哈爾濱動力設備股份有限公司
Harbin Power Equipment Company Limited
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1133)

HARBIN POWER EQUIPMENT COMPANY LIMITED

Interim Report

For the six-months ended 30th June, 2008

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, 2008, 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, 2008, the Group recorded net consolidated profit of Rmb558.08 million, a decrease of 9.26 per cent over the same period last year. Profit per share recorded Rmb0.41, a decrease of Rmb0.05 over the same period last year. The net assets at the end of the term recorded Rmb7,649.27 million, an increase of Rmb436.28 million over the beginning of the year. Net assets per share recorded Rmb5.56, an increase of Rmb0.32 over the beginning of the year.

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the period ended 30th June, 2008.

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH JUNE, 2008

	Notes	30.6.2008 Rmb'000 (unaudited)	31.12.2007 Rmb'000 (audited)
NON-CURRENT ASSETS			

CONDENSED CONSOLIDATED BALANCE SHEET – (continued)
AT 30TH JUNE, 2008

	Notes	30.6.2008 Rmb'000 (unaudited)	31.12.2007 Rmb'000 (audited)

1. BASIS OF PREPARATION

The condensed consolidated 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

2. PRINCIPAL ACCOUNTING POLICIES – (continued)

Note
[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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, 2008	Main thermal power equipment	Main hydro power equipment	Engineering services for power stations	Ancillary equipment for power stations	AC/DC motors and others	Eliminations	Consolidated
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
REVENUE							
External sales	9,927,798	772,059	1,273,676	214,744	668,425	-	12,856,702
Inter-segment sales	482,241	-	-	-	97	(482,338)	-

Total revenue	10,410,039	772,059	1,273,676	214,744	668,522	(482,338)	12,856,702
SEGMENT RESULTS	1,642,138	156,126	11,813	54,641	118,515	-	1,983,233
Unallocated corporate expenses							(1,028,762)
Finance costs							(97,936)
Share of results of associates	-	-	-	-	4,821	-	4,821
Profit before taxation							861,356
Income tax expense							(163,821)
Profit for the period							697,535

3. SEGMENT INFORMATION – (continued)

Six months ended 30th June, 2007	Main thermal power equipment	Main hydro power equipment	Engineering services for power stations	Ancillary equipment for power stations	AC/DC motors and others	Eliminations	Consolidated
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	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	9,965,710	747,864	1,056,927	235,762	527,251	(568,847)	11,964,667
SEGMENT RESULTS	1,287,751	80,213	29,171	42,943	75,436	-	1,515,514
Unallocated corporate expenses							(585,595)
Finance costs							(38,233)
Share of results of associates	-	-	-	-	8,821	-	8,821
Profit before taxation							900,507
Income tax expense							(134,899)
Profit for the period							765,608

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 Rmb139,834,000 (2007: Rmb137,507,000) 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 Rmb14,207,000 (2007: Rmb15,706,000) in respect of the write-down of

inventories to their estimated net realisable value.

5. INCOME TAX EXPENSE

(a) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended 30th June, 2008.

(b) Income tax in the consolidated income statement represents the provision of PRC income tax as follows:

The new Enterprise Income Tax Law of the People's Republic of China was effective on 1 January 2008. The

6.

11. TRADE CREDITORS

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

	30.6.2008	31.12.2007
	Rmb'000	Rmb'000
Within 1 year	5,475,360	3,522,251
1 to 2 years	608,290	1,298,712
2 to 3 years	640,214	305,767
Over 3 years	379,947	140,661
	7,103,811	5,267,391

12. BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately Rmb6,847,000 million and made repayment of bank borrowings in the amount of approximately Rmb686,421,000 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

	30.6.2008	31.12.2007
	Rmb'000	Rmb'000
Registered, issued and fully paid:		
State owned equity interest shares of Rmb1 each	701,235	701,235
H Shares of Rm/P.7(es)10(of)7(R)7(m/P03 Tw 1.427 0 Td(H)9(es)10(of)7(Rs67(2iB150 8.2806 Tm( )TjETEMC /5EMC /P /MCID 4		

Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	168,890	168,890

15. CAPITAL COMMITMENTS

	30.6.2008	31.12.2007
	Rmb'000	Rmb'000
Capital expenditure for the acquisition of property, plant and equipment and investment properties:		
– contracted for but not provided in the financial statements	468,494	909,275

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 Rmb226,829,000 (2007: Rmb267,394,000) to secure certain of Group's trading facilities. There is Rmb229,485,000 (2007: Rmb169,684,000) bank deposits to secure certain of Group's trading facilities during the year.

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 Rmb58,210,000 (2007: Rmb40,476,000). 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 counter-party is a state-controlled entity or not. Material transactions/balances with other state-controlled entities are as follows:

	Six months ended	
	30.6.2008	30.6.2007
	Rmb'000	Rmb'000

Trade sales	10,752,506	9,416,150
Trade purchases	4,738,677	4,932,330
Amounts due to other state-controlled entities	21,680,567	19,336,225
Amounts due from other state-controlled entities	11,935,944	9,855,230

BUSINESS REVIEW

For the first half of 2008, the global economy faces a significant downturn, despite China's GDP continues to maintain stable growth at a year-on-year rate of 10.4 per cent. During the first half of the year, as market demand for domestic and overseas power generation grows, development continues to target at high parameter, low pollution, high capacity and environmentally friendly nuclear power generation equipment. Meanwhile, rising steel material and energy prices, global shortage of special steel materials and Renminbi appreciation have caused an unfavorable impact on our operations.

NEW CONTRACTS

For the first half of 2008, the power generation equipment market continues to maintain an upward momentum. The newly acquired orders of the Group amounted to RMB34.3 billion, representing an increase of 55 per cent over the same period last 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 13,875MW (34 units), an increase of 5.43 per cent over the same period last year. The output in power plant turbine was 10,654MW (36 units), a decrease of 11.66 per cent over the same period last year. The output in power plant turbine generator was 12,715MW (34 units), an increase of 37.65 per cent over the same period last year. The output in hydropower turbine generator units was 2,978.15MW (24 units/sets), an increase of 28.09 per cent over the same period last year.

TURNOVER AND COST

For the first half of 2008, the Group recorded a turnover of Rmb12,856.70 million, an increase of 7.46 per cent over the same period last year. Among which, turnover from thermal power main units was Rmb9,927.80 million, an increase of 4.15 per cent over the same period last year, represented 77 per cent of the Group's total turnover; turnover from hydropower main units was Rmb772.06 million, an increase of 3.24 per cent, represented 6 per cent of the Group's total turnover and turnover from power plant engineering and services was Rmb1,273.68 million, an increase of 20.51 per cent, represented 10 per cent of the Group's total turnover. And turnover from power plant auxiliaries and parts was Rmb214.74 million, an increase of 26.67 per cent, represented 2 per cent of the Group's total turnover. The turnover from AC/DC motor and

other products and services was Rmb668.43 million, an increase of 45.85 per cent over the same period last year, represented 5 per cent of the Group's total turnover. 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 Rmb1,310.41 million, represented 10.19 per cent of the Group's total turnover. The main export destinations were countries in Asia and Africa.

During the period under review, the turnover of the Group was Rmb10,873.47 million, an increase of 4.06 per cent over the same period last year.

GROSS PROFIT AND PROFIT MARGIN

During the period under review, the Group's gross profit of sales was Rmb1,983.23 million, an increase of 30.86 per cent over the same period last year. The profit margin was 15.43 per cent, an increase of 2.76 per cent over the same period last year.

Among which, the gross profit for thermal power main units was Rmb1,642.14 million and the profit margin was 16.54 per cent, an increase of 3.03 per cent over the same period last year. The gross profit for hydro power main units was Rmb156.13 million and the profit margin was 20.22 per cent, an increase of 9.49 per cent over the same period last year. The gross profit for power plant engineering and services was Rmb11.81 million and the profit margin was 0.93 per cent, a decrease of 1.83 per cent over the same period last year. The gross profit for power plant auxiliaries and parts was Rmb54.64 million and the profit margin was 25.44 per cent, an increase of 0.11 per cent over the same period last year. The gross profit for AC/DC motor and other products and services was Rmb118.52 million and the profit margin was 17.73 per cent, an increase of 1.27 per cent over the same period last year. The increase in profit margin was attributable to the ongoing 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 Rmb1,187.27 million, an increase of RMB473.54 million or 66.35 per cent over the same period last year. The increase was caused by exchange loss and the increase of allowance.

ASSETS AND LIABILITIES

As at 30th June, 2008, the total assets of the Group amounted to Rmb47,882.97 million, an increase of Rmb5,792.48 million and 13.76 per cent as compared to the beginning of 2008. Among which, the total current assets were Rmb43,587.52 million, representing 91.03 per cent of the total assets. The total non-current assets were Rmb4,295.45 million, representing 8.97 per cent of the total assets. The Group's liabilities totaled Rmb38,900.59 million, an increase of Rmb5,222.51 million over the beginning of the year. Among which, the total current liabilities were Rmb32,963.34 million, representing 84.74 per cent of the total liabilities. The non-current liabilities were Rmb5,937.25 million, representing 15.26 per cent of the total liabilities. As at 30th June, 2008, the Group's assets/liabilities ratio was 81.24 per cent.

DEPOSITS AND CASH INFLOW

As at 30th June, 2008, the bank deposits and cash of the Group amounted to Rmb8,460.90 million, a decrease of RMB1,160.64 million over the beginning of the year. Among which, the time deposits were Rmb574.59 million. During the period, the net cash from operating activities amounted to Rmb142.73 million. The net cash used in financing activities amounted to Rmb748.64 million and the net cash used in investment activities was Rmb189.32 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, 2008, the total sums of the Group's borrowings are Rmb4,083.70 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 Rmb599.08 million, a decrease of Rmb154.31 million over the beginning of the year. The Group's borrowings due after one year were Rmb3,484.62 million, a decrease of Rmb525.27 million over the beginning of the year. The Group's amounts due to customers were Rmb23,922.41 million, an increase of Rmb5,118.42 million.

GEARING RATIO

As at 30th June, 2008, the Group's gearing ratio (computed on non-current liabilities/total shareholders' equity) was 0.78:1, as compared to that of 0.80:1 at the beginning of the year.

INCOME TAX

As a high new-tech enterprise, the Company and its major subsidiaries are subject to the income tax rate of 15%. Pursuant to the relevant requirements of *Implementation Regulations of the Enterprise Income Tax Law*, the Company and its subsidiaries are under reassessment of being a high new-tech enterprise. If the reassessment is successful, the Company and its subsidiaries will continue to enjoy the income tax rate of 15%; otherwise the tax rate will be increased gradually to 25% over a transitional period of 5 years.

STAFF

As at 30th June, 2008, the employees of the Group totaled 16,880.

SOCIAL RESPONSIBILITIES

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	674,312,598	48.98%	Long position

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

As at 30th June, 2008, 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

The Board of the Company appointed Yuehua Certified Public Accountants Company Limited and China Rightson YueHua Certified Public Accountants Company Limited as the auditors of the Company for the year 2008 according to the authority of the Shareholders' General Meeting. Auditors have reviewed the interim results.

SHAREHOLDERS' MEETING

The Company's 2007 Annual General Meeting was held on 6th June, 2008 in Harbin city, and the result of the meeting has been published on Wenweipo and China Daily (English version) on 9th June, 2008.

REFERENCE DOCUMENT

The original copies of interim report and audited financial statements for the six months ended 30th June, 2008 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, 29th August, 2008
At the date of this announcement, the Directors of the Company are
GongJing-kun, qudazhuang,duanhongyi, shangzhongfu, wuweizhang, zhoudaojiong,jiachengbing , lihejun, dingxuemei, jiangkui