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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 operating results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2010, which were prepared in accordance with accounting principles generally accepted in Hong Kong. Such operating results have not been audited but have been reviewed by Yuehua CPA Limited.

## OPERATING RESULTS

For the six months ended 30th June, 2010, the Group recorded a net profit of Rmb446.66 million, an increase of 107.24% as compared with the same period last year. Earnings per share amounted to Rmb0.32, an increase of Rmb0.16 as compared with the same period last year. Net assets at the end of the period amounted to Rmb9,059.94 million, an increase of Rmb420.92 million over the beginning of the year. Net assets per share amounted to Rmb6.58, an increase of Rmb0.31 over the beginning of the year. The increase in profit during the period was mainly attributable to the improvement of sales income and gross profit margin.

## INTERIM DIVIDEND

The Board does not recommend an interim dividend for the period ended 30th June, 2010.

## BUSINESS REVIEW

In the first half of 2010, China’s GDP increased by 11.1% year on year. The Chinese government proactively coped with the adverse effects on the economic development caused by the global financial crisis and overcame various difficulties to speed up the shift in economic development mode and structural adjustment. As a result, the economic development in the PRC has been powerfully boosted, and the prospect of China’s economy remains positive.

Meanwhile, demand in the power equipment market was rapidly shifting to environmental, efficient and renewable products. The equipments for alternative energies such as nuclear power and wind power were in great demand, while the demand for conventional thermal power equipment declined with a relatively stronger demand from the international market.

All financial indexes of the Company for the first half-year have increased in different extents due to the improvement in sales income and gross profit margin.

## NEW CONTRACTS

During the first half of the year, the value of new contracts secured by the Group amounted to Rmb15.43 billion, representing an increase of 17.00% as compared with the same period last year. The power equipment market has entered into a consolidating period after two years' rapid growth, with the demand declined significantly.

## PRODUCTION AND SERVICES

The Group's production during the first half of the year remained relatively high, among which the total output of boilers grew up while the steam turbines and mortors declined compared with the same period last year. 33 utility boilers with a total capacity of 12,280MW, an increase of 28.79% as compared with the same period last year; 26 steam turbine for power stations with a total capacity of 10,741.5MW, a decrease of 3.16% over the same period last year; 22 steam turbine generators with a total capacity of 8,715MW, an decrease of 21.2% as compared with the same period last year; and 18 sets of hydro generator unit with a total capacity of 1,847.56MW, a decrease of 32.01% as compared with the same period last year, were completed during the period.

## TURNOVER AND COST

For the first half of 2010, the Group recorded a turnover from principal business activities of Rmb14,529.32 million, representing an increase of 13.14% as compared with the same period last year. In particular, turnover of main thermal power equipment was Rmb10,131.51 million, an increase of 4.13% as compared with the same period last year; turnover of main hydro power equipment was Rmb986.84 million, an increase of 20.36% over the same period last year; turnover of power plant engineering services was Rmb2,033.46 million, an increase of 56.69% over the same period last year; and turnover of power plant auxiliary equipment was Rmb405.71 million, an increase of 58.06% over the same period last year. The turnover of AC/DC motors and other products and services was Rmb971.8 million, an increase of 31.59% over the same period last year.

During the period, the export sales of the Group amounted to Rmb2,272.65 million and accounted for 15.64% of the Group's total turnover. The major export destinations were countries such as India and Indonesia.

During the period, the cost of the principal operations of the Group was Rmb12,569.53 million, an increase of 11.32% over the same period last year and slightly lower than growth in income from principal operations.

## GROSS PROFIT AND GROSS PROFIT MARGIN

During the period, the Group's gross profit from its principal business activities was Rmb1,959.79 million, an increase of 26.39% as compared with the same period last year. The gross profit margin was 13.49%, an increase of 1.42 percentage points as compared with the same period last year.

Among them, the gross profit from thermal power main equipment was Rmb1,441.79 million and the gross profit margin was 14.23%, an increase of 1.77 percentage points as compared with the same period last year. The gross profit from hydro power main equipment was Rmb225.44 million and the gross profit margin was 22.84%, an increase of 2.60 percentage points as compared with the same period last year. The gross profit from power plant engineering service was Rmb24.41 million and the gross profit margin was 1.20%, an increase of 0.90 percentage points as compared with the same period last year. The gross profit from power plant auxiliary equipment was Rmb97.03 million and the gross profit margin was 23.92%, an increase of 2.05 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was Rmb171.11 million and the gross profit margin was 17.61%, an increase of 2.45 percentage points as compared with the same period last year.

## EXPENSES DURING THE PERIOD

For the first half of the year, the Group's operational and administrative expense amounted to Rmb1,290.07 million, an increase of Rmb144.54 million or 12.62% as compared with the same period last year.

## ASSETS AND LIABILITIES

As at 30th June 2010, the total assets of the Group amounted to Rmb51,811.95 million, a decrease of Rmb1,064.43 million or 2.01% over the beginning of 2010, among which the current assets were Rmb46,258.1 million, representing 89% of the total assets. The non-current assets were Rmb5,553.85 million, representing 11% of the total assets.

The Group's total liabilities amounted to Rmb41,380.57 million, a decrease of Rmb1,278.55 million over the beginning of the year, among which the current liabilities amounted to Rmb29,818.44 million, representing 72% of the total liabilities. The non-current liabilities were Rmb11,562.13 million, representing 28% of the total liabilities. As at 30th June 2010, the Group's assets/liabilities ratio was 79.87%.

## DEPOSITS AND CASH FLOW

As at 30th June 2010, the bank deposits and cash of the Group amounted to Rmb12,405.29 million, a decrease of Rmb1,760.44 million over the beginning of the year, among which time deposits accounted for Rmb2,620million. During the period, the Group's net cash outflow from operating activities amounted to Rmb1,159.92 million. The net cash outflow from financing activities amounted to Rmb291.42 million and the net cash inflow from investment activities was Rmb624.49 million.

## FUNDING AND BORROWING

The Group has three major sources for operation and development funding, namely shareholders' capital, trade receivable from the customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, the advance approval from the parent company for capital investment borrowings is required. As at 30th June 2010, the Group's total bank borrowings amounted to Rmb3,747.23 million, all of which were borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among the Group's borrowings, the amounts due within one year was Rmb948.17 million, a decrease of Rmb340.41 million as compared with the beginning of the year. The amount of the Group's borrowings due after one year was 2,799.06 million, an increase of Rmb91.96 million as compared with the beginning of the year. The Group's amounts received in advance were Rmb22,416 million, a decrease of Rmb919.23 million over the beginning of the year.

## GEARING RATIO

As at 30th June 2010, the Group's gearing ratio (calculated as non-current liabilities over total shareholders' equity) was 1.28:1, as compared to 1.35:1 at the beginning of the year.

## INCOME TAX

According to the provisions of Administrative Measures with regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration for Taxation of the PRC on 14th April 2008 and the Administrative Guidance with Regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on 8th July 2008, 6 subsidiaries of the Company including Harbin Electric Machinery Co., Ltd, Harbin Boiler Co., Ltd, Harbin Turbine Co., Ltd, Harbin Electric Machinery AC-DC Motor Co., Ltd and HE Harbin Power Plant Valve Co., Ltd were re-recognised as High and New technology enterprises, which entitles the Company to a 15% preferential income tax rate and this is significant to the long-term development of the Company.

According to the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (《中華人民共和國增值稅暫行條例》) effective from 1st January 2009 issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 18th December 2008, the Company and its major subsidiaries were included in the general scope of transformation of value added tax. These companies will implement the new Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) and are allowed to rebate their value-added tax incurred from the purchase of equipment. Other incentive policies promulgated by various divisions of the state to implement the Opinions of Central Committee of the Communist Party of China and the State Council on the Revitalization Strategies for Historical Industrial Bases of the Northeast Regions (《中共中央、國務院關於實施東北地區等老工業基地振興戰略的若干意見》) (Zhong Fa [2003] No.11) will remain effective.

## STAFF

As at 30th June 2010, the employees of the Group totaled 18,766.

## PROSPECT

In the second half of 2010, it is expected that the Chinese government will continue to implement the proactive fiscal policy and the moderate loose monetary policy, promote the structure transformation and the growth pattern shift and deepen the reform of the economic system, so as to keep the steady and rapid development of the economy.

With an accelerated pace of adjustment of the national energy consumption structure, the power equipment manufacturing enterprises will face double challenges in maintaining the stable growth in their operating results and making adjustment to their products mix.

In the second half of the year, the Company will continue to actively expand domestic and international markets, consolidate its traditional markets and speed up the development of new markets. And the nuclear project currently under progress will be a priority. The Company will implement effective measures to improve the quality of its operation and integrate its internal resources. Furthermore, the Company will undertake a comprehensive internally controlled auditing project, promote the establishment of an internal control system, further strengthen its cost control, and improve its management standard and ability to mitigate risks.

In the second half of 2010 as well as the coming years, the Company will persist in improving its self-innovation ability to develop new product and accelerating the adjustment to its products structure so as to optimize the industrial structure and improve its core competitiveness.

The Board will strive to create a supportive environment for the Company's management to lead the entire staff to fight for further growth. The Board is fully confident in this regard.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2010, the company's share capital in issue comprised 1,376,806,000 shares. The major shareholders included:

Name of shareholder	Share category	Number of shares	Percentage in total share capital (%)	Position of shares held
Harbin Electric Corporation	State-owned shares	701,235,000	50.93%	Long position
HKSCC Nominees Limited	H shares	666,458,598	48.41%	Long position



## **DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

As at 30th June 2010, none of the Directors, Supervisors or senior management, or any of their associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance).

## **MODEL CODE**

After making enquiries to the directors, all directors have complied with the provisions of the Model Code set out in Appendix 10 of the Listing Rules during the period.

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

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

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

## **AUDIT COMMITTEE**

The members of the Audit Committee of the Company are Li He-jun, Liu Deng-qing and Duan Hong-yi. The Board's Audit Committee has reviewed these interim results.

## **AUDITORS**

The Board of the Company has appointed Yuehua CPA Limited and China Rightson YueHua Certified Public Accountants Company Limited as the auditors of the Company for the interim period of the year 2010 according to the authority given at the Shareholders' General Meeting. The auditors have reviewed the interim results.

## SHAREHOLDERS'S MEETING

The Company's 2009 Annual General Meeting and 2009 Extraordinary General Meeting were held on 3rd June 2010 in Harbin, and the results of the meetings have been published on the websites of the Hong Kong Stock Exchange and the Company.

## DOCUMENTS AVAILABLE FOR INSPECTION

The original copies of the interim report and the reviewed financial statements for the six months ended 30th June 2010 of the Company and the Articles of Association are available for inspection at Block B, 39 Sandadongli Road, Xiangfang District, Harbin, the PRC.

By order of the Board

**Gong Jing-kun**

*Chairman*

Harbin, the PRC, 6th August, 2010

# REPORT ON REVIEW OF 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 10 to 25, which comprises the condensed consolidated statement of financial position of Harbin Power Equipment Company Limited (the "Company") and its subsidiaries (together, the "Group") as of 30th June, 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows 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 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. 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.

### SCORE 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.

#### **YUEHUA CPA LIMITED**

*Certified Public Accountants*

Hong Kong, 6th August, 2010

#### **HENG VICTOR JA WEI**

Practising Certificate Number: P05273

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

		Six months ended	
	Notes	30.6.2010 <i>R b'000</i> (unaudited)	30.6.2009 <i>Rmb'000</i> (unaudited)
Revenue	3	14,529,321	12,842,125
Cost of sales		<u>(12,569,532)</u>	<u>(11,291,584)</u>
Gross profit		1,959,789	1,550,541
Other income		173,865	131,730
Distribution costs		(229,173)	(127,560)
Administrative expenses	4	(1,060,893)	(1,017,970)
Other expenses		(110,616)	(78,906)
Finance costs		(77,790)	(82,825)
Share of results of associates		<u>7,574</u>	<u>9,663</u>
Profit before taxation		662,756	384,673
Income tax expense	5	<u>(141,338)</u>	<u>(76,990)</u>
<b>Profit and Total comprehensive income for the period</b>	6	<u><b>521,418</b></u>	<u><b>307,683</b></u>
Attributable to:			
Equity holders of the parent		446,658	215,530
Non-controlling interests		<u>74,760</u>	<u>92,153</u>
		<u><b>521,418</b></u>	<u><b>307,683</b></u>
<b>Earnings per share – basic</b>	8	<u><b>32.44 cents</b></u>	<u><b>15.65 cents</b></u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2010

	Notes	30.6.2010 <i>R b'000</i> (unaudited)	31.12.2009 <i>Rmb'000</i> (audited)
<b>Non-currents assets</b>			
Property, plant and equipment	9	4,407,827	4,261,254
Investment properties		236,561	248,724
Prepaid lease payments		337,528	342,018
Patents		92,837	98,881
Deferred tax assets		130,419	133,932
Interests in associates		321,605	179,079
Available-for-sale investments		27,074	27,074
		<u>5,553,851</u>	<u>5,290,962</u>
<b>Current assets</b>			
Inventories		12,908,305	14,230,160
Trade debtors	10	13,191,882	12,168,981
Bills receivable		515,198	600,844
Other debtors, deposits and prepayments		5,876,613	4,852,058
Prepaid lease payments		9,778	10,176
Amounts due from customers for contract work		1,113,538	947,326
Amounts due from fellow subsidiaries		64,991	76,908
Restricted bank deposits		–	7,006
Pledged bank deposits		172,505	526,229
Bank deposits		2,620,000	3,553,595
Cash and cash equivalents		9,785,289	10,612,136
		<u>46,258,099</u>	<u>47,585,419</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30TH JUNE, 2010

	Notes	30.6.2010 <b>R b'000</b> (unaudited)	31.12.2009 <i>Rmb'000</i> (audited)
<b>Current liabilities</b>			
Amounts due to customers for contract work		245,517	509,964
Trade creditors	11	10,407,435	10,166,545
Other creditors and accrued charges		3,162,570	3,173,130
Deposits received		14,478,885	15,216,864
Amounts due to fellow subsidiaries		32,464	51,757
Advance from holding company		20,478	20,478
Borrowings – due within one year	12	948,173	1,288,579
Tax payables		522,918	592,313
		<u>29,818,440</u>	<u>31,019,630</u>
<b>Net current assets</b>		<u>16,439,659</u>	<u>16,565,789</u>
<b>Total assets less current liabilities</b>		<u>21,993,510</u>	<u>21,856,751</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	1,376,806	1,376,806
Reserves		<u>7,683,137</u>	<u>7,262,220</u>
Equity attributable to equity holders of the parent		9,059,943	8,639,026
Non-controlling interests		<u>1,371,435</u>	<u>1,578,236</u>
<b>TOTAL EQUITY</b>		<u>10,431,378</u>	<u>10,217,262</u>
<b>Non-current liabilities</b>			
Deposits received		7,937,117	8,118,370
Advance from holding company		825,958	814,020
Borrowings-due after one year	12	<u>2,799,057</u>	<u>2,707,099</u>
		<u>11,562,132</u>	<u>11,639,489</u>
		<u>21,993,510</u>	<u>21,856,751</u>



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30TH JUNE 2010

	Six months ended	
	30.6.2010	30.6.2009
	<i>R b'000</i>	<i>Rmb'000</i>
	(unaudited)	(unaudited)
Net cash (used in) / from operating activities	<u>(1,159,921)</u>	<u>1,156,779</u>
Net cash from / (used in) investing activities		
Purchases of property, plant and equipment	(444,626)	(307,109)
Other investing cash flows	<u>1,069,119</u>	<u>(904,471)</u>
	<u>624,493</u>	<u>(1,211,580)</u>
Net cash (used in) / from financing activities		
Increase in bank borrowings	53,000	395,248
Repayment of borrowings	(697,735)	(442,674)
Other financing cash flows	<u>353,316</u>	<u>172,775</u>
	<u>(291,419)</u>	<u>125,349</u>
Net (decrease)/increase in cash and cash equivalents	(826,847)	70,548
Cash and cash equivalents brought forward	<u>10,612,136</u>	<u>7,221,676</u>
Cash and cash equivalents carried forward	<u>9,785,289</u>	<u>7,292,224</u>
Analysis of cash and cash equivalents		
Bank balances and cash	6,195,289	6,316,733
Bank deposits	<u>3,590,000</u>	<u>975,491</u>
	<u>9,785,289</u>	<u>7,292,224</u>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the accounting principles and practices generally accepted in the United Kingdom.

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

The adoption of other new and revised HKFRSs has 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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK (IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

*Note*

<sup>1</sup> Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1st February, 2010

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2010

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2011

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2013

The directors of the Group anticipate that the application of these new and revised 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, 2010 (Unaudited)	Main thermal power equipment R b'000	Main hydro power equipment R b'000	Engineering services for power stations R b'000	Ancillary equipment for power stations R b'000	AC/DC motors and others R b'000	Eliminations R b'000	Consolidated R b'000
<b>REVENUE</b>							
External sales	10,131,511	986,845	2,033,463	405,706	971,796	-	14,529,321
Inter-segment sales	1,109,889	-	-	-	88,028	(1,197,917)	-
Total revenue	11,241,400	986,845	2,033,463	405,706	1,059,824	(1,197,917)	14,529,321
<b>SEGMENT RESULTS</b>	1,441,793	225,444	24,412	97,026	171,114	-	1,959,789
Unallocated corporate expenses							(1,226,817)
Finance costs							(77,790)
Share of results of associates	-	-	-	-	7,574	-	7,574
Profit before taxation							662,756
Income tax expense							(141,338)
Profit for the period							521,418

Six months ended 30th June, 2009 (Unaudited)	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>
<b>REVENUE</b>							
External sales	9,729,331	819,888	1,297,754	256,675	738,477	–	12,842,125
Inter-segment sales	250,868	–	–	–	–	–	–

## 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, 2010.
- (b) Income tax in the consolidated statement of comprehensive income represents the provision of PRC income tax as follows:

On 21st November, 2008, the Company was named as one of the High and New Technical Enterprise (高新技術企業). According to the PRC Law on Enterprise Income Tax promulgated on 16th March, 2007, the Company is entitled to a concessionary rate of income tax at 15% over 3 years, beginning on 1st January, 2008. The Company was subject to 15% PRC corporate income tax in 2009 and 2010.

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15% (2009: 15%).

## 6. PROFIT FOR THE PERIOD

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

	Six months ended	
	30.6.2010	30.6.2009
	<i>R b'000</i>	<i>Rmb'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	216,824	170,156
Depreciation of investment properties	7,964	9,087
Amortisation of prepaid lease payments	4,888	4,830
Amortisation of patents	7,013	7,891
(Write back of provision)/Provision against inventories	(37,830)	36,600
Share of tax of associates (included in share of results of associates)	1,286	2,069
Interest and investment income	(155,198)	(116,324)
Gain on disposal of property, plant and equipment	(2,164)	(190)

## 7. DIVIDENDS

	Six months ended	
	30.6.2010	30.6.2009
	<i>R b'000</i>	<i>Rmb'000</i>
	(unaudited)	(unaudited)
Final dividend declared for 2009 of Rmb0.068 per share	93,623	–
Final dividend declared for 2008 of Rmb0.075 per share	–	103,260
	<u>93,623</u>	<u>103,260</u>

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2009: nil).

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of Rmb446,658,000 (six months period ended 30th June, 2009: Rmb215,530,000) and on the weighted average number of shares 1,376,806,000 (30th June, 2009: 1,376,806,000 shares).

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and machinery with a carrying amount of Rmb1,690,000 for proceeds of Rmb3,854,000, resulting in a gain on disposal of Rmb2,164,000.

During the period, the Group spent approximately Rmb444 million mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

## 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 end of the reporting period:

	<b>30.6.2010</b> <b>R b'000</b> <b>(unaudited)</b>	<b>30.6.2009</b> <b>Rmb'000</b> <b>(audited)</b>
Within 1 year	<b>5,986,371</b>	5,506,511
1 to 2 years	<b>5,076,605</b>	4,816,263
2 to 3 years	<b>1,428,657</b>	1,147,185
Over 3 years	<b>700,249</b>	699,022
	<b><u>13,191,882</u></b>	<b><u>12,168,981</u></b>

## 11. TRADE CREDITORS

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

	<b>30.6.2010</b> <b>R b'000</b> <b>(unaudited)</b>	<b>30.6.2009</b> <b>Rmb'000</b> <b>(audited)</b>
Within 1 year	<b>7,730,889</b>	6,941,123
1 to 2 years	<b>1,854,021</b>	2,877,157
2 to 3 years	<b>603,802</b>	267,834
Over 3 years	<b>218,723</b>	80,431
	<b><u>10,407,435</u></b>	<b><u>10,166,545</u></b>

## 12. BORROWINGS

During the period, included in the borrowings, the Group obtained new bank borrowings in the amount of approximately Rmb53 million and made repayment of bank borrowings in the amount of approximately Rmb698 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

	30.6.2010 <i>R b'000</i> (unaudited)	30.6.2009 <i>Rmb'000</i> (audited)
Registered, issued and fully paid:		
State owned equity interest shares of		
Rmb1 each	701,235	701,235
H Shares of Rmb1 each	<u>675,571</u>	<u>675,571</u>
	<u>1,376,806</u>	<u>1,376,806</u>

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

	30.6.2010 <i>R b'000</i> (unaudited)	30.6.2009 <i>Rmb'000</i> (audited)
Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	<u>5,000</u>	<u>5,000</u>



## 15. CAPITAL COMMITMENTS

	30.6.2010 <i>R b'000</i> (unaudited)	30.6.2009 <i>Rmb'000</i> (audited)
Capital expenditure for the acquisition of property, plant and equipment and investment properties:		
– contracted for but not provided in the condensed consolidated financial statements	<u>417,306</u>	<u>414,039</u>

## 16. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged property, plant and equipment and investment properties having a net book value of approximately Rmb197,931,000 (2009: Rmb204,652,000) to secure certain of Group's trading facilities. There is Rmb172,505,000 (2009: Rmb526,229,000) 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 sales to subsidiaries of Harbin Electric Corporation ("HE") amounting to approximately Rmb11,225,000 (2009: Rmb10,911,000).

In the current period, the Group made purchases from subsidiaries of HE amounting to approximately Rmb65,716,000 (2009: Rmb60,343,000). At the end of the reporting period, credit facilities granted by certain banks to the Company were secured by corporate guarantee given by HE.

Pursuant to the services agreements signed with HE, the service fees paid to and received from HE and its subsidiaries amounted to approximately Rmb20,800,000 (2009: Rmb 23,800,000) and Rmb5,472,000 (2009: Rmb4,131,000) respectively.

- (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 HE, which is controlled by the PRC government. Apart from the transactions with HE 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:

	<b>Six months ended</b>	
	<b>30.6.2010</b>	30.6.2009
	<b>R b'000</b>	Rmb'000
Trade sales	<b>12,203,879</b>	10,858,173
Trade purchases	<b><u>4,309,239</u></b>	<u>4,791,351</u>
Amounts due to and deposits received from other state-controlled entities	<b>21,066,661</b>	22,172,557
Amounts due from other state-controlled		

## INFORMATION ON THE COMPANY

### REGISTERED NAME OF THE COMPANY

哈爾濱動力設備股份有限公司

### ENGLISH NAME OF THE COMPANY

Harbin Power Equipment Company Limited

### REGISTERED ADDRESS OF THE COMPANY

Block 3  
Nangang District High Technology  
Production Base  
Harbin  
Heilongjiang  
PRC  
Registration No. 2301001003796

### OFFICE ADDRESS OF THE COMPANY

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### PLACE OF BUSINESS IN HONG KONG

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### WEBSITE

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### LEGAL REPRESENTATIVE

Gong Jing-kun

### AUTHORISED REPRESENTATIVES

Wu Wei-zhang  
Ma Sui

### COMPANY SECRETARY

Ma Sui

### AUDITORS

Yuehua CPA Limited

### LEGAL ADVISORS

*as to PRC Law*  
Haiwen Partners

*as to Hong Kong Law*  
Richards Butler

### LISTING INFORMATION

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

### DEPOSITARY

The Bank of New York

### SHARE REGISTER AND TRANSFER OFFICE

Hong Kong Registrars Limited