inventories		<b>12,085,440</b>	10,167,289
Trade debtors	10	<b>10,403,538</b>	8,994,565
Bills receivable		<b>646,814</b>	208,710
Other debtors, deposits and prepayments		<b>8,351,438</b>	5,339,159
Prepaid lease payments		<b>9,742</b>	11,760
Amounts due from customers for contract work		<b>3,315,968</b>	3,632,591
Amounts due from fellow subsidiaries		<b>77,563</b>	67,327
Restricted bank deposits		<b>6,630</b>	6,630
Pledged bank deposits		<b>229,485</b>	169,684
Bank deposits		<b>574,594</b>	940,000
Cash and cash equivalents		<b>7,886,309</b>	8,681,542
		<b>43,587,521</b>	38,219,257

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AT 30TH JUNE, 2008

	Notes	30.6.2008 <b>Rmb'000</b> (unaudited)	31.12.2007 <i>Rmb'000</i> (audited)
<b>Current liabilities</b>			
Amounts due to customers for contract work		<b>685,584</b>	758,315
Trade creditors	11	<b>7,103,811</b>	5,267,391
Other creditors and accrued charges		<b>2,351,836</b>	2,757,797
Deposits received		<b>21,612,480</b>	17,182,390
Amounts due to fellow subsidiaries		<b>33,174</b>	23,426
Advance from hollow owned subsidiaries	48	<b>2,478,748</b>	2,757,240

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Unaudited									
	Attributable to equity holders of the parent									
	Share capital Rmb'000	Share premium Rmb'000	Statutory capital reserve Rmb'000	Statutory surplus reserve Rmb'000	Investment revaluation reserve Rmb'000	Other reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000	Minority interests Rmb'000	Total Rmb'000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January, 2007	1,274,451	1,089,089	709,850	493,639	16,101	-	1,248,337	4,831,467	947,931	5,779,398
Profit for the period	-	-	-	-	-	-	615,048	615,048	150,560	765,608
Gain on fair value changes of available-for-sale investments, recognized directly in equity	-	-	-	-	11,948	-	-	11,948	-	11,948
Total recognized income and expense for the period	-	-	-	-	11,948	-	615,048	626,996	150,560	777,556
Issue of share capital	102,355	914,623	-	-	-	-	-	1,016,978	-	1,016,978
Share issue expense	-	(23,417)	-	-	-	-	-	(23,417)	-	(23,417)
Transfers	-	-	-	71,970	-	-	(71,970)	-	-	-
Dividends	-	-	-	-	-	-	(123,913)	(123,913)	-	(123,913)
At 30th June, 2007	<u>1,376,806</u>	<u>1,980,295</u>	<u>709,850</u>	<u>565,609</u>	<u>28,049</u>	<u>-</u>	<u>1,667,502</u>	<u>6,328,111</u>	<u>1,098,491</u>	<u>7,426,602</u>

	Unaudited									
	Attributable to equity holders of the parent									
	Share capital Rmb'000	Share premium Rmb'000	Statutory capital reserve Rmb'000	Statutory surplus reserve Rmb'000	Investment revaluation reserve Rmb'000	Other reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000	Minority interests Rmb'000	Total Rmb'000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January, 2008	1,376,806	1,980,295	709,850	531,614	-	-	2,614,428	7,212,993	1,199,417	8,412,410
Profit for the period	-	-	-	-	-	-	558,075	558,075	139,460	697,535
Total recognized income and expense for the period	-	-	-	-	-	-	558,075	558,075	139,460	697,535
Purchase of addition interests in a subsidiary from a minority shareholder	-	-	-	-	-	565	2,930	3,495	(5,768)	(2,273)
Dividends	-	-	-	-	-	-	(125,289)	(125,289)	-	(125,289)
At 30th June, 2008	<u>1,376,806</u>	<u>1,980,295</u>	<u>709,850</u>	<u>531,614</u>	<u>-</u>	<u>565</u>	<u>3,050,144</u>	<u>7,649,274</u>	<u>1,333,109</u>	<u>8,982,383</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2008

	<b>Six months ended</b>	
	<b>30.6.2008</b>	30.6.2007
	<b>Rmb'000</b>	Rmb'000
	<b>(unaudited)</b>	(unaudited)
Net cash from/(used in) operating activities	<u>142,731</u>	<u>(904,187)</u>
Net cash used in investing activities		
Purchases of property, plant and equipment	(629,811)	(215,646)
Other investing cash flows	<u>440,489</u>	<u>(519,171)</u>
	<u>(189,322)</u>	<u>(734,817)</u>
Net cash (used in)/from financing activities		
Increase of borrowings	6,847	297,887
Repayment of borrowings	(686,424)	(292,320)
Proceeds from issue of shares	–	993,748
Other financing cash flows	<u>(69,065)</u>	<u>(32,840)</u>
	<u>(748,642)</u>	<u>966,475</u>
Net decrease in cash and cash equivalents	(795,233)	(672,529)
Cash and cash equivalents brought forward	<u>8,681,542</u>	<u>5,157,262</u>
Cash and cash equivalents carried forward	<u>7,886,309</u>	<u>4,484,733</u>
Analysis of cash and cash equivalents		
Bank balances and cash	7,446,309	3,305,039
Bank deposits	<u>440,000</u>	<u>1,179,694</u>
	<u>7,886,309</u>	<u>4,484,733</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1st January, 2008.

The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>



*Note:*

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the results and financial position of the Group.

### **3. SEGMENT INFORMATION**

#### **Business segments**

The Group operates in five major segments as follows – main thermal power equipment, main hydro power equipment, engineering services for power stations, ancillary equipment for power stations and AC/DC motors and other products.

Principal activities are as follows:

Main thermal power equipment	–	manufacture of main thermal power equipment.
Main hydro power equipment	–	manufacture of main hydro power equipment.
Engineering services	–	providing engineering services for power stations.
Ancillary equipment	–	manufacture of ancillary equipment for power stations.
AC/DC motors and others	–	manufacture of AC/DC motor and others.



#### 4. INCOME STATEMENT CLASSIFICATION/OTHER COSTS

##### **Allowance for irrecoverable trade receivables**

Included in administrative expenses is an allowance of Rmb139,834,000 (2007: Rmb137,507,000) for estimated irrecoverable trade receivables, which is determined based on the difference between the carrying amount of those receivables and the present value of estimated future cash flows from those receivables, discounted at the original effective interest rate.

##### **Write-down of inventories to net realisable value**

Included in cost of goods sold is an amount of Rmb14,207,000 (2007: Rmb15,706,000) in respect of the write-down of inventories to their estimated net realisable value.

#### 5. INCOME TAX EXPENSE

- (a) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended 30th June, 2008.
- (b) Income tax in the consolidated income statement represents the provision of PRC income tax as follows:

The new Enterprise Income Tax Law of the People's Republic of China was effective on 1 January 2008. The Company and its subsidiaries, being registered as "High-New Technology Enterprise", were subjected to enterprise income tax rate of 15%. Pursuant to the relevant requirements of Rules for Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), the Company and its subsidiaries are under reassessment of being High-New Technology Enterprises. If the reassessment is successful, the Company and its subsidiaries will continue to enjoy the income tax rate of 15%, otherwise the tax rate will be increased gradually to 25% over a transitional period of 5 years.

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15% (2007: 15%).

## 6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended	
	30.6.2008	30.6.2007
	<i>Rmb'000</i>	<i>Rmb'000</i>
Depreciation of property, plant and equipment	<b>192,128</b>	163,383
Depreciation of investment properties	<b>8,101</b>	8,257
Amortisation of prepaid lease payments	<b>4,872</b>	4,815
Amortisation of patents	<b>7,682</b>	9,651
Share of tax of associates (included in share of results of associates)	<b>1,733</b>	118
Interest and investment income	<b>(136,049)</b>	(70,099)
Gain on disposal of property, plant and equipment	<b>(1,917)</b>	(1,143)

## 7. DIVIDENDS

	Six months ended	
	30.6.2008	30.6.2007
	<i>Rmb'000</i>	<i>Rmb'000</i>
Final dividend declared for 2006 of Rmb0.090 per share	–	123,913
Final dividend declared for 2007 of Rmb0.091 per share	<b>125,289</b>	–
	<b>125,289</b>	123,913

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2007: nil).

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of Rmb558,075,000 (six months period ended 30th June, 2007: Rmb615,048,000) and on the weighted average number of shares 1,376,806,000 (30th June, 2007: 1,342,686,000 shares).

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PATENTS

During the period, the Group disposed of certain plant and machinery with a carrying amount of Rmb1,290,000 for proceeds of Rmb3,207,000, resulting in a gain on disposal of Rmb1,917,000.

During the period, the Group spent approximately Rmb576,000,000 mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

## 10. TRADE DEBTORS

The credit terms given to the customers vary and are generally based on the financial strength of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are periodically performed.

The following is an aged analysis of trade debtors at the balance sheet date:

	<b>30.6.2008</b>	31.12.2007
	<b><i>Rmb'000</i></b>	<i>Rmb'000</i>
Within 1 year	<b>7,422,019</b>	6,000,510
1 to 2 years	<b>2,136,917</b>	2,083,009
2 to 3 years	<b>455,672</b>	860,094
Over 3 years	<b>388,930</b>	50,952
	<b><u>10,403,538</u></b>	<u>8,994,565</u>

## 11. TRADE CREDITORS

The following is an aged analysis of trade creditors at the balance sheet date:

	<b>30.6.2008</b>	31.12.2007
	<b><i>Rmb'000</i></b>	<i>Rmb'000</i>
Within 1 year	<b>5,475,360</b>	3,522,251
1 to 2 years	<b>608,290</b>	1,298,712
2 to 3 years	<b>640,214</b>	305,767
Over 3 years	<b>379,947</b>	140,661
	<b><u>7,103,811</u></b>	<u>5,267,391</u>

## 12. BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately Rmb6,847,000 million and made repayment of bank borrowings in the amount of approximately Rmb686,421,000 million. The borrowings bear interest at market rate and have fixed terms of repayment. The proceeds were used for working capital of operation.

## 13. SHARE CAPITAL

	<b>30.6.2008</b>	31.12.2007
	<b><i>Rmb'000</i></b>	<i>Rmb'000</i>
Registered, issued and fully paid:		
State owned equity interest shares of Rmb1 each	<b>701,235</b>	701,235
H Shares of Rmb1 each	<b>675,571</b>	675,571
	<b><u>1,376,806</u></b>	<u>1,376,806</u>

Except for the currency in which dividends are paid and restrictions as to whether the shareholders can be PRC investors or foreign investors, state owned equity interest shares and H shares rank pari passu in all respects with each other.

## 14. CONTINGENT LIABILITIES

	<b>30.6.2008</b> <i>Rmb'000</i>	31.12.2007 <i>Rmb'000</i>
Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	<b>168,890</b>	168,890

## 15. CAPITAL COMMITMENTS

	<b>30.6.2008</b> <i>Rmb'000</i>	31.12.2007 <i>Rmb'000</i>
Capital expenditure for the acquisition of property, plant and equipment and investment properties: – contracted for but not provided in the financial statements	<b>468,494</b>	909,275

## 16. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged property, plant and equipment and investment properties having a net book value of approximately Rmb226,829,000 (2007: Rmb267,394,000) to secure certain of Group's trading facilities. There is Rmb229,485,000 (2007: Rmb169,684,000) bank deposits to secure certain of Group's trading facilities during the year.

## 17. RELATED PARTY DISCLOSURES

### (i) Transactions/balance with ultimate holding company and fellow subsidiaries

In the current period, the Group made purchases from subsidiaries of Harbin Power Plant Equipment Group Corporation ("HPEGC") amounting to approximately Rmb58,210,000 (2007: Rmb40,476,000). At the balance sheet date, credit facilities granted by certain banks to the Company were secured by corporate guarantee given by HPEGC.

**(ii) Transactions/balance with other state-controlled entities in the PRC**

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-controlled entities”). In addition, the Group itself is part of a larger group of companies under HPEGC, which is controlled by the PRC government. Apart from the transactions with HPEGC and fellow subsidiaries disclosed in section (i) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group’s business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. Material transactions/balances with other state-controlled entities are as follows:

	<b>Six months ended</b>	
	<b>30.6.2008</b>	30.6.2007
	<b><i>Rmb'000</i></b>	<i>Rmb'000</i>
Trade sales	<b>10,752,506</b>	9,416,150
Trade purchases	<b><u>4,738,677</u></b>	<u>4,932,330</u>
Amounts due to other state-controlled entities	<b>21,680,567</b>	19,336,225
Amounts due from other state-controlled entities	<b><u>11,935,944</u></b>	<u>9,855,230</u>



## **INFORMATION ON THE COMPANY**

### **REGISTERED NAME OF THE COMPANY**

哈爾濱動力設備股份有限公司

### **ENGLISH NAME OF THE COMPANY** **Harbin Power Equipment Company Limited**

### **REGISTERED ADDRESS OF THE COMPANY**

Block 3  
Nangang District High Technology  
Production Base  
Harbin  
Heilongjiang  
PRC  
Registration No. 2301001003796

### **OFFICE ADDRESS OF THE COMPANY**

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### **PLACE OF BUSINESS IN HONG KONG**

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### **LEGAL REPRESENTATIVE**

Gong Jing-kun

### **AUTHORISED REPRESENTATIVES**

Qu Da-zhuang  
Ma Sui

### **COMPANY SECRETARY**

Ma Sui

### **AUDITORS**

**Yuehua Certified Public Accountants  
Company Limited**

### **LEGAL ADVISORS**

*as to PRC Law*

**Haiwen Partners**

*as to Hong Kong Law*

**Richards Butler**

### **LISTING INFORMATION**

H Shares  
**The Stock Exchange of Hong Kong  
Limited**  
Code: 1133

### **DEPOSITARY**

**The Bank of New York**

### **SHARE REGISTER AND TRANSFER OFFICE**

**Hong Kong Registrars Limited**