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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 with limited liability)
(Stock Code: 1133)

HARBIN POWER EQUIPMENT COMPANY LIMITED
Interim Results Announcement 2009

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, 2009, 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, 2009, the Group recorded a net profit of Rmb215.53 million, a decrease of 61.38% as compared with the same period last year. Earnings per share amounted to Rmb0.16, a decrease of Rmb0.25 as compared with the same period last year. Net assets at the end of the period amounted to Rmb8,248.35 million, an increase of Rmb112.27 million over the beginning of the year. Net assets per share amounted to Rmb5.99, an increase of Rmb0.08 over the beginning of the year. The decrease in profit was mainly attributable to a significant increase in the cost of products during the period, a decrease in gross profit margin and a significant increase in the provision for impairment loss on assets as compared with the same period last year, which were caused by the fact that the raw materials consumed to produce our products sold during the period were purchased in the fourth quarter of 2007 and the first half of 2008 when the prices were at their historic heights.

INTERIM DIVIDEND

The Board does not recommend an interim dividend for the period ended 30th June, 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2009

		Six months ended	
	<i>Notes</i>	30.6.2009	30.6.2008
		Rmb'000	Rmb'000
		(unaudited)	(unaudited)
Revenue	3	12,842,125	12,856,702
Cost of sales	4	(11,291,584)	(10,873,469)
Gross profit		1,550,541	1,983,233
Other income		131,730	169,268
Distribution costs		(127,560)	(162,818)
Administrative expenses	4	(1,017,970)	(1,024,446)
Other expenses		(78,906)	(10,766)
Finance costs		(82,825)	(97,936)
Share of results of associates		9,663	4,821
Profit before taxation		384,673	861,356
Income tax expense	5	(76,990)	(163,821)
Profit for the period	6	307,683	697,535
Other comprehensive income for the period, net of tax		–	–
Total comprehensive income for the period		307,683	697,535
Profit attributable to:			
Equity holders of the parent		215,530	558,075
Minority interests		92,153	139,460
		307,683	697,535
Total comprehensive income attributable to:			
Equity holders of the parent		215,530	558,075
Minority interests		92,153	139,460
		307,683	697,535
Earnings per share – basic	8	15.65 cents	40.53 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2009

	<i>Notes</i>	30.6.2009 Rmb'000 (unaudited)	31.12.2008 <i>Rmb'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,934,271	3,802,837
Investment properties		262,296	271,383
Prepaid lease payments		345,657	350,438
Patents		106,332	114,223
Deferred tax assets		134,463	133,837
Interests in associates		138,814	150,536
Available-for-sale investments		27,074	27,074
		<hr/> 4,948,907 <hr/>	<hr/> 4,850,328 <hr/>
Current assets			
Inventories		13,855,250	12,941,218
Trade debtors	10	13,040,936	12,354,226
Bills receivable		678,624	361,324
Other debtors, deposits and prepayments		5,431,318	6,537,067
Prepaid lease payments		9,661	9,710
Amounts due from customers for contract work		1,170,647	1,045,979
Amounts due from fellow subsidiaries		74,434	66,353
Restricted bank deposits		7,006	14,568
Pledged bank deposits		123,452	484,255
Bank deposits		4,470,428	3,079,921
Cash and cash equivalents		7,292,224	7,221,676
		<hr/> 46,153,980 <hr/>	<hr/> 44,116,297 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30TH JUNE, 2009

	<i>Notes</i>	30.6.2009 Rmb'000 (unaudited)	31.12.2008 <i>Rmb'000</i> <i>(audited)</i>
Current liabilities			
Derivative financial instrument		–	3,133
Amounts due to customers for contract work		1,278,519	757,056
Trade creditors	<i>11</i>	8,632,969	7,715,110
Other creditors and accrued charges		1,953,836	2,055,636
Deposits received		16,851,437	18,656,591
Amounts due to fellow subsidiaries		20,520	50,069
Advance from holding company		13,236	13,470
Tax payables		204,033	375,591
Borrowings-due within one year	<i>12</i>	497,360	870,704
		29,451,910	30,497,360
Net current assets		16,702,070	13,618,937
Total assets less current liabilities		21,650,977	18,469,265
CAPITAL AND RESERVES			
Share capital	<i>13</i>	1,376,806	1,376,806
Reserves		6,871,544	6,759,274
Equity attributable to equity holders of the parent		8,248,350	8,136,080
Minority interests		1,523,998	1,431,845
TOTAL EQUITY		9,772,348	9,567,925
Non-current liabilities			
Deposits received		7,455,043	5,059,506
Borrowings-due after one year	<i>12</i>	3,882,666	3,535,114
Advance from holding company		540,920	306,720
		11,878,629	8,901,340
		21,650,977	18,469,265

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2009

	Unaudited								
	Attributable to equity holders of the parent								
	Share capital <i>Rmb'000</i>	Share premium <i>Rmb'000</i>	Statutory capital reserve <i>Rmb'000</i>	Statutory surplus reserve <i>Rmb'000</i>	Other reserve <i>Rmb'000</i>	Retained profits <i>Rmb'000</i>	Total <i>Rmb'000</i>	Minority interests <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2008	1,376,806	1,980,295	709,850	531,614	-	2,614,428	7,212,993	1,199,417	8,412,410
Total comprehensive income for the period	-	-	-	-	-	558,075	558,075	139,460	697,535
Purchase of addition interests in a subsidiary from a minority shareholder	-	-	-	-	565	2,930	3,495	(5,768)	(2,273)
Dividends (Note 7)	-	-	-	-	-	(125,289)	(125,289)	-	(125,289)
At 30th June, 2008	<u>1,376,806</u>	<u>1,980,295</u>	<u>709,850</u>	<u>531,614</u>	<u>565</u>	<u>3,050,144</u>	<u>7,649,274</u>	<u>1,333,109</u>	<u>8,982,383</u>

	Unaudited								
	Attributable to equity holders of the parent								
	Share capital <i>Rmb'000</i>	Share premium <i>Rmb'000</i>	Statutory capital reserve <i>Rmb'000</i>	Statutory surplus reserve <i>Rmb'000</i>	Other reserve <i>Rmb'000</i>	Retained profits <i>Rmb'000</i>	Total <i>Rmb'000</i>	Minority interests <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2009	1,376,806	1,980,295	709,850	557,183	6,539	3,505,407	8,136,080	1,431,845	9,567,925
Total comprehensive income for the period	-	-	-	-	-	215,530	215,530	92,153	307,683
Dividends (Note 7)	-	-	-	-	-	(103,260)	(103,260)	-	(103,260)
At 30th June, 2009	<u>1,376,806</u>	<u>1,980,295</u>	<u>709,850</u>	<u>557,183</u>	<u>6,539</u>	<u>3,617,677</u>	<u>8,248,350</u>	<u>1,523,998</u>	<u>9,772,348</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 30TH JUNE, 2009

	Six months ended	
	30.6.2009	30.6.2008
	Rmb'000	Rmb'000
	(unaudited)	(unaudited)
Net cash from operating activities	<u>1,156,779</u>	<u>142,731</u>
Net cash used in investing activities		
Purchases of property, plant and equipment	(307,109)	(629,811)
Other investing cash flows	<u>(904,471)</u>	<u>440,489</u>
	<u>(1,211,580)</u>	<u>(189,322)</u>
Net cash from/(used in) financing activities		
Increase in bank borrowings	395,248	6,847
Increase in other borrowings	21,634	–
Repayment of borrowings	(442,674)	(686,424)
Other financing cash flows	<u>151,141</u>	<u>(69,065)</u>
	<u>125,349</u>	<u>(748,642)</u>
Net increase/(decrease) in cash and cash equivalents	70,548	(795,233)
Cash and cash equivalents brought forward	<u>7,221,676</u>	<u>8,681,542</u>
Cash and cash equivalents carried forward	<u>7,292,224</u>	<u>7,886,309</u>
Analysis of cash and cash equivalents		
Bank balances and cash	6,316,733	7,446,309
Bank deposits	<u>975,491</u>	<u>440,000</u>
	<u>7,292,224</u>	<u>7,886,309</u>

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.

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, 2008.

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 January, 2009.

HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Joint Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7	Financial instruments: Disclosures
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 10	Events after the Balance Sheet Date
HKAS 18	Revenue
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to HK(IFRIC) – Int 9 and HKAS 39	Reassessment of Embedded Derivative
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of Net Investment in a Foreign Operation

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.

HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 5 Amendments	Non-current Assets Held for Sale and Discontinued Operations – Classification of Non-current assets (or disposal groups) as held for sale ¹
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹

Note

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

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, 2009	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	9,729,331	819,888	1,297,754	256,675	738,477	-	12,842,125
Inter-segment sales	250,868	-	-	-	86,657	(337,525)	-
Total revenue	<u>9,980,199</u>	<u>819,888</u>	<u>1,297,754</u>	<u>256,675</u>	<u>825,134</u>	<u>(337,525)</u>	<u>12,842,125</u>
SEGMENT RESULTS	<u>1,212,592</u>	<u>165,982</u>	<u>3,906</u>	<u>56,140</u>	<u>111,921</u>	<u>-</u>	<u>1,550,541</u>
Unallocated corporate expenses							(1,092,706)
Finance costs							(82,825)
Share of results of associates	-	-	-	-	9,663	-	<u>9,663</u>
Profit before taxation							384,673
Income tax expense							<u>(76,990)</u>
Profit for the period							<u><u>307,683</u></u>

Six months ended 30th June, 2008	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	9,927,798	772,059	1,273,676	214,744	668,425	-	12,856,702
Inter-segment sales	482,241	-	-	-	97	(482,338)	-
Total revenue	<u>10,410,039</u>	<u>772,059</u>	<u>1,273,676</u>	<u>214,744</u>	<u>668,522</u>	<u>(482,338)</u>	<u>12,856,702</u>
SEGMENT RESULTS	<u>1,642,138</u>	<u>156,126</u>	<u>11,813</u>	<u>54,641</u>	<u>118,515</u>	<u>-</u>	<u>1,983,233</u>
Unallocated corporate expenses							(1,028,762)
Finance costs							(97,936)
Share of results of associates	-	-	-	-	4,821	-	<u>4,821</u>
Profit before taxation							861,356
Income tax expense							<u>(163,821)</u>
Profit for the period							<u><u>697,535</u></u>

Inter-segment sales are charged at prevailing market rates.

4. COST OF SALES/ADMINISTRATIVE EXPENSE

Allowance for irrecoverable trade receivables

Included in administrative expenses is an allowance of Rmb237,755,000 (2008: Rmb139,834,000) 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 Rmb36,600,000 (2008: Rmb14,207,000) 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, 2009.
- (b) Income tax in the consolidated income statement 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.

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15% (2008: 15%).

6. PROFIT FOR THE PERIOD

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

	Six months ended	
	30.6.2009	30.6.2008
	Rmb'000	Rmb'000
Depreciation of property, plant and equipment	170,156	192,128
Depreciation of investment properties	9,087	8,101
Amortisation of prepaid lease payments	4,830	4,872
Amortisation of patents	7,891	7,682
Share of tax of associates (included in share of results of associates)	2,069	1,733
Interest and investment income	(116,324)	(136,049)
Gain on disposal of property, plant and equipment	(190)	(1,917)

7. DIVIDENDS

	Six months ended	
	30.6.2009	30.6.2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Final dividend declared for 2008 of Rmb0.075 per share	103,260	–
Final dividend declared for 2007 of Rmb0.091 per share	–	125,289
	103,260	125,289

The Directors do not recommend the payment of any interim dividend for the period (six months period ended 30th June, 2008: nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of Rmb215,530,000 (six months period ended 30th June, 2008: Rmb558,075,000) and on the weighted average number of shares 1,376,806,000 (30th June, 2008: 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 Rmb5,519,000 for proceeds of Rmb5,709,000, resulting in a gain on disposal of Rmb190,000.

During the period, the Group spent approximately Rmb310,000,000 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:

	30.6.2009	31.12.2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	6,651,028	8,554,404
1 to 2 years	4,910,641	2,391,479
2 to 3 years	810,949	1,119,172
Over 3 years	668,318	289,171
	<u>13,040,936</u>	<u>12,354,226</u>

11. TRADE CREDITORS

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

	30.6.2009	31.12.2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	5,618,876	7,039,443
1 to 2 years	2,269,135	470,791
2 to 3 years	658,544	67,951
Over 3 years	86,414	136,925
	<u>8,632,969</u>	<u>7,715,110</u>

12. BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately Rmb395 million and made repayment of bank borrowings in the amount of approximately Rmb443 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

	30.6.2009	31.12.2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
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

	30.6.2009	31.12.2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	5,000	14,119
	<u>5,000</u>	<u>14,119</u>

15. CAPITAL COMMITMENTS

	30.6.2009	31.12.2008
	<i>Rmb'000</i>	<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	183,674	315,838
	<u>183,674</u>	<u>315,838</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 Rmb244,094,000 (2008: Rmb245,814,000) to secure certain of Group's trading facilities. There is Rmb123,452,000 (2008: Rmb484,255,000) 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 Electric Corporation ("HE") amounting to approximately Rmb60,343,000 (2008: Rmb58,210,000). At the balance sheet date, credit facilities granted by certain banks to the Company were secured by corporate guarantee given by HE.

(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:

	Six months ended	
	30.6.2009	30.6.2008
	Rmb'000	Rmb'000
Trade sales	10,858,173	10,752,506
Trade purchases	4,791,351	4,738,677
	<u>11,848,508</u>	<u>11,935,944</u>
Amounts due to and deposits received from other state-controlled entities	22,172,557	21,680,567
Amounts due from other state-controlled entities	11,848,508	11,935,944

BUSINESS REVIEW

In the first half of 2009, the Chinese government proactively coped with the adverse effects on the economic development brought by the international financial crisis and overcame various difficulties one after another. As a result, the economic development in the PRC has been powerfully boosted. According to the data published by the relevant government departments, the Chinese GDP increased by 7.1% year on year from the same period last year, and the economic prospect is better than expectations.

At the same time, demand in the power equipment market was rapidly shifting to environmental, efficiency and renewable energy-oriented products. The equipments for alternative energies, such as nuclear power, wind power and so on, 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 declined to different extents due to changing market demand and an increase in raw material prices.

NEW CONTRACTS

During the first half of the year, the value of new contracts secured by the Group amounted to Rmb13.2 billion, representing a decrease of 62% as compared with the same period last year. The power equipment market has entered a period of adjustment after two years of rapid growth, and market demand declined significantly.

PRODUCTION AND SERVICES

Although the Group's production during the first half of the year remained relatively high, total output decreased slightly from the same period last year because the delivery dates of several orders were postponed. 22 utility boilers with a total capacity of 9,535MW, a decrease of 31.28% as compared with the same period last year; 31 power plant turbines with a total capacity of 11,092MW, an increase of 4.11% over the same period last year; 31 power plant turbine generators with a total capacity of 11,060MW, a decrease of 13.02% as compared with the same period last year; and 14 sets of hydropower turbine generator unit with a total capacity of 2,717.2MW, a decrease of 8.76% as compared with the same period last year, were completed during the period.

TURNOVER AND COST

For the first half of 2009, the Group recorded a turnover from principal business activities of Rmb12,842.12 million, representing a slight decrease as compared with the same period last year. In particular, turnover of thermal power main units was Rmb9,729.33 million, a decrease of 2% as compared with the same period last year; turnover of hydropower main units was Rmb819.89 million, an increase of 6.20% over the same period last year; turnover of power plant engineering and services was Rmb1,297.75 million, an increase of 1.89% over the same period last year; and turnover of power plant auxiliaries and parts was Rmb256.67 million, an increase of 19.53% over the same period last year. The turnover of AC/DC motors and other products and services was Rmb738.48 million, an increase of 10.48% over the same period last year.

During the period, the export sales of the Group amounted to Rmb1,292.96 million and accounted for 10.07% of the Group's total turnover. The major export destinations were countries in Asia and Africa.

During the period, the cost of the principal operations of the Group was Rmb11,291.58 million, an increase of 3.85% over the same period last year.

GROSS PROFIT AND PROFIT MARGIN

During the period, the Group's gross profit from its principal business activities was Rmb1,550.54 million, a decrease of 21.82% as compared with the same period last year. The profit margin was 12.07%, a decrease of 3.36 percentage points as compared with the same period last year.

Among them the gross profit from thermal power main units was Rmb1,212.59 million and the profit margin was 12.46%, a decrease of 4.08 percentage points as compared with the same period last year. The gross profit from hydro power main units was Rmb165.98 million and the profit margin was 20.24%, which remained stable against the same period last year. The gross profit from power plant engineering and services was Rmb3.91 million and the profit margin was 0.30%, a decrease of 0.63 percentage points as compared with the same period last year. The gross profit from power plant auxiliaries and parts was Rmb56.14 million and the profit margin was 21.87%, a decrease of 3.57 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was Rmb111.92 million and the profit margin was 15.16%, a decrease of 2.57 percentage points as compared with the same period last year. The main reason for the decrease in the profit margin of our major products was a substantial increase in the cost of products during the period, which was detrimental to our profit margin, due to the fact that the raw materials consumed to produce our products sold during the period were purchased in the fourth quarter of 2007 and the first half of 2008 when the prices were at their historic heights.

EXPENSES DURING THE PERIOD

For the first half of the year, the Group's operational and administrative expenses amounted to Rmb1,145.53 million, a decrease of Rmb41.73 million or 3.52% as compared with the same period last year.

ASSETS AND LIABILITIES

As at 30th June 2009, the total assets of the Group amounted to Rmb51,102.89 million, an increase of Rmb2,136.26 million and 4.36% over the beginning of 2009, among which the total current assets were Rmb46,153.98 million, representing 90.32% of the total assets. The total non-current assets were Rmb4,948.91 million, representing 9.68% of the total assets.

The Group's total liabilities amounted to Rmb41,330.54 million, an increase of Rmb1,931.84 million over the beginning of the year, among which the total current liabilities were Rmb29,451.91 million, representing 71.26% of the total liabilities. The non-current liabilities were Rmb11,878.63 million, representing 28.74% of the total liabilities. As at 30th June 2009, the Group's assets/liabilities ratio was 80.88%.

DEPOSITS AND CASH INFLOW

As at 30th June 2009, the bank deposits and cash of the Group amounted to Rmb11,762.65 million, an increase of Rmb1,461.06 million over the beginning of the year, among which time deposits accounted for Rmb4,470.43 million. During the period, the Group's net cash generated from operating activities amounted to Rmb1,156.78 million. The net cash generated from financing activities amounted to Rmb125.35 million and the net cash used in investment activities was Rmb1,211.58 million.

FUNDING AND BORROWING

The Group's funding for its operation and development has three major sources, namely shareholders' capital, trade debtors receivable from the customers and bank borrowings. The borrowings of the Group were specifically arranged for each project. Except in certain extraordinary situations, the loans were separately raised by the subsidiaries of the Group. However, all borrowings in respect of capital investments must be approved by the Company in advance. As at 30th June 2009, the Group's total bank borrowings amounted to Rmb4,380.03 million. The Group's borrowings comprised loans from various commercial banks and the state's policy banks with interest rates stipulated by the state, among which Rmb497.36 million, a decrease of Rmb373.34 million as compared with the beginning of the year, were due within one year. The Group's borrowings due after one year were 3,882.67 million, an increase of Rmb347.55 million as compared with the beginning of the year. The Group's amounts received in advance were Rmb24,306.48 million, an increase of Rmb590.38 million over the beginning of the year.

GEARING RATIO

As at 30th June 2009, the Group's gearing ratio (calculated as non-current liabilities: total shareholders' equity) was 1.44:1, as compared to 1.09:1 at the beginning of the year.

INCOME TAX

According to the provisions of Administrative Measures with regard to the Recognition of Advanced 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 Advanced 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-Tech 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) and support such revitalization will remain effective.

STAFF

As at 30th June 2009, the employees of the Group totaled 18,469.

PROSPECT

In the second half of 2009, the Chinese government will continue to put the promotion of fast yet steady economic development as the top mission in its economic policies, maintain the continuity and stability of its macroeconomic policies and consolidate the stable and rising trend of the economy.

With a 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 2009, the Company will timely monitor market changes, deploy scientific production plans, implement dynamic control and make endeavors to satisfy the demand of its customers. The Company will continue to actively expand domestic and international markets, consolidate its traditional markets and speed up the development of new markets.

Furthermore, the Company will undertake a comprehensive internally controlled auditing project, promote the establishment of an internal control system, further strengthen its cost control, implement energy conservation and emission reduction measures, and improve its management standard and ability to mitigate risks.

In the second half of 2009 as well as the coming years, the Company will persist in improving its self-innovation ability and accelerating the adjustment to its products structure so as to meet the requirements of the national energy policies and changes in the market demand.

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, 2009, the company's share capital in issue comprised 1,376,806,000 shares. The major shareholders included:

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 2009, 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 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, Ding Xue-mei 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 RSM China Certified Public Accountants Company Limited as the auditors of the Company for the interim period of the year 2009 according to the authority given at the Shareholders' General Meeting. The auditors have reviewed the interim results.

SHAREHOLDERS'S MEETING

The Company's 2008 Annual General Meeting was held on 12th June 2009 in Harbin, and the result of the meeting has 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 2009 of the Company and the Articles of Association are available for inspection at Block B, 39 Sandadongli Road, Xianfang District, Harbin, the PRC.

By order of the Board

Gong Jing-kun

Chairman

Harbin, the PRC, 7th August, 2009

At the date of this announcement, the Directors of the Company are:

Gong Jing-kun, Zou Lei, Duan Hong-yi, Shang Zhong-fu, Wu Wei-zhang, Zhou Dao-jiong, Jia Cheng-bing , Jiang Kui, Ding Xue-mei, Li He-jun