



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 INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	<u>Notes</u>	<b>Six months ended</b>	
		<u>30.6.2008</u> Rmb'000 (unaudited)	<u>30.6.2007</u> Rmb'000 (unaudited)
Revenue	3	12,856,702	11,964,667
Cost of sales		<u>(10,873,469)</u>	<u>(10,449,153)</u>
Gross profit		1,983,233	1,515,514
Other income		158,502	128,137
Distribution costs		(162,818)	(143,148)
Administrative expenses	4	(1,024,446)	(570,584)
Finance costs		(97,936)	(38,233)
Share of results of associates		<u>4,821</u>	<u>8,821</u>
Profit before taxation		861,356	900,507
Income tax expense	5	<u>(163,821)</u>	<u>(134,899)</u>
<b>Profit for the period</b>	6	<u><u>697,535</u></u>	<u><u>765,608</u></u>
Attributable to:			
Equity holders of the parent		558,075	615,048
Minority interests		<u>139,460</u>	<u>150,560</u>
		<u><u>697,535</u></u>	<u><u>765,608</u></u>
<b>Dividends</b>	7	<u><u>125,289</u></u>	<u><u>123,913</u></u>
<b>Earnings per share basic</b>	8	<u><u>40.53 cents</u></u>	<u><u>45.81 cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET  
AT 30TH JUNE, 2008

	<u>Notes</u>	<u>30.6.2008</u> Rmb'000 (unaudited)	<u>31.12.2007</u> Rmb'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	3,292,537	2,856,048
Investment properties		279,504	287,605
Prepaid lease payments		355,244	358,098
Patents	9	123,358	126,202
Deferred tax assets		86,084	87,105
Interests in associates		131,647	128,101
Available-for-sale investments		<u>27,074</u>	<u>28,074</u>
		<u>4,295,448</u>	<u>3,871,233</u>
<b>Current assets</b>			
Inventories		12,085,440	10,167,289
Trade debtors	10	10,403,538	8,994,565
Bills receivable		646,814	208,710
Other debtors, deposits and prepayments		8,351,438	5,339,159
Prepaid lease payments		9,742	11,760
Amounts due from customers for contract work		3,315,968	3,632,591
Amounts due from fellow subsidiaries		77,563	67,327
Restricted bank deposits		6,630	6,630
Pledged bank deposits		229,485	169,684
Bank deposits		574,594	940,000
Cash and cash equivalents		<u>7,886,309</u>	<u>8,681,542</u>
		<u>43,587,521</u>	<u>38,219,257</u>

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

	<u>Notes</u>	<u>30.6.2008</u> Rmb'000 (unaudited)	<u>31.12.2007</u> Rmb'000 (audited)
<b>Current liabilities</b>			
Amounts due to customers for contract work		685,584	758,315
Trade creditors	11	7,103,811	5,267,391
Other creditors and accrued charges		2,351,836	2,757,797
Deposits received		21,612,480	17,182,390
Amounts due to fellow subsidiaries		33,174	23,426
Advance from holding company		122,383	103,956
Tax liabilities		454,987	1,057,226
Borrowings-due within one year	12	<u>599,082</u>	<u>753,387</u>
		<u>32,963,337</u>	<u>27,903,888</u>
<b>Net current assets</b>		<u>10,624,184</u>	<u>10,315,369</u>
<b>Total assets less current liabilities</b>		<u>14,919,632</u>	<u>14,186,602</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	1,376,806	1,376,806
Reserves		<u>6,272,468</u>	<u>5,836,187</u>
Equity attributable to equity holders of the parent		7,649,274	7,212,993
Minority interests		<u>1,333,109</u>	<u>1,199,417</u>
<b>TOTAL EQUITY</b>		<u>8,982,383</u>	<u>8,412,410</u>
<b>Non-current liabilities</b>			
Deposits received		2,309,927	1,621,598
Borrowings-due after one year	12	3,484,620	4,009,892
Advance from holding company		<u>142,702</u>	<u>142,702</u>
		<u>5,937,249</u>	<u>5,774,192</u>
		<u>14,919,632</u>	<u>14,186,602</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Unaudited									
	Attributable to equity holders of the parent									
	Share capital Rmb'000	Share premium Rmb'000	Statutory capital reserve Rmb'000	Statutory surplus reserve Rmb'000	Investment revaluation reserve Rmb'000	Other 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	<u>1,376,806</u>	<u>1,980,295</u>	<u>709,850</u>	<u>565,609</u>	<u>28,049</u>	<u>-</u>	<u>1,667,502</u>	<u>6,328,111</u>	<u>1,098,491</u>	<u>7,426,602</u>

Unaudited  
Attributable to equity holders of the parent

**Share**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30TH JUNE 2008

	<b>Six months ended</b>	
	<u>30.6.2008</u> Rmb'000 (unaudited)	<u>30.6.2007</u> Rmb'000 (unaudited)
Net cash from / (used in) operating activities	<u>142,731</u>	<u>(904,187)</u>
Net cash used in investing activities		
Purchases of property, plant and equipment	(629,811)	(215,646)
Other investing cash flows	<u>440,489</u>	<u>(519,171)</u>
	<u>(189,322)</u>	<u>(734,817)</u>
Net cash (used in) / from financing activities		
Increase of borrowings	6,847	297,887
Repayment of borrowings	(686,424)	(292,320)
Proceeds from issue of shares	-	993,748
Other financing cash flows	<u>(69,065)</u>	<u>(32,840)</u>
	<u>(748,642)</u>	<u>966,475</u>
Net decrease in cash and cash equivalents	(795,233)	(672,529)
Cash and cash equivalents brought forward	8,681,220	8,353,749

## 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

The condensed consolidated 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, 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group’s financial year beginning 1st August, 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 and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>

## 2. PRINCIPAL ACCOUNTING POLICIES – (continued)

### Note

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> 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
<b>REVENUE</b>							
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
<b>SEGMENT RESULTS</b>	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							<u>697,535</u>

### 3. SEGMENT INFORMATION – (continued)

Six months ended 30th June, 2007	Main thermal		Engineering	Ancillary			
	power	Main hydro	services for	equipment	AC/DC		
	<u>equipment</u>	power	power <u>stations</u>	for power	motors and		
		<u>equipment</u>		<u>stations</u>	<u>others</u>	<u>Eliminations</u>	<u>Consolidated</u>
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>REVENUE</b>							
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>
<b>SEGMENT RESULTS</b>	<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>

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 Company and its subsidiaries, being registered as "High-New Technology Enterprise", were subjected to enterprise income tax rate of 15%. Pursuant to the relevant requirements of Rules for Implementation of Enterprise Income Tax Law of the PRC ( ), the Company and its subsidiaries are under reassessment of being High-New Technology Enterprises. 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.

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15% (2007: 15%).

6. PROFIT FOR THE PERIOD

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

	<b>Six months ended</b>	
	<u>30.6.2008</u>	<u>30.6.2007</u>
	Rmb'000	Rmb'000
Depreciation of property, plant and equipment	192,128	163,383
Depreciation of investment properties	8,101	8,257
Amortisation of prepaid lease payments	4,872	4,815
Amortisation of patents	7,682	9,651
Share of tax of associates (included in share of results of associates)	1,733	118
Interest and investment income	(136,049)	(70,099)
Gain on disposal of property, plant and equipment	<u>(1,917)</u>	<u>(1,143)</u>

7. DIVIDENDS

	<b>Six months ended</b>	
	<u>30.6.2008</u>	<u>30.6.2007</u>
	Rmb'000	Rmb'000
Final dividend declared for 2006 of Rmb0.090 per share	-	123,913
Final dividend declared for 2007 of Rmb0.091 per share	<u>125,289</u>	<u>-</u>
	<u><u>125,289</u></u>	<u><u>123,913</u></u>

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2007: nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of Rmb558,075,000 (six months period ended 30th June, 2007: Rmb615,048,000) and on the weighted average number of shares 1,376,806,000 (30th June, 2007: 1,342,686,000 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 Rmb1,290,000 for proceeds of Rmb3,207,000, resulting in a gain on disposal of Rmb1,917,000.

During the period, the Group spent approximately Rmb570,000,000 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 balance sheet date:

	<u>30.6.2008</u>	<u>31.12.2007</u>
	Rmb'000	Rmb'000
Within 1 year	7,422,019	6,000,510
1 to 2 years	2,136,917	2,083,009
2 to 3 years	455,672	860,094
Over 3 years	<u>388,930</u>	<u>50,952</u>
	<u><u>10,403,538</u></u>	<u><u>8,994,565</u></u>

11. TRADE CREDITORS

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

	<u>30.6.2008</u>	<u>31.12.2007</u>
	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
	<u>7,103,811</u>	<u>5,267,391</u>

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

	<u>30.6.2008</u>	<u>31.12.2007</u>
	Rmb'000	Rmb'000
Registered, issued and fully paid:		
State owned equity interest shares of Rmb1 each	701,235	701,235
H Shares of Rmb1 each	675,571	675,571
	<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

<u>30.6.2008</u>	<u>31.12.2007</u>
Rmb'000	Rmb'000

Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	<u>168,890</u>	<u>168,890</u>
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15. CAPITAL COMMITMENTS

<u>30.6.2008</u>	<u>31.12.2007</u>
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

<u>468,494</u>	<u>909,275</u>
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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:

<b>Six months ended</b>	
<u>30.6.2008</u>	<u>30.6.2007</u>
Rmb'000	Rmb'000

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

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## 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**

In maintaining its fast-growing development, the Company also places strong emphasis on social responsibilities. In addition to allocating more resources for research and development by developing high parameter and low pollution products so as to contribute to environmental protection, the Company actively participates in social activities. In the Wenchuan earthquake that hit Sichuan this May, the Company and its staff made a cash donation of RMB6.70 million.

## **PROSPECT**

For the second half of 2008, the domestic economy is expected to grow at a steady pace. Market demand for power generation equipment will gradually slow down, whilst high new-tech products featuring high capacity, high parameter, environment and high performance will see accelerated growth. Meanwhile, as the market demand for nuclear power generation speeds up its growth, the overseas market demand will remain strong. The power generation equipment market is entering a new phase of competition.

For the second half of the year, the Group will perform its work in a planned and systematic manner with abundant orders on hand and is expected to achieve satisfactory growth. Amid fierce market competition and onerous production duties, shortage of special raw materials, rising material and energy prices, ongoing RMB appreciation and the pressing marketing demand for technologically advanced products, the Group will face tremendous challenges in the course of development.

The Group will continue to step up its efforts in the development and manufacturing of new model of power generation equipment represented by nuclear power; focus on absorbing and introducing technology and innovate on this basis; accelerate the domestic production and independent development of large scale gas turbines, nuclear power, super critical and ultra super critical coal-fired power plants and large scale pumped storage units, as well as speed up the technological renovations and production facilities construction , so as to fully enhance its market competitiveness.

In overcoming the difficulties, the Group will fully execute the orders on hand and establish sound market credibility; continue to improve internal management and strengthen cost control; formulate effective measures to minimize the adverse effects from rising raw material prices, tight supply and ongoing RMB appreciation on the operations of the Company.

The Group will continue to consolidate and develop the domestic market, with a long-term goal to strengthen the market development of environmental friendly and IGCC products, so as to maintain a leading market position in the future. Meanwhile, 0.1404.1288(g)2(r iti)}48.04t0

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**

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

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company now or at any time 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 members of the Audit Committee of the Company are Li Hejun, Ding Xuemei and Duan Hongyi. The Board's Audit Committee has reviewed the interim results.

## **AUDITORS**

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