哈爾濱動力設備股份有限公司

Harbin Power Equipment Company Limited

INTERIM REPORT 2005

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 reviewed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

RESULTS

For the six months ended 30 June 2005, the Group recorded a turnover of Rmb7,298.69 million, an increase of 91.3 per cent over the same period last year. The cost of sales was Rmb6,694.90 million, an increase of 90.5 per cent over the same period last year. The gross profit was Rmb603.79 million, an increase of 100 per cent over the same period last year. As at 30 June 2005, the Group's shareholder's funds were valued at Rmb3,852.86 million, among which the parent company's shareholder's funds were Rmb3,254.64 million, an increase of Rmb141.58 million over the beginning of the year. The net assets per share reached Rmb2.74, an increase of Rmb0.12 compared to the beginning of the year.

INTERIM DIVIDEND

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

BUSINESS REVIEW

In the first half of 2005, Chinese macro-economy continued to stably and rapidly develop with a GDP growth of 9.5 per cent. The electricity supply still could not meet the demand and there were all together 25 provincial power grids that imposed blackouts during the period. The deep concern of various big utility companies in China was that newly constructed units were put into operation as soon as possible. Therefore, the most imperative task of power equipment enterprises was to meet contracts' delivery dates or even realize earlier delivery. Thus, Ensuring product quality and meeting customers' delivery dates were one of main tasks of the Company during the first half of 2005.

Another one was to reduce costs and improve economic benefits. In order to take the chances in the market and accelerate the increase of the Company's profits and create more return for shareholders, the Group enhanced reform and administration. During the first half of 2005, the Group enhanced its control over the quality and delivery of subcontractors and outsourcing suppliers and adopted further measures to effectively control design cost, procurement cost, manufacturing cost and administration expenses.

NEW CONTRACTS

As at 30 June 2005, new orders secured by the Group totaled Rmb12.4 billion, among which thermal power and hydro power main equipment accounted for 65 per cent and 23 per cent respectively. As we expected at the beginning of the year, power equipment market was gradually heading into stable growth period from rapid growth period. The focus of the Company's marketing during the period under review was to consolidate market shares of advantage products, strengthen marketing of high, new technology products, improve product level and diversify products, which ensured the continuous development of the Company. Particularly, the Company signed three main units manufacturing contracts for 2X1000MW Taizhou Ultra super critical project with the State Power Corporation (Guodian), which symbolized the Company's thermal power main unit production capability has reached the international first class level.

PRODUCTION AND SERVICES

Since a large amount of orders began production and delivery in this year, the Group's output in the year increased sharply. Thanks to the effective work during last two years, the Group's production potential was tremendously brought into play. The dynamic control over subcontractors and outsourcing suppliers already succeeded. The socialized production system strongly ensured the achievement of production task in the first half of the year.

During the period under review, the Group's output of utility boilers was 7925MW (33 units), an increase of 51.38 per cent over the same period last year. The output in power plant turbine was 13855MW (48 units), an increase of 139.42 per cent. The output in power plant turbine generator was 8130MW (28 units), an increase of 79.19 per cent. The output in hydropower turbine generator units was 1567.5MW (11 units/sets), an increase of 52.55 per cent over the same period last year. The general assemble and test of all 11 gas turbines have been completed, among which two units have been put into commercial operation. Eight units on left bank of the Three Gorges Project have all been put into commercial operation. 2X600MW turbine and turbine generator for Qinbei Super-critical Project, 2X600MW boiler for Changshu Super-critical Project have all been put into commercial operation.

TURNOVER AND ITS DISTRIBUTION

For six months ended at 30 June 2005, the Group recorded a turnover of Rmb7,298.69 million, representing an increase of 91.3 per cent over the same period last year. Among which, turnover from thermal power main units was Rmb5,303.01 million, an increase of 119.9 per cent over the same period last year, turnover from hydropower main units was Rmb536.57 million, an increase of 72.7 per cent and turnover from power plant engineering and services was Rmb920.40 million, an increase of 44.5 per cent. And turnover from power plant auxiliaries and parts was Rmb98.37 million, an increase of 40.9 per cent. The turnover from AC/DC motor and other products and services was Rmb440.34 million, an increase of 13.8 per cent over the same period last year.

During the period under review, the export sales of the Group represented 21.7 per cent of the Group's total turnover. The main export destinations were countries in Asia and Africa.

CONSOLIDATED PROFIT AFTER TAXATION

During the period under review, the Group's profit after taxation and minority interests was Rmb179.28 million, an increase of 424.6 per cent over the same period last year. The earnings per share were Rmb0.15, an increase of Rmb0.12 over the same period last year. As at 30 June 2005, the Group's shareholder's funds were valued at Rmb3,852.86 million, among which the parent company's shareholder's funds were Rmb3,254.64 million, an increase of Rmb141.58 million over the beginning of the year. The net assets per share reached Rmb2.74, an increase of Rmb0.12 compared to the beginning of the year. During the period under review, the Group's gross profit was Rmb603.79 million, an increase of Rmb301.90 million, 100 per cent over the same period last year. The gross profit margin was 8.27 per cent, a slight increase of 0.36 per cent over the same period last year.

COST AND EXPENSES

During the period under review, the Group's cost of sales was Rmb6,694.90 million, an increase of Rmb3,181.07 million, 90.5 per cent over the same period last year.

During the period under review, the Group's distribution costs were Rmb112.84 million, an increase of Rmb54.32 million, 92.8 per cent over the same period last year, which was mainly due to the increase in transportation expenses.

The Group's administrative expenses during the period were Rmb340.52 million, an increase of Rmb124.82 million over the same period last year.

During the period under review, the Group's finance costs amounted to Rmb18.17 million, a decrease of Rmb9.44 million.

FUNDING AND BORROWINGS

As at 30 June 2005, the Group's bank borrowings totaled Rmb2,604.15 million, which were all borrowings from various commercial banks and the State's policy banks based on the State's regulated interest rates. Among which, the Group's borrowings due within one year were Rmb608.40 million; the long-term borrowings were Rmb1,995.75 million.

As at 30 June 2005, the Group's bank deposits, bank balances and cash totaled Rmb5,553.03 million, a decrease of Rmb42.66 million over the beginning of the year.

During the period under review, the Group's net cash outflow for operation activities was Rmb2,318.36 million. The Group's net cash inflow from financing activities was Rmb328.48 million. The Group's net cash inflow from investment activities was Rmb1,162.05 million, which was mainly due to cash inflow from sales of part of state bonds.

ASSETS

As at 30 June 2005, the total assets of the Group amounted to Rmb34,072.05 million, an increase of Rmb3,056.85 million as compared to the beginning of 2005. Among which, the total current assets were Rmb30,477.13 million, representing 89.4 per cent of the total assets. The total non-current assets were Rmb3,594.92 million, representing 10.6 per cent of the total assets.

LIABILITIES

As at 30 June 2005, the Group's liabilities totaled Rmb30,219.19 million, an increase of Rmb2,857.59 million over the beginning of the year. Among which, the total current liabilities were Rmb25,285.93 million, representing 83.7 per cent of the total liabilities. The non-current liabilities were Rmb4,933.26 million, representing 16.3 per cent of the total liabilities. As at 30 June 2005, the Group's assets/liabilities ratio was 88.7 per cent.

SHAREHOLDERS' FUND

As at 30 June 2005, the Group's shareholder's funds were valued at Rmb3,852.86 million, among which the parent company's shareholder's funds were Rmb3,254.64 million, an increase of Rmb141.58 million over the beginning of the year. The net assets per share were Rmb2.74.

During the period under review, the Group's net assets profit ratio was 5.63 per cent, an increase of 4.50 per cent over the same period last year (an increase of 1.79 per cent over that of the year of 2004).

GEARING RATIO

As at 30 June 2005, the Group's gearing ratio (computed on non-current liabilities/ total shareholders' fund) was 1.52:1 as compared to that of 1.43:1 at the beginning of the year.

CONTINGENT LIABILITIES

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

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. The Group will adopt further measures to reduce the risk brought by the USD/Rmb exchange rate fluctuations.

STAFF

As at 30 June 2005, the employees of the Group totaled 16,700.

PROSPECT

In the third quarter of 2005, China is still lack of electricity. Since China's economy will maintain rapid growth for a certain period of time in the future, the economic development will still drive the growth of electricity demand and the power equipment market still has great potential. The Company will take full use of current favorable internal and external environment, deepen reforms, enhance management, improve economic benefits and improve key competitiveness.

In the second half of 2005, the Company will face several unfavorable factors such as heavy workload, tight delivery schedule and lack of materials supply. Based on the experiences accumulated recently through internally tapping the latent power and external association, the Company will further bring socialized and modernized production system into play to ensure on-time delivery and product quality.

The Company will take favorable chance, actively pursue policies and create conditions, accelerate technical renovation and self-development, enhance opening-up, strengthen internal reforms and create conditions for new round of competition.

The Company will take improving gross profit margin as main index and adopt further measures to reduce costs and expenses and improve economic benefits.

The Board of Directors thinks the Company's development has entered critical era, the work in the second half and full year's performance would have a significant impact on the development of the Company in next several years. The Board of Directors will try to create conditions to lead the whole staff to work hard in order to smoothly leap over historical stages. The board of directors is fully confident.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, 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	459,138,798	38.60

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

As at 30 June 2005, 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).

MODEL CODE

The Board of Directors approved to take Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the Company's code. After inquiry to the Board of Directors, all directors complied with the provisions of the Model Code 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 for accounting period has complied with provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules.

AUDIT COMMITTEE

The Board of Directors' Audit Committee has reviewed the 2005 interim results of the Company.

AUDITORS

The Board of Directors decided to continue to appoint Messrs. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Limited as its auditor. Auditor has reviewed the Company's 2005 interim results.

QUALIFIED ACCOUNTANT

The Company already has an accountant who meets the regulations set out in article 3.24 of the List Rules, but he is neither a fellow or associate member of the Hong Kong Society of Accountants nor of a similar body of accountants recognized by that Society for the purpose of granting exemptions from the examination requirement for membership of that Society. Therefore, the Company will employ a person who meets the above-mentioned qualification to assist the Company's accountant in supervising the Company's financial reporting procedures and internal controls. Until now, the Company has not found such a suitable person yet.

DISCLOSURE OF SIGNIFICANT EVENTS

On 12 April 2005, the Boiler Company, the Turbine Company and the Electrical Machinery Company of the Group signed with the State Power Corporation (Guodian) the equipment supply contracts for three main units of 2X1000MW Taizhou Ultra Super Critical Thermal Power Plant.

From 23 June to 13 July, 2005, the high water head runner developed by the Electrical Machinery Company of the Group for Guizhou Goupitan 600MW hydropower units passed test on the independent test station in Lausanne, Switzerland as requested by customers, which symbolized the Company has mastered the world first class large hydropower unit key technology.

On 20 June, the Company set up Nuclear Power Business Division, which would be responsible for the Company's nuclear power business in order to meet the development requirement of nuclear power market.

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

SHAREHOLDERS' MEETING

The Company's 2004 Annual General Meeting was held on 13 June 2005 in Harbin city, during which all resolutions set out in the Company's Notice of Annual General Meeting dated 13 April 2005 were passed.

PUBLICATION OF INTERIM REPORT ON THE EXCHANGE'S WEBSITE

The 2005 Interim Report of the Company containing all the information required by the Listing Rules will be published on the Exchange's website in due course.

REFERENCE DOCUMENT

The original copies of interim report and reviewed financial statements for the six months ended 30 June 2005 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.

As at the date of this report, the Company's executive directors include Geng Lei, Gong Jing-kun, Zhao Ke-fei, Duan Hong-yi, Shang Zhong-fu and Wu Wei-zhang. The non-executive directors are Li Gen-shen, Liang Wei-yan. The independent directors are Zhou Dao-jiong, Du Xing-you and Ding Xue-mei.

By order of the Board
Geng Lei
Chairman

Harbin, the PRC, 12 August 2005

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 27.

Directors' responsibilities

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 Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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 30 June 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
12 August 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	NOTES	Six months ended 30.6.2005 Rmb'000 (unaudited)	30.6.2004 Rmb'000 (unaudited)
Turnover	3	**7,298,686**	3,815,712
Cost of sales		**(6,694,897)**	(3,513,824)
Gross profit		**603,789**	301,888
Other operating income		**128,463**	45,414
Distribution costs		**(112,844)**	(58,524)
Administrative expenses	4	**(340,522)**	(215,699)
Share of results of associates		**(460)**	2,236
Finance costs		**(18,166)**	(27,610)
Profit before tax		**260,260**	47,705
Income tax expense	5	**(28,911)**	(8,548)
Profit for the period		**231,349**	39,157
Attributable to:			
Equity holders of the parent		**179,279**	34,174
Minority interests		**52,070**	4,983
		231,349	39,157
Dividends	7	**60,647**	9,513
Earnings per share – basic	8	**15.08 cents**	2.87 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2005

	NOTES	**30.6.2005** **Rmb'000** **(unaudited)**	31.12.2004 Rmb'000 (audited and restated)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**2,509,632**	2,485,923
Investment properties	9	**226,547**	–
Intangible asset	9	**51,598**	–
Interests in associates		**117,090**	109,440
Available-for-sale investments		**358,985**	–
Investments in securities		**–**	3,274,496
Prepaid lease payments		**331,059**	335,404
		3,594,911	6,205,263
CURRENT ASSETS			
Inventories		**10,965,489**	8,120,600
Trade debtors	10	**3,150,125**	2,459,445
Other debtors, deposits and prepayments		**7,163,519**	5,906,157
Prepaid lease payments		**8,689**	8,689
Available-for-sale investments		**2,420,632**	–
Investments in securities		**–**	1,672,940
Amounts due from customers for contract work		**1,154,094**	1,013,898
Amounts due from fellow subsidiaries		**61,561**	32,520
Bank deposits		**2,090,164**	1,035,448
Bank balances and cash		**3,462,861**	4,560,239
		30,477,134	24,809,936

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AT 30TH JUNE, 2005

	NOTES	**30.6.2005** **Rmb'000** **(unaudited)**	31.12.2004 Rmb'000 (audited and restated)
CURRENT LIABILITIES			
Amounts due to customers for contract work		**144,803**	607,981
Trade creditors	*11*	**3,361,901**	2,381,212
Other creditors and accrued charges		**295,368**	262,455
Deposits received		**20,550,698**	18,621,301
Amount due to ultimate holding company		**95,853**	36,133
Advance from ultimate holding company	*12*	**167,500**	192,500
Tax liabilities		**37,483**	22,499
Borrowings – due within one year	*13*	**608,400**	784,200
Dividend payable		**23,927**	–
		25,285,933	22,908,281
NET CURRENT ASSETS		**5,191,201**	1,901,655
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,786,112**	8,106,918
CAPITAL AND RESERVES			
Share capital	*14*	**1,189,151**	1,189,151
Share premium and reserves		**2,065,488**	1,923,911
Equity attributable to equity holders of the parent		**3,254,639**	3,113,062
Minority interests		**598,221**	540,546
TOTAL EQUITY		**3,852,860**	3,653,608
NON-CURRENT LIABILITIES			
Deposit received		**2,852,506**	2,878,848
Borrowings – due after one year	*13*	**1,995,746**	1,489,462
Advance from ultimate holding company	*12*	**85,000**	85,000
		4,933,252	4,453,310
		8,786,112	8,106,918

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Attributable to equity holders of the parent									
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Public welfare fund	Investment revaluation reserve	Retained profits	Total	Minority interests	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1st January, 2004	1,189,151	788,155	709,850	89,124	97,741	–	131,004	3,005,025	516,189	3,521,214
Profit for the period	–	–	–	–	–	–	34,174	34,174	4,983	39,157
Transfers	–	–	–	7,404	7,068	–	(14,472)	–	–	–
Dividends paid	–	–	–	–	–	–	(9,513)	(9,513)	–	(9,513)
At 30th June, 2004	1,189,151	788,155	709,850	96,528	104,809	–	141,193	3,029,686	521,172	3,550,858
Release on partial disposal of interests in a subsidiary	–	–	–	(36)	(7)	–	21	(22)	–	(22)
Profit for the period	–	–	–	–	–	–	83,398	83,398	19,374	102,772
Transfers	–	–	–	17,385	16,910	–	(34,295)	–	–	–
At 31st December, 2004	1,189,151	788,155	709,850	113,877	121,712	–	190,317	3,113,062	540,546	3,653,608
Surplus on revaluation of investments not recognised in the income statement	–	–	–	–	–	22,945	–	22,945	5,605	28,550
Profit for the period	–	–	–	–	–	–	179,279	179,279	52,070	231,349
Dividends declared	–	–	–	–	–	–	(60,647)	(60,647)	–	(60,647)
Transfers	–	–	–	44,378	39,588	–	(83,966)	–	–	–
At 30th June, 2005	1,189,151	788,155	709,850	158,255	161,300	22,945	224,983	3,254,639	598,221	3,852,860

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Six months ended	
	30.6.2005	30.6.2004
	Rmb'000	*Rmb'000*
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	**(2,318,361)**	4,775,043
Net cash from (used in) investing activities		
Proceeds from disposal of property, plant and equipment	**1,580**	4,071
Cash paid for acquisition of available-for-sale investments	**(30,634)**	(2,315,660)
Other investing cash flows	**1,191,104**	(115,418)
	1,162,050	(2,427,007)
Net cash from (used in) financing activities		
Increase of borrowings	**650,000**	50,000
Repayments of borrowings	**(319,516)**	(181,621)
Other financing cash flows	**(2,000)**	(27,462)
	328,484	(159,083)
Net (decrease) increase in cash and cash equivalents	**(827,827)**	2,188,953
Cash and cash equivalents at 1st January	**5,223,034**	4,125,440
Cash and cash equivalents at 30th June	**4,395,207**	6,314,393
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents, being		
Bank balances and cash	**3,462,861**	4,283,555
Bank deposits	**932,346**	730,368
Investments in securities	**–**	1,300,470
	4,395,207	6,314,393

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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 (the Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed 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, 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Financial Instruments

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. The allocation of the lease payments of the Group between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Comparative amounts for 2004 have been restated accordingly. The balance on the Group's property, plant and equipment has been reduced by Rmb344,093,000 while the balance on the Group's prepaid lease payments has been increased by Rmb344,093,000 accordingly.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the cost model to account for its investment properties, under which investment properties are carried at cost less accumulated depreciation and accumulated impairment losses (if any).

Initial Direct Costs Incurred by Lessors under Operating Leases

HKAS 17 Leases has eliminated the choice of expensing initial direct costs incurred by lessors in negotiating and arranging an operating lease, the policy previously followed by the Group. Initial direct costs are now required to be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. This change in accounting policy has no material effect on the results presented.

Patents

Patents are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

The Group has not early applied the new Standards or Interpretations that have been issued but are not yet effective for the current interim period. The application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

3. SEGMENT INFORMATION

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 30.6.2005	Main thermal power equipment	Main hydro power equipment	Engineering services for power stations	Ancillary equipment for power stations	AC/DC motors and other products	Eliminations	Consolidated
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
TURNOVER							
External sales	5,303,009	536,570	920,401	98,366	440,340	–	7,298,686
Inter-segment sales	448,238	–	31,895	–	3,073	(483,206)	–
Total turnover	5,751,247	536,570	952,296	98,366	443,413	(483,206)	7,298,686
SEGMENT RESULTS	471,193	36,033	28,970	14,837	52,756	–	603,789
Unallocated corporate expenses							(324,903)
Share of profit of associates							(460)
Finance costs							(18,166)
Profit before tax							260,260
Income tax expense							(28,911)
Profit for the period							231,349

Inter-segment sales are charged at prevailing market rates.

Six months ended 30.6.2004	Main thermal power equipment	Main hydro power equipment	Engineering services for power stations	Ancillary equipment for power stations	AC/DC motors and other products	Eliminations	Consolidated
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
TURNOVER							
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 turnover	2,462,595	310,689	636,948	72,280	427,677	(94,477)	3,815,712
SEGMENT RESULTS	210,114	18,826	24,360	3,954	44,634	–	301,888
Unallocated corporate expenses							(228,809)
Share of results of associates							2,236
Finance costs							(27,610)
Profit before tax							47,705
Income tax expenses							(8,548)
Profit for the period							39,157

Inter-segment sales are charged at prevailing market rates.

4. INCOME STATEMENT CLASSIFICATION/OTHER COSTS

Allowance for irrecoverable trade receivables

Included in administrative expenses is an allowance of Rmb32,058,732 (2004: Rmb nil) 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 Rmb3,573,567 (2004: Rmb5,681,442) in respect of the write-down of inventories to their estimated net realisable value.

Impairment loss recognised in respect of property, plant and equipment

Included in administrative expenses is an amount of Rmb6,100,143 (2004: Rmb nil) in respect of an impairment loss recognised on plant and machinery during the period.

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 is subject to an income tax rate of 15%.

Pursuant to the relevant laws and regulations in the PRC, one of Group's PRC subsidiaries are 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 30.6.2005		Six months ended 30.6.2004	
	Rmb'000	%	*Rmb'000*	%
Profit before taxation	**260,260**		47,705	
Tax at the income tax rate of 15% (2004: 15%)	**39,039**	**15.0**	7,156	15.0
Additional income tax in respect of a subsidiary subjected to income tax rate of 33%	**–**	**–**	242	0.5
Tax effect of share of results of associates	**69**	**–**	(335)	(0.7)
Tax effect of expenses not deductible for tax purpose	**6,882**	**2.6**	1,485	3.1
Tax effect of income not taxable for tax purpose	**(11,018)**	**(4.2)**	–	–
Effect of tax exemptions granted to a PRC subsidiary	**(6,267)**	**(2.4)**	–	–
Underprovision in respect of prior year	**206**	**0.1**	–	–
Tax effect and effective tax rate for the year	**28,911**	**11.1**	8,548	17.9

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

6. CONSOLIDATED REVENUE/EXPENSE FOR THE PERIOD

Consolidated profit for the period has been arrived at after crediting (charging) the following items:

	Six months ended	
	30.6.2005	30.6.2004
	Rmb'000	*Rmb'000*
Interest and investment income	**118,212**	37,479
Depreciation of property plant and equipment	**(116,470)**	(106,893)
Amortisation of intangible assets	**(2,715)**	–
Gain on disposal of investments	**6,043**	644
Share of tax of associates (included in share of results of associates)	**(189)**	(175)

7. DIVIDENDS

	Six months ended	
	30.6.2005	30.6.2004
	Rmb'000	*Rmb'000*
Final dividend paid for 2003 of Rmb0.008 per share	**–**	9,513
Final dividend declared for 2004 of Rmb0.051 per share	**60,647**	–
	60,647	9,513

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2004: nil)

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on net profit for the period of Rmb179,279,000 (six months period ended 30th June, 2004: Rmb34,174,000) and on 1,189,151,000 shares (30th June, 2004: 1,189,151,000 shares) in issue during the period.

9. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSET

During the period, the Group transferred certain properties from property, plant and equipment to investment properties at a cost of Rmb46,839,595.

During the period, the Group transferred a completed property under development to investment properties at a cost of Rmb179,707,500.

During the period, the Group disposed of certain plant and machinery with a carrying amount of Rmb1,195,664 for proceeds of Rmb1,579,567, resulting in a gain on disposal of Rmb383,903.

During the period, the Group spent approximately Rmb195 million mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

During the period, the Group acquired a patent related to 600MW class supercritical boiler technology for Rmb54,313,000. The patent entitles the Group to manufacture thermal power products using the technology for 10 years from the date of acquisition. Amortization provided during the period was Rmb2,715,000.

10. 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:

	30.6.2005	31.12.2004
	Rmb'000	*Rmb'000*
Within 1 year	**2,150,734**	1,830,659
1 to 2 years	**692,795**	333,065
2 to 3 years	**111,788**	103,798
Over 3 years	**194,808**	191,923
	3,150,125	2,459,445

11. TRADE CREDITORS

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

	30.6.2005	31.12.2004
	Rmb'000	*Rmb'000*
Within 1 year	**3,192,426**	2,054,229
1 to 2 years	**67,408**	211,480
2 to 3 years	**27,018**	45,868
Over 3 years	**75,049**	69,635
	3,361,901	2,381,212

12. ADVANCE FROM ULTIMATE HOLDING COMPANY

Advance from ultimate holding company totalling Rmb167,500,000 (2004: Rmb192,500,000) is non-interest bearing and has no fixed terms of repayment. Therefore, the amount is classified as current liability.

The non-current portion of advance from ultimate holding company comprises Rmb30,000,000 raised in 2001, Rmb32,000,000 raised in 1999 and Rmb23,000,000 raised in 1998 subjecting to an annual interest charge of 5.76%, 5.76% and 5.49%, respectively.

13. BORROWINGS

During the period, the Group obtained new bank loans in the amount of approximately Rmb650 millions and made repayment of bank loans in the amount of approximately Rmb319 millions. The loans bear interest at market rates and have fixed terms of repayment. The proceeds were used as working capital for various production projects.

14. SHARE CAPITAL

	Number of shares '000	Share capital Rmb'000
Ordinary shares of Rmb1 each issued and fully paid:		
At 1st January, 2005 and 30th June, 2005	**1,189,151**	1,189,151

15. CAPITAL COMMITMENTS

	30.6.2005 ***Rmb'000***	31.12.2004 *Rmb'000*
Capital expenditure contracted for but not provided in the financial statements in respect of		
– investment in an associate	**–**	10,739
– property, plant and equipment	**233,780**	375,109
	233,780	385,848
Capital expenditure authorised but not contracted for in the financial statements in respect of property, plant and equipment	**–**	214,000

16. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain of its land use rights and buildings with an aggregate net book value of Rmb118,931,395 (2004: Rmb48,179,000) to banks and financial institutions to secure bank borrowings and general banking facilities granted to the Group.

17. RELATED PARTY TRANSACTIONS

In the current period, the Group made purchases from subsidiaries of ultimate holding company amounting to Rmb17,949,000 (2004: Rmb9,831,000). The transaction prices were determined by reference to the market prices for similar transactions.

18. SUBSEQUENT EVENT

On 21st July, 2005, the government of the People's Republic of China announced a new foreign exchange rate policy referred to as managed floating exchange rate regime which is based on market supply and demand with reference to a basket of currencies. Accordingly, effective on the same date, the exchange rate of the US dollar against the Rmb was adjusted to 8.11 yuan per US dollar.

The change in the foreign exchange rate regime would subject the Group to foreign exchange risk because certain of its revenues and expenses are denominated in US dollar.

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

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Zhao Ke-fei
Deng Xian-yuan

COMPANY SECRETARY

Deng Xian-yuan

AUDITORS

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu CPA Limited

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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