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

Stock Code: 1133

INTERIM REPORT 2006

CONTENTS

REPORT OF THE DIRECTORS

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, 2006, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

RESULTS

For the six months ended 30th June, 2006, the Group recorded net consolidated profit of Rmb355.56 million, an increase of 98.3 per cent over the same period last year. Profit per share recorded Rmb0.28, an increase of 85.0 per cent over the same period last year. The net assets at the end of the term recorded Rmb4,146.35 million, an increase of Rmb261.72 million over the beginning of the year. Net assets per share recorded Rmb3.25, and an increase of Rmb0.2 over 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 2006, according to initial accounts by the National Bureau of Statistics of China, China's macro-economy continued to develop steadily and rapidly with a GDP growth of 10.9 per cent, which is 0.9 per cent faster over the same period last year. The contradiction between supply and demand kept on to ease up in the first half of the year. There was a growing demand for large power generators with high-level parameters and low-pollution settings as well as new type environmental power generation equipments, such as nuclear power and wind power.

The business results of the Company are obviously improved, with all economic indicators remarkably raised.

NEW CONTRACTS

As at 30th June, 2006, new orders secured by the Group totaled Rmb12.8 billion, a slight increase over the same period last year. Among these new orders, thermal power main units accounted for 60 per cent, a drop of 5 per cent over the same period last year. Hydro power main units account for 2.5 per cent, a significant fall over the same period last year. Decrease in the orders of hydro and thermal power products showed that, the power generation equipment market in China has inclined to moderate, with reduced start-up projects and more intensive market competition. However, the Company's total sum of orders has not turned down, mainly because our taking general contracts for projects such as Jinpu, Vietnam and Desheng, Guangdong neutralized our market orders effectively, although the power generation main equipment market began to slowdown.

PRODUCTION AND SERVICES

As orders at hand being delivered, the Group's output during the period remained relatively high. The output in utility boilers was 11050MW (26 units), an increase of 39.43 per cent over the same period last year. The output in power plant turbine was 11681MW (31 units), a decrease of 15.69 per cent. The output in power plant turbine generator was 12005MW (33 units), an increase of 47.66 per cent. The output in hydropower turbine generator units was 1382MW (14 units/ sets), a decrease of 11.83 per cent over the same period last year.

TURNOVER AND COST

For six months ended at 30th June, 2006, the Group recorded a turnover of Rmb11,692.25 million, an increase of 60.2 per cent over the same period last year. Among which, turnover from thermal power main units was Rmb9,448.53 million, an increase of 78.2 per cent over the same period last year, turnover from hydropower main units was Rmb732.73 million, an increase of 36.6 per cent and turnover from power plant engineering and services was Rmb958.09 million, an increase of 4.1 per cent. And turnover from power plant auxiliaries and parts was Rmb110.91 million, an increase of 12.8 per cent. The turnover from AC/DC motor and other products and services was Rmb441.97 million, a slight increase over the same period last year. The increase in turnover was caused by remarkable power demand and delivered equipments during the period.

During the period under review, the export sales of the Group was Rmb1,473.22 million, represented 12.6 per cent of the Group's total turnover. The main export destinations were countries in Asia and Africa.

During the period under review, the Group's cost of sales was Rmb10,487.28 million, an increase of 56.6 per cent over the same period last year, mainly due to increase in the cost caused by a higher turnover.

GROSS PROFIT AND PROFIT MARGIN

During the period under review, the Group's gross profit of sales was Rmb1,204.97 million, an increase of 99.6 per cent over the same period last year. The profit margin was 10.31 per cent, an increase of 2.04 per cent over the same period last year.

Among which, the gross profit for thermal power main units was Rmb1,053.55 million and the profit margin was 11.2 per cent, an increase of 2.3 per cent over the same period last year. The gross profit for hydro power main units was Rmb52.53 million and the profit margin was 7.2 per cent, an increase of 0.5 per cent over the same period last year. The gross profit for power plant engineering and services was Rmb28.56 million and the profit margin was 3.0 per cent, basically flat over the same period last year. The gross profit for power plant auxiliaries and parts was Rmb17.51 million and the profit margin was 15.8 per cent, an increase of 0.7 per cent over the same period last year. The gross profit for AC/DC motor and other products and services was Rmb52.82 million and the profit margin was 12.0 per cent, basically flat over the same period last year. The increase in profit margin was caused by higher product prices compared with previous years and evidence of effectiveness emerged in the Group's cost management policies.

EXPENSES DURING THE PERIOD

As at 30th June, 2006, the Group's expenses from operation and administration activities amounted to Rmb707.17 million, an increase of Rmb253.80 million and 56 per cent over the same period last year. Among which, the labor cost increased about Rmb66.70 million. Allowance for bad debt and impairment loss recognised in respect of property, plant and equipment was Rmb146.30 million, an increase of Rmb108.14 million over the same period last year. Expenses for business activities increased about Rmb31.00 million due to the enhancement of administration and marketing.

ASSETS AND LIABILITIES

As at 30th June, 2006, the total assets of the Group amounted to Rmb37,155.78 million, an increase of Rmb706.89 million and 1.9 per cent as compared to the beginning of 2006. Among which, the total current assets were Rmb33,762.77 million, representing 90.9 per cent of the total assets. The total non-current assets were Rmb3,393.00 million, representing 9.1 per cent of the total assets.

As at 30th June, 2006, the Group's liabilities totaled Rmb32,261.17 million, an increase of Rmb336.96 million over the beginning of the year. Among which, the total current liabilities were Rmb27,137.37 million, representing 84.1 per cent of the total liabilities. The non-current liabilities were Rmb5,123.80 million, representing 15.9 per cent of the total liabilities. As at 30th June, 2006, the Group's assets/liabilities ratio was 87.6 per cent.

DEPOSITS AND CASH INFLOW

As at 30th June, 2006, the bank deposits and cash of the Group amounted to Rmb5,210.00 million, a decrease of Rmb25.71 million over the beginning of the year. Among which, foreign currencies were equivalent to Rmb685.23 million and the time deposits were Rmb468.75 million. During the period, the net cash used in operating activities amounted to Rmb1,880.23 million. The net cash from financing activities amounted to Rmb680.80 million and the net cash from investment activities was Rmb1,284.77 million.

FUNDING AND BORROWING

The Group's funding for operation and development mainly has three sources, they are shareholder capital, customer loans and bank borrowings. The borrowings of the Group will be arranged according to specific projects. Except for those special situations, the loans will be separately conducted by subsidiaries under the Group. However, the Group must approve the capital investment borrowings in advance. As at 30th June, 2006, the total sums of the Group's borrowings are Rmb3,822.04 million. The Group's borrowings are loans from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among which, the Group's borrowings due within one year were Rmb473.88 million, an increase of Rmb21.70 million over the beginning of the year. The Group's borrowings due after one year were Rmb3,348.15 million, an increase of Rmb669.39 million over the beginning of the year.

GEARING RATIO

As at 30th June, 2006, the Group's gearing ratio (computed on non-current liabilities/total shareholder fund) was 1.24:1, as compared to that of 1.28:1 at the beginning of the year.

STAFF

As at 30th June, 2006, the employees of the Group totaled 16,458.

PROSPECT

The shortfall of electricity supply in China is easing up and construction of the power market begins to slowdown. Since reduction of energy consumption and environmental production were required by the government and also prices of raw materials necessary for power generation enterprises are growing up, a demand for power generation units with low energy consumption and high efficiency became more urgent and intense. Thus for the recent two years, the Company has pursued the direction of developing high new technology products such as large hydropower, ultra supper critical thermal power and gas turbine, nuclear power.

In the second half of 2006, the Company will consolidate our market benefits from large hydropower, ultra super critical thermal power, heavy duty gas turbine products, and focus on the development of nuclear power business. The Company has formulated a detailed nuclear power development plan in combination with China's nuclear power policy, so as to fulfill the objective of self-design and self-production of nuclear power equipments, and by cooperating with other national enterprises, to achieve the capability of providing a complete set of nuclear power equipments with independent intellectual property right as soon as possible. The Company's construction of Qinghuangdao second stage project has started on 10th April, 2006, with a design and production ability of 1.5 sets of 1000MW class nuclear island main equipments and a production scope extending to large hydropower products. The Company will continue to strengthen on international market and general contract projects developments, and speed up the technical and market developments of new type of high-efficiency and low-pollution power generation equipments such as wind power as well as environmental equipments such as desulphurization, desalpetre to boost a continuous development in production and operation activities.

The Company will continue to contribute to promote its internal management capability by implementing more effective measures in order to improve economic profit and create more rewards for our shareholders. The Board will try to create conditions to support the Company's management to lead the whole staff to work hard in order to smoothly leap over historical stages. The board is fully confident.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, the Company's share capital comprised 1,274,451,000 shares. The major shareholders included:

Shareholder	Share category	Share number	Percentage in total share capital	Position of shares held
Harbin Power Plant Equipment Corporation	State share	711,470,000	55.83	Long position
HKSCC Nominees Limited	H share	553,674,598	43.44	Long position

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

As at 30th June, 2006, 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

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

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company now or at any time 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's Audit Committee has reviewed the 2006 interim results of the Company.

AUDITORS

The Board decided to continue to appoint Messrs. Deloitte Touche Tohmatsu as its auditor. Auditor has reviewed the Company's 2006 interim results.

SHAREHOLDERS' MEETING

The Company's 2005 Annual General Meeting was held on 16th June, 2006 in Harbin city, and the result of the meeting has been published on Wenweipo and China Daily (English version) on 19th June, 2006.

REFERENCE DOCUMENT

The original copies of interim report and reviewed financial statements for the six months ended 30th June, 2006 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, 25th August, 2006

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 9 to 25.

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 30th June, 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25th August, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

		Six months ended	
		30.6.2006	30.6.2005
	NOTES	***Rmb'000***	*Rmb'000*
		(unaudited)	(unaudited)
Revenue	*3*	**11,692,246**	7,298,686
Cost of sales		**(10,487,275)**	(6,694,897)
Gross profit		**1,204,971**	603,789
Other income		**108,652**	128,463
Distribution costs		**(143,236)**	(112,844)
Administrative expenses	*4*	**(563,932)**	(340,522)
Finance costs		**(18,897)**	(18,166)
Share of results of associates		**1,834**	(460)
Profit before tax		**589,392**	260,260
Income tax expense	*5*	**(120,508)**	(28,911)
Profit for the period	*6*	**468,884**	231,349
Attributable to:			
Equity holders of the parent		**355,561**	179,279
Minority interests		**113,323**	52,070
		468,884	231,349
Dividends	*7*	**77,742**	60,647
Earnings per share – basic	*8*	**27.90 cents**	15.08 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2006

	NOTES	30.6.2006 Rmb'000 (unaudited)	31.12.2005 Rmb'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**2,522,697**	2,503,350
Investment properties		**289,139**	296,801
Prepaid lease payments		**334,002**	326,835
Patent	9	**65,757**	49,300
Interests in associates		**120,206**	118,372
Available-for-sale investments		**61,203**	56,245
		3,393,004	3,350,903
CURRENT ASSETS			
Inventories		**12,822,769**	12,563,438
Trade debtors	10	**5,299,329**	4,200,418
Other debtors, deposits and prepayments		**7,704,461**	7,573,022
Prepaid lease payments		**8,874**	8,629
Amounts due from customers for contract work		**2,647,704**	2,078,776
Amounts due from fellow subsidiaries		**57,639**	43,710
Available-for-sale investments		**–**	1,381,939
Derivative financial instruments		**–**	344
Restricted bank deposits		**12,000**	12,000
Pledged bank deposits		**60,000**	355,000
Bank deposits		**468,751**	284,802
Cash and cash equivalents		**4,681,246**	4,595,906
		33,762,773	33,097,984

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AT 30TH JUNE, 2006

	NOTES	**30.6.2006 Rmb'000 (unaudited)**	31.12.2005 Rmb'000 (audited)
CURRENT LIABILITIES			
Amounts due to customers for contract work		**461,740**	350,922
Trade creditors	*11*	**4,701,294**	4,335,328
Other creditors and accrued charges		**300,118**	334,475
Deposits received		**20,549,807**	20,996,793
Amount due to ultimate holding company		**114,305**	70,296
Advance from ultimate holding company		**335,710**	286,000
Tax liabilities		**166,140**	138,271
Borrowings – due within one year	*12*	**473,883**	452,180
Dividend payable		**34,368**	205
		27,137,365	26,964,470
NET CURRENT ASSETS		**6,625,408**	6,133,514
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,018,412**	9,484,417
CAPITAL AND RESERVES			
Share capital	*13*	**1,274,451**	1,274,451
Share premium and reserves		**2,871,895**	2,610,177
Equity attributable to equity holders of the parent		**4,146,346**	3,884,628
Minority interests		**748,266**	640,052
TOTAL EQUITY		**4,894,612**	4,524,680
NON-CURRENT LIABILITIES			
Deposits received		**1,775,647**	2,220,972
Borrowings – due after one year	*12*	**3,348,153**	2,678,765
Advance from ultimate holding company		**–**	60,000
		5,123,800	4,959,737
		10,018,412	9,484,417

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Attributable to equity holders of the parent									
	Share capital Rmb'000	Share premium Rmb'000	Statutory capital reserve Rmb'000	Statutory surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Investment revaluation reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000	Minority interests Rmb'000	Total Rmb'000
At 1st January, 2005	1,189,151	788,155	709,850	113,877	121,712	–	155,205	3,077,950	540,546	3,618,496
Gain on fair value changes of available-for-sale investments, recognised directly in equity	–	–	–	–	–	22,945	–	22,945	5,605	28,550
Profit for the period	–	–	–	–	–	–	179,279	179,279	52,070	231,349
Total recognised income for the period	–	–	–	–	–	22,945	179,279	202,224	57,675	259,899
Transfers	–	–	–	44,378	39,588	–	(83,966)	–	–	–
Dividends	–	–	–	–	–	–	(60,647)	(60,647)	–	(60,647)
At 30th June, 2005	1,189,151	788,155	709,850	158,255	161,300	22,945	189,871	3,219,527	598,221	3,817,748
Loss on fair value changes of available-for-sale investments, recognised directly in equity	–	–	–	–	–	(6,844)	–	(6,844)	(495)	(7,339)
Profit for the period	–	–	–	–	–	–	285,711	285,711	42,326	328,037
Total recognised income and expense for the period	–	–	–	–	–	(6,844)	285,711	278,867	41,831	320,698
Shares issued	85,300	312,310	–	–	–	–	–	397,610	–	397,610
Share issue expense	–	(11,376)	–	–	–	–	–	(11,376)	–	(11,376)
Transfers	–	–	–	34,933	37,315	–	(72,248)	–	–	–
At 31st December, 2005	1,274,451	1,089,089	709,850	193,188	198,615	16,101	403,334	3,884,628	640,052	4,524,680
Profit for the period	–	–	–	–	–	–	355,561	355,561	113,323	468,884
Transferred to profit or loss on sale of available-for-sale investments	–	–	–	–	–	(16,101)	–	(16,101)	(5,109)	(21,210)
Total recognised income and expenses for the period	–	–	–	–	–	(16,101)	355,561	339,460	108,214	447,674
Transfers	–	–	–	75,761	–	–	(75,761)	–	–	–
Dividends	–	–	–	–	–	–	(77,742)	(77,742)	–	(77,742)
At 30th June, 2006	1,274,451	1,089,089	709,850	268,949	198,615	–	605,392	4,146,346	748,266	4,894,612

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Six months ended	
	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
	(unaudited)	(unaudited)
Net cash used in operating activities	**(1,880,228)**	(2,318,361)
Net cash from investing activities		
Proceeds from disposal of available-for-sale investments	**1,391,529**	1,832,246
Purchase of available-for-sale investments	**(7,500)**	(30,634)
Other investing cash flows	**(99,262)**	(639,562)
	1,284,767	1,162,050
Net cash from financing activities		
Increase of borrowings	**751,740**	650,000
Repayment of borrowings	**(60,649)**	(319,516)
Other financing cash flows	**(10,290)**	(2,000)
	680,801	328,484
Net increase (decrease) in cash and cash equivalents	**85,340**	(827,827)
Cash and cash equivalents brought forward	**4,595,906**	5,223,034
Cash and cash equivalents carried forward	**4,681,246**	4,395,207
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents, being		
Bank balances and cash	**3,989,293**	3,462,861
Bank deposits	**691,953**	932,346
	4,681,246	4,395,207

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

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" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and 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, 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

HKAS 39 & HKFRS 4 (Amendment)

HKAS 39 and HKFRS 4 (Amendments) requires financial guarantee contracts within the scope of HKAS 39 to be measured at fair value upon initial recognition. In accordance with the amendment, the Group accounts for certain types of financial guarantee contracts it issues as financial liabilities. Financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of the initial fair value less cumulative amortisation of fee income, and the amount that would be recognised as a provision in the event the Group has to reimburse the holder for any loss incurred. The amendment has had no material effect on the results for the period.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but not yet effective. The directors of the Company anticipate the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-INT 8	Scope of HKFRS 2[3]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[4]

[1] *Effective for annual periods beginning on or after 1st January, 2007.*
[2] *Effective for annual periods beginning on or after 1st March, 2006.*
[3] *Effective for annual periods beginning on or after 1st May, 2006.*
[4] *Effective for annual periods beginning on or after 1st June, 2006.*

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

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

Principal activities are as follows:

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

Six months ended 30.6.2006	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 others *Rmb'000*	Eliminations *Rmb'000*	Consolidated *Rmb'000*
REVENUE							
External sales	**9,448,534**	**732,734**	**958,090**	**110,914**	**441,974**	**–**	**11,692,246**
Inter-segment sales	**483,863**	**–**	**–**	**86,521**	**48,644**	**(619,028)**	**–**
Total revenue	**9,932,397**	**732,734**	**958,090**	**197,435**	**490,618**	**(619,028)**	**11,692,246**
SEGMENT RESULTS	**1,053,549**	**52,530**	**28,564**	**17,506**	**52,822**	**–**	**1,204,971**
Unallocated corporate expenses							**(598,516)**
Finance costs							**(18,897)**
Share of results of associates	**–**	**–**	**–**	**–**	**1,834**	**–**	**1,834**
Profit before tax							**589,392**
Income tax expense							**(120,508)**
Profit for the period							**468,884**

Inter-segment sales are charged at prevailing market rates.

Six months ended 30.6.2005	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 others *Rmb'000*	Eliminations *Rmb'000*	Consolidated *Rmb'000*
REVENUE							
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 revenue	5,751,247	536,570	920,401	130,261	443,413	(483,206)	7,298,686
SEGMENT RESULTS	479,193	36,033	10,970	24,837	52,756	–	603,789
Unallocated corporate expenses							(324,903)
Finance costs							(18,166)
Share of results of associates	–	–	–	–	(460)	–	(460)
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.

4. INCOME STATEMENT CLASSIFICATION/OTHER COSTS

Allowance for irrecoverable trade receivables

Included in administrative expenses is an allowance of Rmb137,922,000 (2005: Rmb32,059,000) for estimated irrecoverable trade receivables, which is determined based on the difference between the carrying amount of those receivables and the present value of estimated future cash flows from those receivables, discounted at the original effective interest rate.

Write-down of inventories to net realisable value

Included in cost of goods sold is an amount of Rmb51,234,000 (2005: Rmb3,574,000) 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 Rmb8,373,000 (2005: Rmb6,100,000) in respect of an impairment loss recognised on plant and machinery during the period.

5. INCOME TAX EXPENSE

The charge mainly represents PRC enterprise 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 certain subsidiaries, is subject to an enterprise income tax rate of 15%.

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

	Six months ended	
	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Profit before tax	**589,392**	260,260
Tax at the enterprise income tax rate of 15%	**88,409**	39,039
Tax effect of share of results of associates	**(275)**	69
Tax effect of the income tax rate of 33% for certain subsidiaries	**2,138**	–
Tax effect of income not taxable for tax purpose	**(2,363)**	(11,018)
Tax effect of expenses not deductible for tax purpose	**31,613**	6,882
Effect of tax exemptions granted to a PRC subsidiary	**–**	(6,267)
Underprovision in respect of prior years	**986**	206
Tax charge for the period	**120,508**	28,911

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

6. PROFIT FOR THE PERIOD

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

	Six months ended	
	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Depreciation of property plant and equipment	**148,662**	116,470
Depreciation of investment properties	**7,662**	–
Release of prepaid lease payments	**4,804**	4,345
Amortisation of patent	**4,891**	2,715
Share of tax of associates (included in share of results of associates)	**–**	189
Interest and investment income	**(71,055)**	(118,212)
Gain on disposal of available-for-sale investments	**(27,729)**	(6,043)

7. DIVIDENDS

	Six months ended	
	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Final dividend declared for 2004 of Rmb0.051 per share	**–**	60,647
Final dividend declared for 2005 of Rmb0.061 per share	**77,742**	–
	77,742	60,647

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2005: nil)

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of Rmb355,561,000 (six months period ended 30th June, 2005: Rmb179,279,000) and on 1,274,451,000 shares (30th June, 2005: 1,189,151,000 shares) in issue throughout the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PATENT

During the period, the Group disposed of certain plant and machinery with a carrying amount of Rmb1,172,000 for proceeds of Rmb1,334,000, resulting in a gain on disposal of Rmb162,000.

During the period, the Group spent approximately Rmb177,554,000 mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

During the period, the Group mainly acquired a patent related to heat recovery steam generators technology. The patent entitles the Group to manufacture thermal power products using the technology for 12 years from the date of acquisition.

10. TRADE DEBTORS

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

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

	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Within 1 year	**4,699,719**	3,751,947
1 to 2 years	**477,468**	319,447
2 to 3 years	**85,989**	65,552
Over 3 years	**36,153**	63,472
	5,299,329	4,200,418

11. TRADE CREDITORS

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

	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Within 1 year	**4,322,287**	4,041,474
1 to 2 years	**228,860**	190,193
2 to 3 years	**73,821**	28,048
Over 3 years	**76,326**	75,613
	4,701,294	4,335,328

12. BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately Rmb751 million and made repayment of bank borrowings in the amount of approximately Rmb60 million. The borrowings bear interest at market rate and have fixed terms of repayment. The proceeds were used for working capital of operation.

13. SHARE CAPITAL

	Number of shares	**Share capital**
	'000	*Rmb'000*
Ordinary shares of Rmb1 each issued and fully paid:		
At 1st January, 2006 and 30th June, 2006	1,274,451	1,274,451

14. CAPITAL COMMITMENTS

	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Capital expenditure for the acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	**98,155**	251,349

15. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged investment properties having a net book value of approximately Rmb289,139,000 (2005: Rmb233,197,000) and bank deposits amounting to approximately Rmb60,000,000 (2005: Rmb355,000,000) to secure certain of Group's trading facilities.

16. CONTINGENT LIABILITIES

	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	**204,490**	216,490

17. RELATED PARTY DISCLOSURES

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

In the current period, the Group made purchases from subsidiaries of Harbin Power Plant Equipment Group Corporation ("HPEGC") amounting to approximately Rmb21,450,000 (2005: Rmb17,949,000). At the balance sheet date, credit facilities granted by certain banks to the Company were secured by corporate guarantee given by HPEGC.

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

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

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

Material transactions/balances with other state-controlled entities are as follows:

	Six months ended	
	30.6.2006	30.6.2005
	Rmb'000	*Rmb'000*
Trade sales	**9,353,780**	5,938,950
Trade purchases	**4,232,450**	2,491,340

	30.6.2006	31.12.2005
	Rmb'000	*Rmb'000*
Amounts due to other state-controlled entities	**21,652,273**	21,151,119
Amounts due from other state-controlled entities	**8,539,221**	7,810,538

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY
哈爾濱動力設備股份有限公司

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Harbin Power Equipment Company Limited

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Code: 1133

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The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE
Hong Kong Registrars Limited