哈爾濱動力設備股份有限公司
Harbin Power Equipment Company Limited

INTERIM REPORT 2003

CONTENTS

DIRECTORS' REPORT

To all shareholders:

The Board of Directors (the "Board") of Harbin Power Equipment Company Limited (the "Company") is pleased to announce the consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2003, which were prepared in accordance with accounting principles generally accepted in Hong Kong. The results were not audited, but have been reviewed by Deloitte Touche Tohmatsu.

RESULTS

For the six months ended 30th June, 2003, the Group recorded a turnover of RMB2,030.43 million, an increase of 21.4 per cent over the same period last year. Profit after taxation and minority interests was RMB23.01 million, an increase of 10 per cent over the same period last year due to the rapid growth in power equipment turnover. Earnings per share was RMB0.0194.

As at 30th June, 2003, the Group's total assets were valued at RMB12,072.30 million. Total liabilities amounted to RMB8,596.24 million. Net assets per share reached RMB2.50.

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2003, China overcame the negative impact brought by SARS, and the national economy continued to grow rapidly with a GDP growth of 8.2%. The power equipment manufacturing market headed towards a positive direction: orders increased remarkably, product prices increased stably, and there were more and more production assignments. The power equipment manufacturing industry was faced with a rare development opportunity. Confronted with the new environment, the Company on the one hand enhanced marketing and strived to win more orders, and on the other hand renovated production bottleneck links, improved production organization methods and enhanced production capability. Meanwhile, the Company strengthened internal management and cooperation with foreign companies. The Company signed a technology transfer agreement with General Electric Company ("GE") on heavy-duty gas turbine production and introduced the technology of 300MW circulated fluidized bed boiler ("CFB") from ALSTOM. The Company also obtained significant achievement in its technical cooperation with Toshiba, Mitsubishi Heavy Industries, Mitsu-Babcock and other foreign companies. The Company set up the Gas Turbine & Combined-Cycle Business Division, and began to construct a factory in Qinhuangdao as a seaside base for the Company in order to accelerate the development of gas turbine, large nuclear power equipment and other large-scale power equipment, thereby meeting the rapidly-growing market demand and laying a foundation for product upgrading and replacement.

New Contracts

As at 30th June, 2003, new orders secured by the Group totaled RMB11.44 billion, an increase of 209.2 per cent over the same period last year. The major new orders include six units of 600MW super-critical turbine and turbine generator and three super-critical boilers for four power plants including Suzhou Industrial Park Power Plant; eight units of 600MW sub-critical steam turbine and generator and four sub-critical boilers for five power plants including Aoliyou Power Plant in Zhanjiang, Guangdong; 18 units of 300MW steam turbine and turbine generator and 24 boilers for 14 power plants including Shanxi Hejin Power Plant; the hydropower units for Guangxi Longtan Power Plant (7 X 700MW) and the gas-fired project for Bangladesh. Also, the consortium consisting of the Company and GE won supply contracts for 13 heavy-duty gas turbine units for six power plants.

Production and Services

During the period under review, the Group's output of utility boilers was 1,370MW (13 units), a decrease of 53.2 per cent over the same period last year. The output in power plant turbines was 1,795MW (10 units), an increase of 133.1 per cent. The output in power plant turbine generators was 1,285MW (7 units), a decrease of 24.4 per cent. The output in hydropower turbine generator units was 360MW (5 units/sets), an increase of 149.1 per cent over the same period last year. The power plant engineering and services projects proceeded as scheduled. Two units at the Sudan Combined-cycle Power Plant commenced power generation ahead of schedule.

Turnover and its Distribution

For the six months ended 30th June, 2003, the Group recorded a turnover of RMB2,030.43 million, representing an increase of 21.4 per cent over the same period last year. Turnover from thermal power main units was RMB1,047.46 million, an increase of 17 per cent over the same period last year, turnover from hydropower main units was RMB143.10 million, a decrease of 20 per cent; turnover from power plant engineering and services was RMB575.27 million, an increase of 37.8 per cent; turnover from power plant auxiliaries and parts was RMB56.24 million, an increase of 5.4 per cent; and turnover from AC/DC motor and other products and services was RMB208.38 million, an increase of 64 per cent over the same period last year.

During the period under review, in terms of geographical distribution, more than 78.4 per cent of the total business of the Group was from China. Export sales and sales denominated in foreign currencies of the Group amounted to USD52.88 million, representing 21.6 per cent of the Group's total turnover. The major export countries and regions include Sudan, Iran, etc., among which the project in Sudan proceeded smoothly and recorded a turnover of RMB440 million for the period under review.

Consolidated Profit after Taxation

During the period under review, the Group's profit after taxation and minority interests was RMB23.01 million, an increase of 10 per cent over the same period last year. Earnings per share was RMB0.0194. During the period under review, gross profit of the Group amounted to RMB291.21 million, an increase of 16.7 per cent over the same period last year. Gross profit margin decreased 0.6 percentage points to 14.3 per cent. The main reason for decrease in gross profit margin was that on the one hand, the production in the period under review was mainly for the orders secured in 2001 and 2002 when the market competition was fierce and the prices were relatively low, and on the other hand, prices for raw materials have sharply increased since last year (average price increase in raw materials from January to June 2003 was about 10 to 30 per cent).

Cost and Expenses

During the period under review, the Group's operating costs were RMB1,739.23 million, an increase of 22.3 per cent over the same period last year, higher than the increase in turnover for the period under review, which was mainly due to the increase in prices for raw materials. The Group's expenses during the period were RMB301.32 million, a slight increase over the same period last year.

Finance Costs

During the period under review, the Group's finance costs amounted to RMB66.72 million, a decrease of 18.8 per cent over the same period last year.

Income Tax Rate and Export Vat Rebate

During the period under review, the taxable income earned by the Group is subject to an income tax rate of 15 per cent. Pursuant to the stipulations in the document Cai Shui Zi [1999] No. 17 of the PRC Ministry of Finance and the State Tax Bureau, the export VAT rebate applicable to the Group's export products is 17 per cent.

Funding and Borrowings

As at 30th June, 2003, the Group's bank borrowings totaled RMB4,238.86 million, an increase of RMB246.25 million over the beginning of the year. The Group's borrowings due within one year were RMB2,071.14 million, a decrease of RMB85.02 million over the beginning of the year. Long-term borrowings were RMB2,167.72 million, an increase of RMB331.26 million over the beginning of the year, which was mainly due to the financing for Sudan El Gaili Engineering Project and increase of loans for the Three Gorges Renovation Project.

Deposits and Cash Flow

As at 30th June, 2003, bank deposits, balance and cash of the Group amounted to RMB1,604.87 million, an increase of RMB76.82 million over the beginning of the year.

During the period under review, the Group's net cash used in operation activities was RMB202.95 million. The Group's net cash used in investment activities was RMB139.62 million. The Group's net cash from financing activities was RMB328.89 million.

Assets

As at 30th June, 2003, total assets of the Group amounted to RMB12,072.30 million, an increase of RMB1,467.12 million and 13.8 per cent as compared to the beginning of 2003. Among which, total current assets were RMB9,668.32 million, representing 80.1 per cent of the total assets. Total fixed assets were RMB2,403.98 million, representing 19.9 per cent of the total assets. Among the current assets, trade debtors were RMB2,090.76 million, representing 21.6 per cent of the total current assets and total inventories of the Group were RMB3,558.50 million, an increase of 18.3 per cent over the beginning of the year and representing 36.8 per cent of the total current asset, which was mainly due to increase in production preparation with the rapid growth of orders. The balance of work-in-progress was RMB2,112.71 million, accounting for 59.4 per cent of the inventories, an increase of RMB608.51 million and 40.5 per cent over the beginning of the year which was mainly due to the increase of production volume.

The increase of the assets was mainly due to enhanced procurement of raw materials and increased investment in work-in-progress with the growth of orders.

Liabilities

As at 30th June, 2003, the Group's liabilities totaled RMB8,596.24 million, an increase of 20.3 per cent over the beginning of the year. Among which, total current liabilities were RMB6,204.40 million, an increase of 20.0 per cent and the non-current liabilities were RMB2,391.84 million, an increase of 20.9 per cent. The balance of amounts due to customers was RMB2,673.31 million, an increase of RMB1,175.75 million and 78.5 per cent over the beginning of the year.

All liabilities of the Group were denominated in Renminbi.

Shareholders' Fund

As at 30th June, 2003, shareholders' fund of the Company totaled RMB2,974.57 million, an increase of RMB15.88 million over the beginning of the year. Net assets per share were RMB2.50, an increase of RMB0.01 compared to the beginning of the year. Reserves were RMB1,785.42 million, an increase of RMB15.88 million over the beginning of the year.

Gearing Ratio

As at 30th June, 2003, the Group's gearing ratio (computed on non-current liabilities/total shareholders' fund) was 0.80:1 as compared to that of 0.67:1 at the beginning of the year.

Contingent Liabilities

During the period under review, there was not any external guarantee and contingent liabilities arising from outstanding litigation of the Group.

Capital Expenditure

During the period under review, capital expenditure of the Group reached RMB120 million, which was mainly used for enhancing large hydropower equipment manufacturing capability, technical renovation projects for super-critical units and pumped storage units and the construction of the seaside production base and the National Engineering Research Center of Power Equipment.

Exposure to Fluctuations in Exchange Rates and Related Hedges

During the period under review, the Group has entrusted the Bank of China to adopt hedges measures for certain amount of foreign currencies in order to avoid exposure to fluctuations in exchange rates.

Use of Listing Proceeds

During the period under review, the Group used a total of RMB11 million from its listing proceeds for the construction of the seaside production base. As at 30th June, 2003, the Group has used a total of RMB815 million from its listing proceeds. The remaining balance of RMB425 million of listing proceeds was deposited in the bank and will be used according to the prospectus of the Company for the issue of H shares dated 5th December, 1994.

Staff

As at 30th June, 2003, the employees of the Group totaled 18,000.

PROSPECTS

In the second half of 2003, the macro-economy of China will continue to grow and the Group will still face a favourable marketing environment. The production volume will increase considerably and production and operating situations will continue to improve. However, prices for raw materials will continue to increase, which will, to a certain extent, restrict the growth of the Group's results. Furthermore, the rapid increase in production assignments will also challenge the production organization system. In the second half of the year, the Group will mainly be engaged in the following tasks:

- continue to implement the five development strategies identified by the Board at the beginning of the year; take full use of the current good market environment; accelerate technology transfer, technical cooperation and R&D with large thermal power units, super-critical, ultra super-critical units, combined cycle units, large hydropower units, pumped storage units, nuclear power units and large CFB as focal points; speed up product upgrading and replacement; and endeavour to build a new and advanced technology product platform for the Company;

- accelerate the renovation on production bottleneck links and purchase key manufacturing facilities; modify production organization methods; improve machining processes and increase the percentage of sourcing from, and subcontracting to, other suppliers; endeavour to increase production capability to meet the sharp increase in production assignments; speed up the construction of the seaside base and endeavour to finish it as soon as possible;

- enhance reforms and administration; push forward the separation of ancillary businesses from the main business and restructure the ancillary businesses; the focal points in the second half of the year is to accelerate the restructuring on transportation, fine casting, AC/DC motors and other businesses. Through the restructuring, a new operation system and an incentive system will be set up to advance the optimum distribution of various resources. Control costs and reduce expenses in order to improve economic benefits.

The Board believes that China's power generation equipment industry is now entering into an important development era. The Group will capitalise on this opportunity, enhance the adjustment of product structure, speed up product upgrading and replacement, and improve the technological level of products and facilities, so as to meet the demand of the power equipment market and create a greater return for shareholders.

SHARE CAPITAL STRUCTURE

As at 30th June, 2003, the share capital of the Company comprised 1,189,151,000 shares as follows:

	Shares	Percentage in total Share capital *(%)*
(1) State shares (not circulated)	720,000,000	60.55
(2) H shares (circulated and listed on the HKSE)	469,151,000	39.45
Total	1,189,151,000	100

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the Company's major shareholders included:

Shareholder	Share category	Share number	Percentage in total share capital *(%)*
Harbin Power Plant Equipment Group Corporation	State share	720,000,000	60.55
HKSCC Nominees Limited	H share	455,124,798	38.27

Other than disclosed above, the Board of the Company has not been notified of any other interests directly or indirectly representing 10 per cent or more of the Company's issued share capital.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June, 2003, none of the Directors, Supervisors or senior management, or any of their connected persons had any interests in any shares, debentures or options of the Company or any of the subsidiaries. None of them was given preferential purchase right by the Company.

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 OF BEST PRACTICE

The Company has not established an audit committee, whose principal duties should be the review and supervision of the Company's financial reporting process and internal controls in accordance with the 14 paragraph in the Code of Best Practice as set out in Appendix 14 of the Rules governing the Listing of Securities. Since the establishment of the Company, the Company has set up a supervisory committee with the similar functions to those of audit committee in its organization. The members of the supervisory committee shall be elected and removed by the shareholders' general meeting and shall be accountable to the shareholders' general meeting, but not the Board. Other than the above-mentioned, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing Securities in the Stock Exchange of Hong Kong Limited through the year.

DISCLOSURE OF SIGNIFICANT EVENTS

On 24th February, 2003, the Feasibility Report on Construction of Seaside Production Base of the Company was passed at the meeting of Board of Directors. Pursuant to this Report, the investment in the first phase construction of the seaside base totaled RMB196 million. The workshop with an area of 17,000 square meters and heavy-duty gas turbine test stand will be built and some manufacturing facilities will be installed. On 10th March, 2003, the construction of this base officially started and various work are now actively proceeding.

On 28th February, 2003, the Implementation Plan on Establishing Gas Turbine (Combined Cycle) Business Division was passed at the meeting of Board of Directors, which created conditions for accelerating the development of heavy-duty gas turbine and combined cycle equipment.

On 6th March, 2003, the Company signed the Technology Transfer Agreement for heavy-duty gas turbine with GE. The consortium consisting of the Company and GE won supply contracts for 13 units for six power plants (including steam turbines and generators) in the gas turbine bundle buy project.

Other than disclosed above, the Group did not have other disclosable significant events in the period under review.

SHAREHOLDERS' MEETING

The Company's 2002 Annual General Meeting was held on 20th June, 2003 in Harbin city, during which all resolutions set out in the Company's Notice of Annual General Meeting dated 20th April, 2003 were passed and members for the fourth board of directors and the fourth supervisory committee of the Company were elected. The relevant details were published on Ta Kung Pao (Chinese) and China Daily (English) on 23rd June, 2003.

REFERENCE DOCUMENT

The interim report and reviewed financial statements for the six months ended 30th June, 2003 of the Company and the Articles of Association of the Company are available for inspection at Block B, 95 Daqing Road, Dongli District, Harbin, Heilongjiang, the PRC.

By order of the Board
Geng Lei
Chairman

Harbin, the PRC, 22nd August, 2003

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF HARBIN POWER EQUIPMENT COMPANY LIMITED
哈爾濱動力設備股份有限公司
(A joint stock company established in the People's Republic of China with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 12 to 21.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2003.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

Hong Kong, 22nd August, 2003

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

	NOTES	Six months ended **30.6.2003** ***RMB'000*** **(unaudited)**	30.6.2002 *RMB'000* (unaudited)
Turnover		**2,030,434**	1,671,931
Cost of sales		**(1,739,226)**	(1,422,389)
Gross profit		**291,208**	249,542
Other operating income		**39,891**	72,153
Distribution costs		**(38,846)**	(26,216)
Administrative expenses		**(195,750)**	(187,684)
Profit from operations	*4*	**96,503**	107,795
Finance costs		**(66,721)**	(82,157)
Share of results of associates		**700**	282
Profit before tax		**30,482**	25,920
Income tax expense	*5*	**(5,925)**	(4,861)
Profit after tax		**24,557**	21,059
Minority interests		**(1,543)**	(141)
Net profit for the period		**23,014**	20,918
Transfer to statutory surplus reserve		**4,505**	3,812
Transfer to statutory public welfare fund		**4,219**	3,667
Dividends	*6*	**7,135**	5,946
Earnings per share – basic	*7*	**1.94 cents**	1.76 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2003

	NOTES	30.6.2003 RMB'000 (unaudited)	31.12.2002 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**2,264,757**	2,300,776
Interests in associates		**84,597**	83,897
Investments in securities		**54,623**	53,710
		2,403,977	2,438,383
CURRENT ASSETS			
Inventories		**3,558,500**	3,008,504
Trade debtors	9	**2,090,757**	1,927,362
Other debtors, deposits and prepayments		**1,009,235**	735,974
Amounts due from customers for contract work		**1,201,662**	876,981
Amounts due from fellow subsidiaries		**92,600**	80,321
Investments in securities		**–**	9,600
Tax recoverable		**110,693**	–
Pledged bank deposits		**91,804**	101,804
Bank deposits		**378,483**	488,908
Bank balances and cash		**1,134,587**	937,338
		9,668,321	8,166,792
CURRENT LIABILITIES			
Amounts due to customers for contract work		**134,123**	223,401
Trade creditors	10	**922,215**	887,945
Other creditors and accrued charges		**365,569**	343,928
Deposits received		**2,673,310**	1,497,556
Amount due to ultimate holding company		**35,206**	24,086
Tax liabilities		**–**	35,526
Dividend payable		**2,835**	–
Borrowings – due within one year	11	**2,071,140**	2,156,157
		6,204,398	5,168,599
NET CURRENT ASSETS		**3,463,923**	2,998,193
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,867,900**	5,436,576

	NOTES	30.6.2003 RMB'000 (unaudited)	31.12.2002 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		**1,189,151**	1,189,151
Share premium and reserves		**1,785,417**	1,769,538
		2,974,568	2,958,689
MINORITY INTERESTS		**501,492**	499,949
NON-CURRENT LIABILITIES			
Borrowings – due after one year	11	**2,167,720**	1,836,458
Advance from ultimate holding company		**224,120**	141,480
		2,391,840	1,977,938
		5,867,900	5,436,576

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Public welfare fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1st January, 2002	1,189,151	788,155	709,850	81,800	81,158	76,830	2,926,944
Net profit for the period (unaudited)	–	–	–	–	–	20,918	20,918
Transfers (unaudited)	–	–	–	3,812	3,667	(7,479)	–
Dividends (unaudited)	–	–	–	–	–	(5,946)	(5,946)
At 30th June, 2002 (unaudited)	1,189,151	788,155	709,850	85,612	84,825	84,323	2,941,916
Net profit for the period (unaudited)	–	–	–	–	–	16,773	16,773
Transfers (unaudited)	–	–	–	(6,401)	3,380	3,021	–
At 31st December, 2002	1,189,151	788,155	709,850	79,211	88,205	104,117	2,958,689
Net profit for the period (unaudited)	–	–	–	–	–	23,014	23,014
Transfers (unaudited)	–	–	–	4,505	4,219	(8,724)	–
Dividends (unaudited)	–	–	–	–	–	(7,135)	(7,135)
At 30th June, 2003 (unaudited)	1,189,151	788,155	709,850	83,716	92,424	111,272	2,974,568

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

	Six months ended	
	30.6.2003	30.6.2002
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash used in operating activities	**(202,946)**	(92,944)
Net cash used in investing activities	**(139,620)**	(197,200)
Net cash from financing activities	**328,885**	438,180
Net (decrease) increase in cash and cash equivalents	**(13,681)**	148,036
Cash and cash equivalents at 1st January	**1,241,997**	893,544
Cash and cash equivalents at 30th June	**1,228,316**	1,041,580
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,134,587**	1,003,166
Bank deposits	**93,729**	38,414
	1,228,316	1,041,580

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

1. BASIS OF PREPARATION

The condensed 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 and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2002 except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision, if any, was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has adopted SSAP 35 "Government Grants" in the current period. In accordance with SSAP 35, government grants are recognised as income over the periods necessary to match them with the related costs. The adoption of this standard has had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been required.

3. SEGMENT AND GEOGRAPHICAL SEGMENTS

Business segments

Six months ended 30.6.2003	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Engineering services for power stations RMB'000	Ancillary equipment for power stations RMB'000	AC/DC motors and other products RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE							
External sales	**1,047,456**	**143,097**	**575,267**	**56,237**	**208,377**	**–**	**2,030,434**
Inter-segment sales	**–**	**–**	**–**	**–**	**28,535**	**(28,535)**	**–**
Total revenue	**1,047,456**	**143,097**	**575,267**	**56,237**	**236,912**	**(28,535)**	**2,030,434**
SEGMENT RESULTS	**183,841**	**38,388**	**20,013**	**3,446**	**45,520**	**–**	**291,208**
Unallocated corporate expenses – net							**(194,705)**
Profit from operations							**96,503**

Inter-segment sales are charged at prevailing market rates.

Six months ended 30.6.2002	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Engineering services for power stations RMB'000	Ancillary equipment for power stations RMB'000	AC/DC motors and other products RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE							
External sales	895,224	178,922	417,395	53,344	127,046	–	1,671,931
Inter-segment sales	141	–	–	–	29,417	(29,558)	–
Total revenue	895,365	178,922	417,395	53,344	156,463	(29,558)	1,671,931
SEGMENT RESULTS	154,407	12,849	39,928	21,152	21,206	–	249,542
Unallocated corporate expenses – net							(141,747)
Profit from operations							107,795

Inter-segment sales are charged at prevailing market rates.

4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2003	30.6.2002
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging (crediting):		
Allowances on bad and doubtful debts	**2,047**	–
Depreciation and amortisation	**104,108**	108,355
Interest income	**(18,322)**	(33,733)

5. INCOME TAX EXPENSE

The charge represents the PRC income tax calculated at 15% of the estimated taxable income for the period.

Pursuant to a document issued by the PRC Ministry of Finance and the State Tax Bureau on 29th March, 1994, taxable income earned by the Group is subject to an income tax rate of 15%.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

6. DIVIDENDS

	Six months ended	
	30.6.2003	30.6.2002
	RMB'000	*RMB'000*
Final dividend paid for 2001 of RMB0.005 per share	**–**	5,946
Final dividend paid for 2002 of RMB0.006 per share	**7,135**	–
	7,135	5,946

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2002: nil)

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of RMB23,014,000 (six months period ended 30th June, 2002: RMB20,918,000) and on 1,189,151,000 shares (30th June, 2002: 1,189,151,000 shares) in issue during the period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB120 million mainly on construction in progress and plant and machinery for production process and upgrade its manufacturing capabilities.

9. TRADE DEBTORS

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

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

	30.6.2003	31.12.2002
	RMB'000	*RMB'000*
Within 1 year	**1,296,035**	1,150,864
1 to 2 years	**470,012**	291,801
2 to 3 years	**81,731**	148,596
Over 3 years	**242,979**	336,101
	2,090,757	1,927,362

10. TRADE CREDITORS

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

	30.6.2003	31.12.2002
	RMB'000	*RMB'000*
Within 1 year	**756,673**	769,137
1 to 2 years	**64,613**	38,715
2 to 3 years	**33,475**	10,516
Over 3 years	**67,454**	69,577
	922,215	887,945

11. BORROWINGS

During the period, the Group obtained new bank loans in the amount of RMB1.7 billion. The loans bear interest at market rates and have fixed terms of repayment. The proceeds were used to finance the acquisition of property, plant and equipment, upgrading the manufacturing capabilities and working capital for various production projects.

12. CAPITAL COMMITMENTS

	30.6.2003	31.12.2002
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of		
– investment in securities	**14,879**	–
– property, plant and equipment	**294,148**	271,335
	309,027	271,335
Capital expenditure authorised but not contracted for in the financial statements in respect of property, plant and equipment	**95,076**	165,555

13. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged bank deposits of RMB91,804,000, notes receivables of RMB3,000,000 and land use rights and buildings with an aggregate amount of RMB50,705,000 to banks and financial institutions to secure bank borrowings and general banking facilities granted to the Group.

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
Block B, 95 Daqing Road
Dongli District
Harbin
Heilongjiang
PRC
Postcode: 150040
Tel: 86-451-2135717 or 2135727
Fax: 86-451-2135700 or 2135717

PLACE OF BUSINESS IN HONG KONG
20th Floor, Alexandra House
16-20 Chater Road
Central
Hong Kong

LEGAL REPRESENTATIVE
Geng Lei

AUTHORISED REPRESENTATIVES
Zhao Ke-fei
Deng Xian-yuan

COMPANY SECRETARY
Deng Xian-yuan

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Harbin Heping Branch

China Construction Bank
Harbin Dongli Branch

Bank of China
Heilongjiang Branch

Bank of China
Harbin Binjiang Branch

Bank of China
Hong Kong Branch

Everbright Bank of China
Heilongjiang Branch

State Development Bank of China

China Import & Export Bank

AUDITORS
Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu CPA 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