



Stock Code: 1133

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



INTERIM REPORT 2007

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REPORT OF THE DIRECTORS

To all shareholders:

The Board of Directors of Harbin Power Equipment Company Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2007, which were prepared in accordance with accounting principles generally accepted in Hong Kong. Such results have not been audited but have been reviewed by Yuehua Certified Public Accountants Company Limited.

RESULTS

For the six months ended 30th June, 2007, the Group recorded net consolidated profit of Rmb615.05 million, an increase of 72.98 per cent over the same period last year. Profit per share recorded Rmb0.458, an increase of 64.16 per cent over the same period last year. The net assets at the end of the term recorded Rmb6,328.11 million, an increase of Rmb1,496.64 million over the beginning of the year. Net assets per share recorded Rmb4.60, an increase of Rmb0.81 over the beginning of the year.

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the period ended 30th June, 2007.

BUSINESS REVIEW

In the first half of 2007, 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 11.5 per cent, which is 0.5 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. The business results of the Company are obviously improved, with all economic indicators remarkably raised.

NEW CONTRACTS

During the first half of the year, new orders secured by the Group totaled Rmb22.1 billion, an increase of 73 per cent over the same period last year. Among these new orders, thermal power main units accounted for 80 per cent, an increase of 20 per cent over the same period last year. Hydro power main units account for 1 per cent, a decrease of 1.5 per cent over the same period last year, showing that the orders of power generation equipment market are more centralized during the first half of the year.

PRODUCTION AND SERVICES

As orders at hand being delivered, the Group's output during the first half remained relatively high. The output in utility boilers was 13,160MW (30 units), an increase of 19.10 per cent over the same period last year. The output in power plant turbine was 12,060MW (38 units), an increase of 3.07 per cent over the same period last year. The output in power plant turbine generator was 9,237MW (23 units), a decrease of 23.06 per cent over the same period last year. The output in hydropower turbine generator units was 2,325MW (11 units/sets), an increase of 68.23 per cent over the same period last year.

TURNOVER AND COST

For the first half of 2007, the Group recorded a turnover of Rmb11,964.67 million, an increase of 2.3 per cent over the same period last year. Among which, turnover from thermal power main units was Rmb9,532.05 million, an increase of 1 per cent over the same period last year, turnover from hydropower main units was Rmb747.86 million, an increase of 2.1 per cent and turnover from power plant engineering and services was Rmb1,056.93 million, an increase of 10.3 per cent. And turnover from power plant auxiliaries and parts was Rmb169.53 million, an increase of 52.8 per cent. The turnover from AC/DC motor and other products and services was Rmb458.30 million, an increase of 3.7 per cent over the same period last year. The increase in turnover was caused by remarkable delivered equipments during the period.

During the period under review, the export sales of the Group was Rmb1,399.69 million, represented 11.7 per cent of the Group's total turnover. The main export destinations were countries in Asia and Africa.

GROSS PROFIT AND PROFIT MARGIN

During the period under review, the Group's gross profit of sales was Rmb1,515.51 million, an increase of 25.8 per cent over the same period last year. The profit margin was 12.7 per cent, an increase of 2.4 per cent over the same period last year.

Among which, the gross profit for thermal power main units was Rmb1,287.75 million and the profit margin was 13.5 per cent, an increase of 2.4 per cent over the same period last year. The gross profit for hydro power main units was Rmb80.21 million and the profit margin was 10.7 per cent, an increase of 3.5 per cent over the same period last year. The gross profit for power plant engineering and services was Rmb29.17 million and the profit margin was 2.8 per cent, basically flat over the same period last year. The gross profit for power plant auxiliaries and parts was Rmb42.94 million and the profit margin was 25.3 per cent, an increase of 9.6 per cent over the same period last year. The gross profit for AC/DC motor and other products and services was Rmb75.44 million and the profit margin was 16.5 per cent, an increase of 4.5 per cent over the same period last year. The increase in profit margin was evidence of effectiveness emerged in the Group's cost management policies.

EXPENSES DURING THE PERIOD

For the first half of the year, the Group's expenses from operation and administration activities amounted to Rmb713.73 million, a slight increase over the same period last year.

ASSETS AND LIABILITIES

As at 30th June, 2007, the total assets of the Group amounted to Rmb39,383.84 million, an increase of Rmb1,939.29 million and 5.2 per cent as compared to the beginning of 2007. Among which, the total current assets were Rmb35,882.07 million, representing 91.1 per cent of the total assets. The total non-current assets were Rmb3,501.77 million, representing 8.9 per cent of the total assets.

The Group's liabilities totaled Rmb31,957.24 million, an increase of Rmb292.09 million over the beginning of the year. Among which, the total current liabilities were Rmb26,041.86 million, representing 81.5 per cent of the total liabilities. The non-current liabilities were Rmb5,915.38 million, representing 18.5 per cent of the total liabilities. As at 30th June, 2007, the Group's assets/liabilities ratio was 81.1 per cent.

DEPOSITS AND CASH INFLOW

As at 30th June, 2007, the bank deposits and cash of the Group amounted to Rmb5,672.89 million. Among which, the time deposits were Rmb1,188.16 million. During the period, the net cash used in operating activities amounted to Rmb904.19 million. The net cash from financing activities amounted to Rmb966.48 million and the net cash used in investment activities was Rmb734.82 million.

FUNDING AND BORROWING

The Group's funding for operation and development mainly has three sources, they are shareholder capital, customer loans and bank borrowings. The borrowings of the Group will be arranged according to specific projects. Except for those special situations, the loans will be separately conducted by subsidiaries under the Group. However, the capital investment borrowings must be approved by the Company in advance. As at 30th June, 2007, the total sums of the Group's borrowings are Rmb4,378.61 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 Rmb378.50 million, a decrease of Rmb122.62 million over the beginning of the year. The Group's borrowings due after one year were Rmb4,000.11 million, a increase of Rmb128.18 million over the beginning of the year. The Group's amounts due to customers were Rmb17,507.78 million, a decrease of Rmb80.40 million.

GEARING RATIO

As at 30th June, 2007, the Group's gearing ratio (computed on non-current liabilities/total shareholders' equity) was 0.98:1, as compared to that of 1.16:1 at the beginning of the year.

INTEREST EXPENSE

During the first half of year, the Group's interest expense amounted to Rmb38.23 million, an increase of Rmb19.34 million over the same period last year. This was caused by the increase of loans and exchange loss.

INCOME TAX

For the first half of the year, the Company and its major subsidiaries are subject to income tax at a rate of 15%.

STAFF

As at 30th June, 2007, the employees of the Group totaled 17,765.

PROSPECT

The national economy in 2007 will continue its “rapid and good” development. The power supply equipment market will remain in high demand, and the development of environmental friendly, effective, sophisticated new technical products with a high capacity and parameter will accelerate. The state-developed nuclear power strategy has commenced, the technical path of the third generation nuclear power has been established, and the Group has been identified as a major equipment supplier of the third generation nuclear power. The competition of the power supply equipment market is entering into a new phase.

In the second half of the year, the Group will face even fiercer market competition and heavier production duties. The Group will respond to market changes, integrate internal resources and enhance the fullness of market development. While strengthening the market share of regular products, we will actively seize and occupy the market of sophisticated new products, as well as explore the international market.

Following the technical development theme of digesting and absorbing adopted technical foundation, re-creation and self development, the technological innovative system will be further perfected. While making effort in exceeding the advanced international standard, the focus will be the introduction of the third generation nuclear power technology; digestion, absorption and re-creation of technologies of large scale turbines, supercritical and ultra-supercritical coal-fired power, and large scale pumped-storage units; as well as to develop new power generation equipment such as wind power, coupled with the ability of self research and development, and the ability of enhancing core competitiveness.

The Group will adopt measures favorable to better management in each aspect. We will improve our project management, effectively co-ordinate internal and external resources, pledge to on time delivery of all products; continue to perfect the quality management system, enhance quality awareness, emphasis on the quality control during processes, and continue to improve product quality and the customer satisfaction level; we will focus on the strengthening of project cost management, to apply the cost control in each part of project implementation so as to effectively lower the cost and improve cost efficiency; following the “rapid and good” approach, the implementation of technologically reform projects, as represented by the second construction phase of Qinhuangdao, will be completed in good order. A meticulous implementation plan and tighter construction quality

control will ensure the operation of the nuclear production base in 2008, as well as a timely completion of various technological reform projects according to plans.

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2007, the Company's share capital in issue comprised 1,376,806,000 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	701,235,000	50.93%	Long position
HKSCC Nominees Limited	H share	666,458,598	48.41%	Long position

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

As at 30th June, 2007, none of the Directors, Supervisors or senior management, or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance).

MODEL CODE

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

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

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

EQUITY FINANCING

The Company further issued 102.355 million H shares on 2nd March 2007, with an issue price of HK\$10.00 each share, and the listing proceeds amounted to approximately HK\$1 billion. On the same day, controlling shareholders of the Company remitted 10.235 million shares of state share to National Social Security Fund and registered as H share.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

The Board's Audit Committee has reviewed the 2007 interim results of the Company.

AUDITORS

The Auditors of the Company are Yuehua Certified Public Accountants Company Limited. Auditor has reviewed the Company's 2007 interim results.

SHAREHOLDERS' MEETING

The Company's 2006 Annual General Meeting was held on 22nd June, 2007 in Harbin city, and the result of the meeting has been published on Wenweipo and China Daily (English version) on 25th June, 2007.

REFERENCE DOCUMENT

The original copies of interim report and audited financial statements for the six months ended 30th June, 2007 of the Company and the Articles of Association are available for inspection at Block B, 39 Sandadongli Road, Xiangfang District, Harbin, PRC.

By order of the Board

Gong Jing-kun

Chairman

Harbin, PRC, 10th August, 2007

REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF HARBIN POWER EQUIPMENT COMPANY LIMITED

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 9 to 24, which comprise the condensed consolidated balance sheet of Harbin Power Equipment Company Limited (the "Company"), its subsidiaries (together, the "Group") as at 30th June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Yuehua Certified Public Accountants Company Limited

Certified Public Accountants

Hong Kong, 10th August, 2007

HENG KWOO SENG

Practising Certificate Number: P01087

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

		Six months ended	
	Notes	30.6.2007 <i>Rmb'000</i> (unaudited)	30.6.2006 <i>Rmb'000</i> (unaudited)
Revenue	3	11,964,667	11,692,246
Cost of sales		(10,449,153)	(10,487,275)
Gross profit		1,515,514	1,204,971
Other income		128,137	108,652
Distribution costs		(143,148)	(143,236)
Administrative expenses	4	(570,584)	(563,932)
Finance costs		(38,233)	(18,897)
Share of results of associates		8,821	1,834
Profit before taxation		900,507	589,392
Income tax expense	5	(134,899)	(120,508)
Profit for the period	6	765,608	468,884
Attributable to:			
Equity holders of the parent		615,048	355,561
Minority interests		150,560	113,323
		765,608	468,884
Dividends	7	123,913	77,742
Earnings per share – basic	8	45.81 cents	27.90 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2007

	Notes	30.6.2007 Rmb'000 (unaudited)	31.12.2006 <i>Rmb'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,634,850	2,661,786
Investment properties		294,818	303,075
Prepaid lease payments		357,031	361,412
Patents	9	68,294	73,626
Interests in associates		104,756	168,448
Available-for-sale investments		42,022	30,947
		<hr/> 3,501,771	<hr/> 3,599,294
CURRENT ASSETS			
Inventories		12,615,138	11,503,691
Trade debtors	10	7,988,846	6,577,935
Other debtors, deposits and prepayments		5,563,125	6,366,065
Prepaid lease payments		10,589	10,589
Amounts due from customers for contract work		3,954,277	3,541,262
Amounts due from fellow subsidiaries		44,045	54,741
Restricted bank deposits		12,000	12,000
Pledged bank deposits		21,154	40,500
Bank deposits		1,188,159	581,209
Cash and cash equivalents		4,484,733	5,157,262
		<hr/> 35,882,066	<hr/> 33,845,254

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AT 30TH JUNE, 2007

	Notes	30.6.2007 Rmb'000 (unaudited)	31.12.2006 Rmb'000 (audited)
CURRENT LIABILITIES			
Amounts due to customers for contract work		554,340	687,187
Trade creditors	11	6,902,658	6,539,743
Other creditors and accrued charges		1,869,747	1,470,850
Deposits received		15,817,246	16,077,384
Amount due to holding company		249,186	274,551
Amounts due to shareholders		60,907	1,071
Amounts due to fellow subsidiaries		57,428	12,952
Advance from holding company		8,580	3,000
Tax liabilities		143,268	490,976
Borrowings-due within one year	12	378,500	501,117
		<u>26,041,860</u>	<u>26,058,831</u>
NET CURRENT ASSETS		<u>9,840,206</u>	<u>7,786,423</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>13,341,977</u>	<u>11,385,717</u>
CAPITAL AND RESERVES			
Share capital	13	1,376,806	1,274,451
Reserves		4,951,305	3,557,016
Equity attributable to equity holders of the parent		6,328,111	4,831,467
Minority interests		1,098,491	947,931
TOTAL EQUITY		<u>7,426,602</u>	<u>5,779,398</u>
NON-CURRENT LIABILITIES			
Deferred taxation		1,134	–
Deposits received		1,690,536	1,510,798
Borrowings-due after one year	12	4,000,105	3,871,921
Advance from holding company		223,600	223,600
		<u>5,915,375</u>	<u>5,606,319</u>
		<u>13,341,977</u>	<u>11,385,717</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

Attributable to equity holders of the parent (unaudited)										
	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, 2006	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 recognized income and expense 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
Attributable to equity holders of the parent (unaudited)										
	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, 2007	1,274,451	1,089,089	709,850	493,639	-	16,101	1,248,337	4,831,467	947,931	5,779,398
Profit for the period	-	-	-	-	-	-	615,048	615,048	150,560	765,608
Gain on fair value changes of available-for-sale investments, recognized directly in equity	-	-	-	-	-	11,948	-	11,948	-	11,948
Total recognized income and expense for the period	-	-	-	-	-	11,948	615,048	626,996	150,560	777,556
Issue of share capital	102,355	914,623	-	-	-	-	-	1,016,978	-	1,016,978
Share issue expense	-	(23,417)	-	-	-	-	-	(23,417)	-	(23,417)
Transfers	-	-	-	71,970	-	-	(71,970)	-	-	-
Dividends	-	-	-	-	-	-	(123,913)	(123,913)	-	(123,913)
At 30th June, 2007	1,376,806	1,980,295	709,850	565,609	-	28,049	1,667,502	6,328,111	1,098,491	7,426,602

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2007

	Six months ended	
	30.6.2007	30.6.2006
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(unaudited)	(unaudited)
Net cash used in operating activities	(904,187)	(1,880,228)
Net cash from investing activities		
Purchases of property, plant and equipment	(215,646)	–
Proceeds from disposal of available-for-sale investments	–	1,391,529
Purchases of available-for-sale investments	–	(7,500)
Other investing cash flows	(519,171)	(99,262)
	(734,817)	1,284,767
Net cash from financing activities		
Increase of borrowings	297,887	751,740
Repayment of borrowings	(292,320)	(60,649)
Proceeds from issue of shares	993,748	–
Other financing cash flows	(32,840)	(10,290)
	966,475	680,801
Net (decrease)/increase in cash and cash equivalents	(672,529)	85,340
Cash and cash equivalents brought forward	5,157,262	4,595,906
Cash and cash equivalents carried forward	4,484,733	4,681,246
Analysis of cash and cash equivalents		
Bank balances and cash	3,305,039	3,989,293
Bank deposits	1,179,694	691,953
	4,484,733	4,681,246

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

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 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, 2006.

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 HKICPA which are effective for the Group’s financial year beginning 1st January, 2007.

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

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating segments ¹
HK (IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK (IFRIC)-INT 12	Service concession arrangements ³

Note:

¹ Effective for annual periods beginning on or after 1st January, 2009

² Effective for annual periods beginning on or after 1st March, 2007

³ Effective for annual periods beginning on or after 1st January, 2008

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

3. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

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

Six months ended 30th June, 2007	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	9,532,045	747,864	1,056,927	169,531	458,300	-	11,964,667
Inter-segment sales	433,665	-	-	66,231	68,951	(568,847)	-
Total revenue	<u>9,965,710</u>	<u>747,864</u>	<u>1,056,927</u>	<u>235,762</u>	<u>527,251</u>	<u>(568,847)</u>	<u>11,964,667</u>
SEGMENT RESULTS	<u>1,287,751</u>	<u>80,213</u>	<u>29,171</u>	<u>42,943</u>	<u>75,436</u>	<u>-</u>	<u>1,515,514</u>
Unallocated corporate expenses							(585,595)
Finance costs							(38,233)
Share of results of associates	-	-	-	-	8,821	-	<u>8,821</u>
Profit before taxation							900,507
Income tax expense							<u>(134,899)</u>
Profit for the period							<u><u>765,608</u></u>

Six months ended 30th June, 2006	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 others <i>Rmb'000</i>	Eliminations <i>Rmb'000</i>	Consolidated <i>Rmb'000</i>
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 taxation							589,392
Income tax expense							(120,508)
Profit for the period							468,884

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 Rmb137,507,000 (2006: Rmb137,922,000) 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 Rmb15,706,000 (2006: Rmb51,234,000) in respect of the write-down of inventories to their estimated net realisable value.

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	
	30.6.2007	30.6.2006
	Rmb'000	Rmb'000
Profit before taxation	900,507	589,392
Tax charge at the enterprise income tax rate of 15%	135,076	88,409
Tax effect of share of results of associates	(1,323)	(275)
Additional enterprise income tax in respect of the income tax rate of 33% for certain subsidiaries	5,638	2,138
Tax effect of income not taxable for tax purpose	(15,233)	(2,363)
Tax effect of expenses not deductible for tax purpose	18,003	31,613
Effect of tax exemptions granted to a PRC subsidiary	(12,497)	–
Tax effect of tax losses not recognized	4,101	–
Deferred taxation	1,134	–
Underprovision in respect of prior years	–	986
Tax charge for the period	134,899	120,508

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 15% (2006: Nil).

6. PROFIT FOR THE PERIOD

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

	Six months ended	
	30.6.2007	30.6.2006
	Rmb'000	Rmb'000
Depreciation of property, plant and equipment	163,383	148,662
Depreciation of investment properties	8,257	7,662
Amortisation of prepaid lease payments	4,815	4,804
Amortisation of patents	9,651	4,891
Share of tax of associates (included in share of results of associates)	118	–
Interest and investment income	(70,099)	(71,055)
Gain on disposal of available-for-sale investments	–	(27,729)
Gain on disposal of property, plant and equipment	(1,143)	–

7. DIVIDENDS

	Six months ended	
	30.6.2007	30.6.2006
	Rmb'000	Rmb'000
Final dividend declared for 2005 of Rmb0.061 per share	–	77,742
Final dividend declared for 2006 of Rmb0.090 per share	123,913	–
	123,913	77,742

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2006: nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of Rmb615,048,000 (six months period ended 30th June, 2006: Rmb355,561,000) and on the weighted average number of shares 1,342,686,000 (30th June, 2006: 1,274,451,000 shares).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PATENTS

During the period, the Group disposed of certain plant and machinery with a carrying amount of Rmb2,632,000 for proceeds of Rmb1,489,000, resulting in a gain on disposal of Rmb1,143,000.

During the period, the Group spent approximately Rmb200 million 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 a boiler technology.

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:

	30.6.2007 Rmb'000	31.12.2006 <i>Rmb'000</i>
Within 1 year	5,776,358	5,066,049
1 to 2 years	2,114,807	1,409,499
2 to 3 years	84,016	84,295
Over 3 years	13,665	18,092
	<hr/> 7,988,846	<hr/> 6,577,935

11. TRADE CREDITORS

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

	30.6.2007 <i>Rmb'000</i>	31.12.2006 <i>Rmb'000</i>
Within 1 year	5,938,414	4,861,066
1 to 2 years	832,301	1,534,830
2 to 3 years	54,171	63,917
Over 3 years	77,772	79,930
	<u>6,902,658</u>	<u>6,539,743</u>

12. BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately Rmb300 million and made repayment of bank borrowings in the amount of approximately Rmb290 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

	30.6.2007 <i>Rmb'000</i>	31.12.2006 <i>Rmb'000</i>
Registered, issued and fully paid:		
State owned equity interest shares of		
Rmb1 each	701,235	711,470
H Shares of Rmb1 each	675,571	562,981
	<u>1,376,806</u>	<u>1,274,451</u>

The movements in share capital are as follows:

	Number of shares in issue	Issued share capital <i>Rmb'000</i>	Share premium <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2007	1,274,451,000	1,274,451	1,089,089	2,363,540
Issue of H shares	112,590,000	112,590	914,623	1,027,213
Share issue expenses	–	–	(23,417)	(23,417)
Conversion of state owned equity interest shares	(10,235,000)	(10,235)	–	(10,235)
At 30th June, 2007	<u>1,376,806,000</u>	<u>1,376,806</u>	<u>1,980,295</u>	<u>3,357,101</u>

On 2nd March 2007, 112,590,000 of the Company's H shares of Rmb1 each were issued at a price of HK\$10 (equivalent to approximately Rmb9.915) per share. Of all the newly issued H shares, 10,235,000 H shares were converted from the stated owned equity interest shares. The aggregate net proceeds were approximately HK\$1,002,268,000 (equivalent to approximately Rmb993,748,000) after deducting related expenses for the placing of approximately HK\$23,618,000 (equivalent to approximately Rmb23,417,000).

Pursuant to a resolution at the annual general meeting on 7th December 2006 and approvals from relevant government authorities, during the listing of the Company's H shares, certain of the Company's stated owned equity interest shareholders converted an aggregate of 10,235,500 state owned equity interest shares into H shares and offered them in the placement of the Company's H shares. Net proceeds of approximately Rmb99,375,000 obtained from the newly issued H shares were related to such conversion and such proceeds would be remitted to the National Council for the Social Security Fund in accordance with the relevant PRC government requirement.

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

14. CONTINGENT LIABILITIES

	30.6.2007 Rmb'000	31.12.2006 <i>Rmb'000</i>
Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	<u>186,340</u>	<u>186,340</u>

15. CAPITAL COMMITMENTS

	30.6.2007 Rmb'000	31.12.2006 <i>Rmb'000</i>
Capital expenditure for the acquisition of property, plant and equipment and investment properties:		
– contracted for but not provided in the financial statements	<u>476,625</u>	<u>336,953</u>

16. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged property, plant and equipment and investment properties having a net book value of approximately Rmb240,780,000 (2006: Rmb259,890,364) to secure certain of Group's trading facilities. There is no any bank deposits to secure certain of Group's trading facilities during the year (2006: Rmb40,500,000).

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 Rmb40,476,000 (2006: Rmb21,450,000). At the balance sheet date, credit facilities granted by certain banks to the Company were secured by corporate guarantee given by HPEGC.

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-controlled entities”). In addition, the Group itself is part of a larger group of companies under HPEGC, which is controlled by the PRC government. Apart from the transactions with HPEGC and fellow subsidiaries disclosed in section (i) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group’s business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counterparty is a state-controlled entity or not.

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

	Six months ended	
	30.6.2007	30.6.2006
	Rmb’000	Rmb’000
Trade sales	9,416,150	9,353,780
Trade purchases	<u>4,932,330</u>	<u>4,232,450</u>
Amounts due to other state-controlled entities	19,336,225	21,652,273
Amounts due from other state-controlled entities	<u>9,855,230</u>	<u>8,539,221</u>

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY

哈爾濱動力設備股份有限公司

ENGLISH NAME OF THE COMPANY

Harbin Power Equipment Company Limited

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Registration No. 2301001003796

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Gong Jing-kun

AUTHORISED REPRESENTATIVES

Qu Da-zhuang
Ma Sui

COMPANY SECRETARY

Ma Sui

AUDITORS

**Yuehua Certified Public Accountants
Company Limited**

LEGAL ADVISORS

as to PRC Law
Haiwen Partners

as to Hong Kong Law
Richards Butler

LISTING INFORMATION

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

DEPOSITARY

The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE

Hong Kong Registrars Limited