



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



HPEC

INTERIM REPORT 2004



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DIRECTORS' REPORT

To all shareholders:

The Board of Directors (the "Board") of Harbin Power Equipment Company Limited (the "Company") is pleased to announce the reviewed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

RESULTS

For the six months ended 30th June, 2004, the Group recorded a turnover of RMB3,815.71 million, an increase of 87.93 per cent over the same period last year. The profit after taxation and minority interests was RMB34.17 million, an increase of 48.49 per cent over the same period last year and the earnings per share was RMB0.029.

As at 30th June, 2004, the Group's total assets were valued at RMB26,181.60 million. Total liabilities amounted to RMB22,630.74 million. The net assets per share reached RMB2.55.

INTERIM DIVIDEND

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

BUSINESS REVIEW

In the first half of 2004, Chinese macro-economy continued to develop rapidly with a GDP growth of 9.69 per cent. In order to remain the stable and healthy growth of economy, the central government adopted macro-adjustment and control measures to certain industries, however, there was no impact on power and power generation equipment industry. In certain regions, the demand for electricity further intensified. During the first half, there were all together 24 provincial power grids that imposed blackouts. There is still strong demand for power generation equipment. The Company implemented its work based on the principles set out by the Board Meeting at the beginning of the year and various work proceeded smoothly:

China's first F class heavy-duty gas turbine (Banshan No. 1) succeeded in one-time firing and test at the Company's Qinhuangdao Branch on 30th June, 2004. Only 15 months passed since we began the construction. This created a record for gas turbine test stand construction and laid a sound foundation for follow-on gas turbine projects.

New product development and technology transfer reported significant progresses. Huilong pumped storage project completed the manufacturing of all components except generator rotor. The design for the first 300MW CFB adopting transferred technology has begun. We signed Technology Transfer Framework Agreement with MHI for 600MW to 1,000MW Ultra Super-critical coal-fired boiler and officially signed Technology Transfer Agreement with Toshiba for 300MW to 1,000MW Single Cylinder Deaerator.

We achieved breakthrough for separating supplementary business from main business. The fine casting workshop in Turbine Company got the business license and began operation in the period during review, which was helpful exploration for upcoming separation of various businesses.

NEW CONTRACTS

Facing the vigorous market demand, the Company paid attention to evaluation of project safety and strategic layout of domestic market while ensuring reaching new orders target and consolidating market share. The Company shifted its focus of marketing to new and high technology products and directional products so as to reduce market risk and lay foundation for continuous development.

As at 30th June, 2004, new orders secured by the Group totalled RMB15.14 billion, an increase of 32.3 per cent over the same period last year. As we expected, power generation equipment is now heading to the direction of large capacity, high parameters and low pollution. 300MW and 600MW units became the major players in the market. Super-critical units grew rapidly and hydropower units also reported good development. Among new orders, thermal power and hydropower units accounted for 75 per cent and 20.7 per cent respectively. Especially in the international tendering for the right bank units of Three Gorges Project, the Group was awarded with 4 units with single unit capacity up to 700MW, symbolizing the Group's manufacturing capability for large hydropower units reached the internationally advanced level.

PRODUCTION AND SERVICES

Due to the sharp increase of orders, the output of all manufacturing subsidiaries increased by a big margin, which exceeded the total annual volume for any of the previous years. Thanking for the successful work of 2003, the Group's production bottleneck was mitigated and internal production capability was improved. The complete set of equipment system for the market was preliminarily formed, which made production for the first half of 2004 very encouraging.

During the period under review, the Group's output of utility boilers was 5,235MW (24 units), an increase of 282 per cent over the same period last year. The output in power plant turbine was 5,787MW (28 units), an increase of 222 per cent. The output in power plant turbine generator was 4,537MW (19 units), an increase of 253 per cent. The output in hydropower turbine generator units was 1,027.5MW (5 units/sets), an increase of 185 per cent over the same period last year. The power plant engineering and services projects proceeded as scheduled.

TURNOVER AND ITS DISTRIBUTION

As at 30th June, 2004, the Group recorded a turnover of RMB3,815.71 million, representing an increase of 87.93 per cent over the same period last year. Among which, turnover from thermal power main units was RMB2,411.28 million, an increase of 130.20 per cent over the same period last year, turnover from hydropower main units was RMB310.69 million, an increase of 117.12 per cent and turnover from power plant engineering and services was RMB636.95 million, an increase of 10.72 per cent. And turnover from power plant auxiliaries and parts was RMB69.80 million, an increase of 24.12 per cent. The turnover from AC/DC motor and other products and services was RMB387.00 million, an increase of 85.72 per cent over the same period last year.

During the period under review, 78.1 per cent of the total business of the Group was from China. The export sales and sales denominated in foreign currencies of the Group amounted to USD101.12 million, representing 21.9 per cent of the Group's total turnover. Among which 19.8 per cent from Asia and 2.1 per cent from Africa.

CONSOLIDATED PROFIT AFTER TAXATION

During the period under review, the Group's profit after taxation and minority interests was RMB34.17 million, an increase of 48.49 per cent over the same period last year. The earnings per share was RMB0.029.

During the period under review, the gross profits of the Group were RMB301.89 million, an increase of 3.67 per cent over the same period last year. The gross profit margin decreased 6.43 per cent to 7.91 per cent. The main reason for decrease in gross profit margin was that the production in the period under review was mainly for the orders secured before June 2003 when the market prices were relatively low, while the price for raw materials has increased sharply during passed a couple of years and the outsourcing increased. The average growth in raw materials price from January to June 2004 was about 30 to 50 per cent.

COST AND EXPENSES

During the period under review, the Group's operating costs were RMB3,513.82 million, an increase of 102.03 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 distribution costs and administrative expenses during the period were RMB274.22 million, an increase of 16.9 per cent over the same period last year.

FINANCE COSTS

During the period under review, the Group's finance costs amounted to RMB27.61 million, a decrease of 58.62 per cent over the same period last year, which was mainly due to the decrease of bank borrowings.

FUNDING AND BORROWINGS

As at 30th June, 2004, the Group's bank borrowings totalled RMB2,502.00 million, a decrease of RMB122.73 million over the beginning of the period.

The Group's borrowings due within one year were RMB771.80 million, an increase of RMB210.02 million from the beginning of the year. The long-term borrowings were RMB1,730.20 million, a decrease of RMB332.76 million from the beginning of the period. With the sharp increase of orders received, prepayments increased accordingly. And the Group repaid certain bank borrowings. As at 30th June, 2004, the Group's bank deposits, bank balances and cash totalled RMB6,039.09 million, an increase of RMB1,879.17 million from the beginning of the period.

During the period under review, the Group's net cash inflow for operating activities was RMB4,775.04 million. The Group's net cash outflow from investment activities was RMB2,427.01 million. The Group's net cash outflow from financing activities was RMB159.08 million.

ASSETS

As at 30th June, 2004, the total assets of the Group amounted to RMB26,181.60 million, an increase of RMB8,667.85 million and 49.49 per cent as compared to the beginning of 2004. Among which, the total current assets were RMB23,411.11 million, representing 89.42 per cent of the total assets and an increase of RMB8,430.52 million over the beginning of the period. The total non-current assets were RMB2,770.49 million, representing 10.58 per cent of the total assets and an increase of RMB237.34 million over the beginning of the period.

LIABILITIES

As at 30th June, 2004, the Group's liabilities totalled RMB22,630.74 million, an increase of 61.73 per cent over the beginning of the period. Among which, the total current liabilities were RMB20,622.54 million, an increase of 77.0 per cent and the non-current liabilities were RMB2,008.20 million, a decrease of 14.2 per cent. The deposits received among current liabilities were RMB16,679.75 million, an increase of RMB7,513.33 million over the beginning of the period, which was the main reason for increase in liabilities.

All liabilities of the Group were denominated in Renminbi.

SHAREHOLDERS' FUND

As at 30th June, 2004, the shareholders' fund of the Group totalled RMB3,029.69 million, an increase of RMB24.66 million over the beginning of the period. The net assets per share were RMB2.55, an increase of RMB0.02 compared to the beginning of the year.

GEARING RATIO

As at 30th June, 2004, the Group's gearing ratio (computed on non-current liabilities/total shareholders' fund) was 0.66:1 as compared to that of 0.78:1 at the beginning of the period.

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, the capital expenditure of the Group reached RMB354 million, which was mainly used for seaside workshop construction, technical renovation projects for super-critical units and pumped storage units, new facilities procurement and production bottleneck improvement.

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.

STAFF

As at 30th June, 2004, the employees of the Group totalled 17,990.

PROSPECT

In the second half of the year, Chinese economy will continue to grow rapidly, the demand for power generation equipment will increase. The method for approving power resource project changed from reviewing to validating or putting on record, which will also increase demand for equipment to certain extent. Therefore, the market will still be potential for the Company's development. The restructuring of domestic energy has already been implemented. So, at present, the directional products such as super-critical, ultra super-critical, heavy-duty gas turbine, nuclear power equipment, large hydropower units, pumped storage units and environmental products are the focus of the Company's development.

In the second half of the year, the Company will be confronted with various unfavorable factors such as heavy workload, tight delivery cycle, short of raw materials, weaknesses in key equipment and complete set of equipment. The Company will fully take use of its current production capability through various measures such as timely adjustment of production plan, strengthening production preparation and internal incentives. Meanwhile, the Company will continue to utilize the social resources and try to ensure the quality and delivery cycle of outsourced products through technical assistance, quality assurance and training.

The Company will stably push the work of separating main businesses from supplementary businesses and try to obtain more policy support.

The Company will further adopt measures to reduce cost and expenses and improve economical benefits to the maximum extent. Especially in regard of raw materials, we will implement measures to each link like design, procurement and fabrication in order to increase material utilization percentage and reduce cost.

The Board of Directors believe the Company's performance in the second half will directly affect that of the whole year and will have significant impact on next year and the year after the next year. The Board of Directors will continue to stimulate the whole staff to work hard in order to smoothly complete the various tasks set by the Board at the beginning of the year. The Board of Directors is confident of this.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, the Company's share capital comprised 1,189,151,000 shares. The major shareholders included:

| Shareholder | Share category | Share number | Percentage in total share capital |
|------------------------|----------------|--------------|---|
| Harbin Power Plant | | | |
| Equipment Corporation | State share | 720,000,000 | 60.55 |
| HKSCC Nominees Limited | H share | 455,124,798 | 38.27 |

Other than disclosed above, the HKSCC Nominees Limited notified the Company that as at 30th June, 2004, the Hong Kong and Shanghai Banking Corporation, the Citibank, Bank of China (Hong Kong) Co., Ltd. and the Standard Chartered Bank respectively held 181,948,100, 52,426,300, 35,572,000 and 36,958,000 H shares of the Company, representing 38.78, 11.17, 7.58 and 7.88 per cent of the Company's total issued H shares.

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

As at 30th June, 2004, none of the Directors, Supervisors or senior management, or any of their connected persons 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).

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 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 during the period under review.

AUDIT COMMITTEE

The Company set up an audit committee at the meeting of the Board of Directors on 27th August, 2004. The committee consists of three directors, among which two are non-executive directors.

CHANGE OF COMPANY SECRETARY

The Board of Directors accepted the resignation of Mr. Lam Che Wah as the secretary of the Company due to his work change and appointed Ms. Lee Wai Fun as co-secretary of the Company with effect from 28th August, 2004.

DISCLOSURE OF SIGNIFICANT EVENTS

On 28th March, 2004, the Electrical Machinery Company of the Group was awarded 4 sets of 700MW hydropower units in the bid for all together 12 units on the right back of Three Gorges Project.

On 30th June, 2004, China's first F class heavy-duty gas turbine succeeded in one-time firing and test at the Company's Qinhuangdao Branch.

On 10th May, 2004, the Company signed Technology Transfer Framework Agreement with MHI for 600MW to 1,000MW class ultra super-critical coal-fired boiler.

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

SHAREHOLDERS' MEETING

The Company's 2003 Annual General Meeting was held on 18th June, 2004 in Harbin city, during which all resolutions set out in the Company's Notice of Annual General Meeting dated 25th April, 2004 were passed.

REFERENCE DOCUMENT

The interim report and reviewed financial statements for the six months ended 30th June, 2004 of the Company and the Articles of Association of the Company are available for inspection at Block B, 39 Sandadongli Road, Dongli District, Harbin, Heilongjiang, the PRC.

By order of the Board

Geng Lei

Chairman

Harbin, the PRC, 27th August, 2004

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 11 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 No. 700 ("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, 2004.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 27th August, 2004

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

| | | Six months ended | |
|---|--------------|-------------------------|----------------|
| | | 30.6.2004 | 30.6.2003 |
| | <i>Notes</i> | Rmb'000 | <i>Rmb'000</i> |
| | | (unaudited) | (unaudited) |
| Turnover | | 3,815,712 | 2,030,434 |
| Cost of sales | | (3,513,824) | (1,739,226) |
| Gross profit | | 301,888 | 291,208 |
| Other operating income | | 45,414 | 39,891 |
| Distribution costs | | (58,524) | (38,846) |
| Administrative expenses | | (215,699) | (195,750) |
| Profit from operations | 4 | 73,079 | 96,503 |
| Finance costs | | (27,610) | (66,721) |
| Share of results of associates | | 2,236 | 700 |
| Profit before tax | | 47,705 | 30,482 |
| Income tax expense | 5 | (8,548) | (5,925) |
| Profit after tax | | 39,157 | 24,557 |
| Minority interests | | (4,983) | (1,543) |
| Net profit for the period | | 34,174 | 23,014 |
| Transfer to statutory surplus reserve | | 7,404 | 4,505 |
| Transfer to statutory public welfare fund | | 7,068 | 4,219 |
| Dividends | 6 | 9,513 | 7,135 |
| Earnings per share – basic | 7 | 2.87 cents | 1.94 cents |

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2004

| | Notes | 30.6.2004 <i>Rmb'000</i> (unaudited) | 31.12.2003 <i>Rmb'000</i> (audited) |
|--|-------|--|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | 2,605,206 | 2,373,756 |
| Interests in associates | | 96,310 | 90,423 |
| Investments in securities | | 68,970 | 68,970 |
| | | 2,770,486 | 2,533,149 |
| CURRENT ASSETS | | | |
| Inventories | | 6,805,093 | 4,766,121 |
| Trade debtors | 9 | 2,259,563 | 2,103,273 |
| Other debtors, deposits and prepayments | | 4,112,681 | 2,230,354 |
| Amounts due from customers for contract work | | 1,453,265 | 1,388,104 |
| Amounts due from fellow subsidiaries | | 65,978 | 36,702 |
| Investments in securities | | 2,675,437 | 296,109 |
| Pledged bank deposits | | – | 47,584 |
| Bank deposits | | 1,755,539 | 441,666 |
| Bank balances and cash | | 4,283,555 | 3,670,679 |
| | | 23,411,111 | 14,980,592 |
| CURRENT LIABILITIES | | | |
| Amounts due to customers for contract work | | 694,465 | 71,873 |
| Trade creditors | 10 | 2,122,153 | 1,475,544 |
| Other creditors and accrued charges | | 323,654 | 341,172 |
| Deposits received | | 16,679,752 | 9,166,419 |
| Amount due to ultimate holding company | | 25,970 | 29,970 |
| Tax liabilities | | 969 | 5,813 |
| Dividend payable | | 3,774 | – |
| Borrowings – due within one year | 11 | 771,800 | 561,779 |
| | | 20,622,537 | 11,652,570 |
| NET CURRENT ASSETS | | 2,788,574 | 3,328,022 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,559,060 | 5,861,171 |

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AT 30TH JUNE, 2004

| | Note | 30.6.2004 Rmb'000 (unaudited) | 31.12.2003 <i>Rmb'000</i> (audited) |
|---------------------------------------|------|--|---|
| CAPITAL AND RESERVES | | | |
| Share capital | | 1,189,151 | 1,189,151 |
| Share premium and reserves | | 1,840,535 | 1,815,874 |
| | | 3,029,686 | 3,005,025 |
| MINORITY INTERESTS | | | |
| | | 521,172 | 516,189 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings – due after one year | 11 | 1,730,202 | 2,062,957 |
| Advance from ultimate holding company | | 278,000 | 277,000 |
| | | 2,008,202 | 2,339,957 |
| | | 5,559,060 | 5,861,171 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

| | Share capital <i>Rmb'000</i> | Share premium <i>Rmb'000</i> | Statutory capital reserve <i>Rmb'000</i> | Statutory surplus reserve <i>Rmb'000</i> | Public welfare fund <i>Rmb'000</i> | Retained profits <i>Rmb'000</i> | Total <i>Rmb'000</i> |
|---------------------------|------------------------------------|------------------------------------|---|---|---|---------------------------------------|-------------------------|
| At 1st January, 2003 | 1,189,151 | 788,155 | 709,850 | 79,211 | 88,205 | 104,117 | 2,958,689 |
| Net profit for the period | - | - | - | - | - | 23,014 | 23,014 |
| Transfers | - | - | - | 4,505 | 4,219 | (8,724) | - |
| Dividends | - | - | - | - | - | (7,135) | (7,135) |
| At 30th June, 2003 | 1,189,151 | 788,155 | 709,850 | 83,716 | 92,424 | 111,272 | 2,974,568 |
| Net profit for the period | - | - | - | - | - | 30,457 | 30,457 |
| Transfers | - | - | - | 5,408 | 5,317 | (10,725) | - |
| At 31st December, 2003 | 1,189,151 | 788,155 | 709,850 | 89,124 | 97,741 | 131,004 | 3,005,025 |
| Net profit for the period | - | - | - | - | - | 34,174 | 34,174 |
| Transfers | - | - | - | 7,404 | 7,068 | (14,472) | - |
| Dividends | - | - | - | - | - | (9,513) | (9,513) |
| At 30th June, 2004 | 1,189,151 | 788,155 | 709,850 | 96,528 | 104,809 | 141,193 | 3,029,686 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

| | Six months ended | |
|---|--------------------|----------------|
| | 30.6.2004 | 30.6.2003 |
| | <i>Rmb'000</i> | <i>Rmb'000</i> |
| | (unaudited) | (unaudited) |
| Net cash from (used in) operating activities | 4,775,043 | (202,946) |
| Net cash used in investing activities | (2,427,007) | (139,620) |
| Net cash (used in) from financing activities | (159,083) | 328,885 |
| Net increase (decrease) in cash and cash equivalents | 2,188,953 | (13,681) |
| Cash and cash equivalents at 1st January | 4,125,440 | 1,241,997 |
| Cash and cash equivalents at 30th June | 6,314,393 | 1,228,316 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 4,283,555 | 1,134,587 |
| Bank deposits | 730,368 | 93,729 |
| Investments in securities | 1,300,470 | – |
| | 6,314,393 | 1,228,316 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

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, 2003.

3. SEGMENT AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into the following operating divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

Business segments

| Six months ended 30.6.2004 | 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 | 2,411,279 | 310,689 | 636,948 | 69,801 | 386,995 | - | 3,815,712 |
| Inter-segment sales | 51,316 | - | - | 2,479 | 40,682 | (94,477) | - |
| Total revenue | <u>2,462,595</u> | <u>310,689</u> | <u>636,948</u> | <u>72,280</u> | <u>427,677</u> | <u>(94,477)</u> | <u>3,815,712</u> |
| SEGMENT RESULTS | <u>210,114</u> | <u>18,826</u> | <u>24,360</u> | <u>3,954</u> | <u>44,634</u> | <u>-</u> | 301,888 |
| Unallocated corporate expenses – net | | | | | | | <u>(228,809)</u> |
| Profit from operations | | | | | | | <u>73,079</u> |

Inter-segment sales are charged at prevailing market rates.

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

Inter-segment sales are charged at prevailing market rates.

4. PROFIT FROM OPERATIONS

| | Six months ended | |
|---|-------------------------|-----------------|
| | 30.6.2004 | 30.6.2003 |
| | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Profit from operations has been arrived at after charging (crediting): | | |
| Allowances on bad and doubtful debts | 610 | 2,047 |
| Depreciation and amortisation | <u>106,893</u> | <u>104,108</u> |
| Interest income | <u>(37,451)</u> | <u>(18,322)</u> |

5. INCOME TAX EXPENSE

The charge mainly 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 except for two subsidiaries and an associate is subject to an income tax rate of 15%.

Pursuant to the relevant laws and regulations in the PRC, a Group's PRC associate is entitled to an exemption from PRC income tax for the period and two of the Group's subsidiaries are subject to an income tax rate of 33% on the taxable income earned.

The tax charge for the period can be reconciled to the profit per the consolidated income statement as follows:

| | Six months ended 30.6.2004 | | Six months ended 30.6.2003 | |
|---|-------------------------------|--------------|-------------------------------|--------------|
| | <i>Rmb'000</i> | % | <i>Rmb'000</i> | % |
| Profit before taxation | <u>47,705</u> | | <u>30,482</u> | |
| Tax at the income tax rate of 15% (2003: 15%) | 7,156 | 15.0 | 4,572 | 15.0 |
| Additional income tax in respect of subsidiaries which subjected to income tax rate of 33% | 242 | 0.5 | 417 | 1.4 |
| Tax effect of expenses not deductible for tax purpose | 1,485 | 3.1 | 1,034 | 3.3 |
| Effect of tax exemption granted to an associate | <u>(335)</u> | <u>(0.7)</u> | <u>(98)</u> | <u>(0.3)</u> |
| Tax effect and effective tax rate for the period | <u>8,548</u> | <u>17.9</u> | <u>5,925</u> | <u>19.4</u> |

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

6. DIVIDENDS

| | Six months ended | |
|--|-------------------------|------------------|
| | 30.6.2004 | 30.6.2003 |
| | Rmb'000 | Rmb'000 |
| Final dividend paid for 2002 of Rmb0.006 per share | – | 7,135 |
| Final dividend paid for 2003 of Rmb0.008 per share | 9,513 | – |
| | 9,513 | 7,135 |

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2003: nil)

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of Rmb34,174,000 (six months period ended 30th June, 2003: Rmb23,014,000) and on 1,189,151,000 shares (30th June, 2003: 1,189,151,000 shares) in issue during the period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately Rmb354 million mainly on construction in progress and plant and machinery for production process and to 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:

| | 30.6.2004 | 31.12.2003 |
|---------------|------------------|-------------------|
| | Rmb'000 | Rmb'000 |
| Within 1 year | 1,431,934 | 1,343,318 |
| 1 to 2 years | 481,203 | 405,224 |
| 2 to 3 years | 105,169 | 95,468 |
| Over 3 years | 241,257 | 259,263 |
| | 2,259,563 | 2,103,273 |

10. TRADE CREDITORS

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

| | 30.6.2004 Rmb'000 | 31.12.2003 <i>Rmb'000</i> |
|---------------|------------------------------------|------------------------------|
| Within 1 year | 1,395,980 | 1,318,262 |
| 1 to 2 years | 600,138 | 82,193 |
| 2 to 3 years | 59,862 | 12,539 |
| Over 3 years | 66,173 | 62,550 |
| | <u>2,122,153</u> | <u>1,475,544</u> |

11. BORROWINGS

During the period, the Group obtained new bank loans in the amount of approximately Rmb50 million and made repayment of bank loans in the amount of approximately Rmb173 million. The loans bear interest at market rates and have fixed terms of repayment. The proceeds were used as working capital for various production projects.

12. CAPITAL COMMITMENTS

| | 30.6.2004 Rmb'000 | 31.12.2003 <i>Rmb'000</i> |
|---|------------------------------------|------------------------------|
| Capital expenditure contracted for but not provided in the financial statements in respect of | | |
| – investment in an associate | 20,685 | – |
| – investments in securities | 3,575 | 3,575 |
| – property, plant and equipment | 195,351 | 321,090 |
| | <u>219,611</u> | <u>324,665</u> |
| Capital expenditure authorised but not contracted for in the financial statements in respect of property, plant and equipment | 27,250 | – |

13. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged land use rights and buildings with an aggregate amount of Rmb49,517,000 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

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Registration No. 2301001003796

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Geng Lei

AUTHORISED REPRESENTATIVES

Zhao Ke-fei
Deng Xian-yuan

COMPANY SECRETARY

Deng Xian-yuan

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