

董事會報告書

Report of the Directors

董事會欣然提呈本公司二零零五年度報告和二零零五年一月一日至二零零五年十二月三十一日經審計之財務報表。

主要業務

本公司及其主要附屬公司主要從事各種發電設備的生產、銷售及電站工程服務業務，詳情載於財務報表附註8。

本集團所有業務均以中國為基地，其中約82.03%之集團營業額來自中國。

截至二零零五年十二月三十一日止年度，本集團產品出口營業額為41,118萬美元，佔總營業額的17.97%。本集團的出口地區主要包括亞洲、非洲地區。

附屬公司

本公司擁有4家主要附屬公司。哈爾濱電機廠有限責任公司主要從事水輪發電機組、汽輪發電機的生產與銷售；哈爾濱鍋爐廠有限責任公司主要從事電站鍋爐的生產與銷售；哈爾濱汽輪機廠有限責任公司主要從事電站汽輪機的生產與銷售；哈爾濱電站工程有限責任公司主要從事電站項目總承包及電站設備成套業務。

於二零零五年十二月三十一日，本公司主要附屬公司詳情載於本年報財務報表附註42。

The Directors have pleasure to submit their 2005 annual report and audited financial statements for the year ended 31st December, 2005.

PRINCIPLE ACTIVITIES

The Company and its principal subsidiaries are mainly engaged in all kinds of power equipments manufacture, sales and power station engineering and services, which are set out in Note 8 to the financial statements.

All the activities of the Group are based in the PRC, where 82% of the Group's turnover is derived from.

The export sales of the Group for the year ended 31st December, 2005 amounted to US\$411.18 million, representing 18% of the Group's total turnover for the year. The Group's export markets mainly include Asian and African countries.

SUBSIDIARIES AND ASSOCIATED COMPANIES

The Company has four principal subsidiaries. Harbin Electrical Machinery Co., Ltd is mainly in the field of manufacture and sales on hydro generator units and steam turbine generator units. Harbin Boiler Co., Ltd is mainly in the field of manufacture and sales on boilers for power stations. Harbin Turbine Co., Ltd is mainly in the field of manufacture and sales on steam turbine for power stations and Harbin Power Engineering Co., Ltd is mainly in the field of the turn-key construction of power station projects and complete set of power station equipment.

Details of the Company's principal subsidiaries for the year ended 31st December, 2005 are set out in Note 42 to the financial statements.

董事會報告書(續)

Report of the Directors – (continued)

業績及分配

本集團截至二零零五年十二月三十一日止之年度業績載於本年報第56頁的綜合損益表中。

董事會建議本公司二零零五年度除稅及少數股東收益後溢利分配如下：

1. 提取法定盈餘公積金人民幣4,340萬元。
2. 提取法定公益金人民幣4,340萬元。
3. 董事會建議向二零零六年五月十六日登記在股東名冊的股東派發二零零五年度股息每股人民幣0.061元，合共派發股息人民幣7774萬元。

董事、監事

有關董事及監事的詳情載於本年報《董事、監事及高級管理人員》一節。

董事、監事及高級管理人員的股本權益

於二零零五年十二月三十一日，本公司各董事、監事及高級管理人員概無在本公司及／或在任何相關法團（定義見《證券及期貨條例》第XV部）的股份、相關股份及／或債券證（視情況而定）中擁有任何需根據《證券及期貨條例》第XV部的第7及第8分部知會本公司及香港聯交所的權益或相關股份或債券證的淡倉（包括根據《證券及期貨條例》該等章節的規定被視為或當作這些董事、監事及高級管理人員擁有的權益或淡倉），或根據《證券及期貨條例》第352條規定需記錄於本公司保存的登記冊的權益或淡倉，或根據上市規則附錄十中的《上市公司董事進行證券交易的標準守則》須知會本公司及香港聯交所的權益或淡倉。

FINANCIAL RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 56 of the annual report.

The Directors propose the distribution of profit after taxation and minority interests for 2005 as follows:

1. To transfer Rmb43.40 million to the statutory surplus reserve.
2. To transfer Rmb43.40 million to the statutory public welfare fund.
3. The Directors propose that the dividend for shareholders who registered on shareholder' list until 16th, May, 2006 is Rmb0.061 per share, payment of dividends is totally amounted to Rmb77.74 million.

DIRECTORS AND SUPERVISORS

Details of directors and supervisors are set out in the Section "Director, Supervisors and Senior Managers" of the annual report.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2005, none of the directors, supervisors or senior managers of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of "Securities And Futures Ordinance"), which is required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the Securities And Futures Ordinance (including interest and short position which any such director, supervisor or senior manager is taken or deemed to have such provisions of the Securities And Futures Ordinance) or which is pursuant to Section 352 of the Securities And Futures Ordinance or which is required to be notified to the Company and the HKSE pursuant to Model Code for Securities Transactions by Directors of Listing Companies as contained in Appendix 10 to the Listing Rules.

董事會報告書(續)

Report of the Directors – (continued)

董事、監事的服務合約

各董事及監事均與本公司訂有服務合約，該等合約於二零零六年六月二十日到期。除此以外，各董事及監事與本集團任何成員公司之間概無任何既有或建議的服務合約。

董事、監事在重要合約中的權益

年內各董事或監事概無在本公司及其附屬公司訂立的重要合約中直接或間接擁有權益。

董事及監事酬金

截至二零零五年十二月三十一日止之年度，本公司董事及監事酬金詳情載於本年報財務報表附註13。

獲最高酬金的前五名人士

獲最高酬金的前五名人士均為本公司董事及監事。

員工退休及福利計劃

員工退休及福利計劃詳情載於本年報財務報表附註40。

固定資產

本集團固定資產的變動詳情載於本年報財務報表附註16。

儲備

於二零零五年十二月三十一日，本公司可供分派的儲備總額為人民幣7,794萬元，本集團年內的儲備變動情況載於財務報表綜合股東權益變動表。

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

There are service contracts between every director, supervisor and the Company. The contracts will expire by 20th, June, 2006 and can be terminated without compensation (legal compensation is not included). Besides this, there are no existing and suggesting service contracts between every director, supervisor and any of its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Apart from service contracts, a director or supervisor of the Company has no material interest, whether directly or indirectly, in the contracts of significance, to which the Company or any of its subsidiaries is a party during the year.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the salaries and bonuses of the directors or supervisors of the Company for the year ended 31st December, 2005 are set out in Note 13 to the financial statements.

FIVE HIGHEST PAID PERSONNEL

The five highest paid personnel of the Company during the year are all directors and supervisors.

RETIREMENT AND BENEFIT SCHEME

Details of the retirement and benefit scheme are set out in Note 40 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the financial statements.

RESERVES

The Company's reserves available for distribution are Rmb77.94 million until 31st, December, 2005. Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

董事會報告書(續)

Report of the Directors – (continued)

財務摘要

本集團過去五年之財務摘要載於本年報《財務摘要》一節。

借款及利息資本化

本集團銀行借款和其他借貸細節載於本年報財務報表附註32。

本集團期間內在建工程的利息資本化金額為人民幣103萬元。

購買、出售及贖回本公司之上市證券

於二零零五年十二月十四日，公司董事會根據股東周年大會的一般授權發行了8530萬股新H股，該等股份佔發行前H股總量的18.18%，發行價格為每股4.45元港幣，集資淨額3.71億港元。

除此之外，本公司及其附屬公司概無購買、出售及贖回本公司之任何上市證券。

減持國有股

在本公司H股增發同時，本公司控股股東哈電集團公司於二零零五年十二月十四日，將853萬股國有股劃轉給全國社保基金，並轉為H股。

優先購買權

根據本公司章程或中國法律，並無優先購買權規定本公司須按持股比例向現有股東提呈發售新股之建議。

FINANCIAL HIGHLIGHTS

The financial highlights of the Group for the last five years are set out in the Section “Financial Highlights” to the annual report.

BORROWINGS AND INTEREST COSTS CAPITALISED

Details of bank loans and other borrowings of the Group are set out in Note 32 to the financial statements.

Interest capitalized by the Group during the year amounted to Rmb1.03 million in respect of construction-in-progress.

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

On 14th, December, 2005, according to the common authorization of the Annual General Meeting, the Board of Directors of the Company issued 85.30 million new H-shares, accounting to 18.18% of H-shares gross before issuing, the issuing price was HK\$4.45 per share, and collected capital net amount of HK\$371 million together.

Except the above, no purchase, sale or redemption of the Company's listed securities has been made by the Company or any its subsidiaries during the period.

REDUCING-HOLD OF THE STATE SHARES

With issuing new H-shares of the Company, on 14th, December, 2005, the controlling shareholder of the Company-HPEGC transferred 8.53 million state shares to the Countrywide Social Insurance Fund, changing to be H-shares.

PRE-EMPTIVE RIGHTS

According to the Article of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

董事會報告書 (續)

Report of the Directors – (continued)

重大訴訟事項

年內本公司無任何重大訴訟事項。

重大合約

本集團年內簽訂的重大合約詳情載於本年報《管理層論述與分析》及《重要事項揭示》一節。

主要供應商和客戶

1. 期內本集團首五大供應商合共佔總採購百分比為20%。其中最大的供應商為德國曼內斯曼公司，佔總採購百分比為5.5%。
2. 期內本集團首五大客戶合共佔總營業額百分比為41%。其中最大的客戶是大唐發電股份有限公司，佔總營業額百分比為13.5%。

本公司董事、監事及其聯繫人以及任何股東（根據董事會所知擁有5%或以上本公司股本者）在上述供應商或客戶中概無任何權益。

H股所得款項之運用

期內本公司募集資金的運用詳情載於《管理層論述與分析》一節。

委託存款及逾期定期存款

於二零零五年十二月三十一日，本公司在商業銀行或非銀行金融機構未有委託存款，亦未有逾期未取回的存款。

MAJOR LITIGATION

The Company was not engaged in any major litigation of material importance during the year.

MATERIAL CONTRACTS

The material contracts of the Group for the year are detailed in the Sections "Management Discussion and Analysis" and "Disclosure of Significant Events" of the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

1. The aggregate amount of purchases during the period attributable to the Group's five largest suppliers represented 20% of the Group's total purchases. Among which the largest supplier is German Mannesmann Company, presenting 5.5%.
2. 41% of the total turnover of the Group during the period was attributable to the Group's five largest customers. Amongst which Datang International Power Generation Co., Ltd. was the largest customer, accounting for 13.5% of the total turnover.

None of the directors, supervisors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in above mentioned suppliers or customers.

PROCEEDS FROM THE H SHARES ISSUE

The use of listing proceeds of the Company for the period details in the Section "Management Discussion and Analysis" of the annual report.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31st December, 2005, the Company had no entrusted deposits in commercial banks or non-bank financial institutions and had no due deposits that had not been withdrawn.

董事會報告書 (續)

Report of the Directors – (continued)

稅收政策

根據中國財政部及中國國家稅務局於一九九四年三月二十九日發出之《關於企業所得稅若干優惠政策的通知》中關於國務院批准的高新技術產業開發區內的高新技術企業，減按15%稅率徵收所得稅之規定，本集團一直執行15%的所得稅率。董事會認為，由於本集團符合國家有關法律、法規之規定，因此，本集團主要附屬公司仍應執行15%企業所得稅率。

根據國家稅務總局之規定，由二零零三年十月十五日開始，本集團新接出口產品定單退稅率為13%。

根據財政部、國家稅務總局二零零四年九月十四日頒佈的《東北地區擴大增值稅抵扣範圍若干問題的規定》，東北地區部分企業(含本公司)增值稅由生產型轉為消費型，擴大了增值稅抵扣範圍，自二零零四年七月一日起實際發生購進固定資產、用於自製(含改擴建、安裝)固定資產的購進貨物或應稅勞務等項目的進項稅額，可以抵扣，這一政策將對本公司的發展產生積極影響。

關聯交易

有關關聯交易詳情載於本年報財務報表附註41。

INCOME TAX AND EXPORT VAT REBATE

Pursuant to the regulation of the Notice on Several Preferential Income Tax Policies issued by the PRC Ministry of Finance and the State Tax Bureau on 29th March, 1994, the high technological enterprises in the high technological development zones approved by the PRC State Council enjoy an income tax rate of 15%, so the taxable income earned by the Group are subject to a rate of 15%. So the Board of Directors of the Company holds that, according to the relevant regulations of PRC laws, the Group still enjoys an income tax rate of 15% in main subsidiaries.

Pursuant to the stipulations in the document of the PRC Ministry of Finance, the export VAT rebate applicable to the Group' newly signed export products contracts is 13% from 15th, October, 2003.

According to Regulations on the Issues about Increasing VAT Rebate Scope in Northeast Area issued by the PRC Ministry of Finance and the State Tax Bureau in 10th September, 2004, the VAT of part of northeast areas companies (including the Company) turned from production type to consumption type, which enlarged the VAT rebate scope. By 1st, July, 2004, the income tax for actually capital asserts purchased products, purchased products for self construction (include restructure and construction extension) or tax payable labor project can be rebated. This policy will have a positive effect on the Company.

CONNECTED TRANSACTIONS

For the connected transactions, see the details in Note 41 to the financial statements of the annual report.

董事會報告書 (續)

Report of the Directors – (continued)

對關聯交易的確認

本公司審核委員會已經審核了載於財務報表附註41中的關聯交易(定義見上市規則), 並且確認:

1. 這些交易是本公司按照其業務一般通常過程達成的; 及
2. 這些交易是(I)按照通常商業條款(運用此條款時須參考中國境內由類似的企業達成的類同性質的交易)達成的或(II)(如無可比較的例子)按照對本公司的股東而言, 為公平和合理的條款達成的以及;
3. 這些交易是(I)按照與相關的協議條款達成的或(II)(如無這類協議)按照不比第三方可取得的條件差的條款達成的。

審核委員會

本公司審核委員會已經審閱了本公司二零零五年度業績報告。

合資格會計師

本公司已經存在一位符合《上市規則》第3.24條規定的會計師, 惟彼未具有香港會計師公會或獲香港會計師公會認可獲豁免其會籍考試要求所認可的類似會計師組織之資深會員或會員資格。為此, 本公司將委聘一位具有該資深會員或會員資格的人士協助本公司會計師履行其監督本公司財務匯報程序及內部監控的職責, 本公司目前尚未找到合適人選。

CONFIRMATION ON CONNECTED TRANSACTIONS

The Audit Committee have, in such capacity, reviewed the connected transactions referred to in Note 41 to the financial statements and confirmed that:

1. Such transactions have been entered into by the Company in the ordinary and usual course of its business; and
2. Such transactions have been entered into either (I) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities with PRC) or (II) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. Such transactions have been entered into either (I) in accordance with the terms of the relevant agreements governing such transactions or (II) (where there is no such agreement) on terms no less favorable than terms available to third parties.

SUPERVISION COMMITTEE

The Supervision Committee of the Company has reviewed the Company's results reports 2005.

QUALIFIED ACCOUNTANT

The Company already has an accountant who meets article 3.24 in List Rules, but he is neither a fellow or associate member of the Hong Kong Institute of Certified Public Accountants nor of a similar body of accountants reorganized by that Society for the purpose of granting exemptions from the examination requirement for membership of that Society. Therefore, the Company will employ a person who meets above-mentioned qualification to assist the Company's accountant in supervising the Company's financial reporting procedures and inner controls. Until now, the Company has not found such a suitable person yet.

董事會報告書(續)

Report of the Directors – (continued)

獨立非執行董事獨立性的確認

本公司已經收到每名獨立非執行董事就其獨立性作出的年度確認函，其獨立性符合《上市規則》第3.13條所載的任何一項獨立指引，屬於獨立人士。

股本情況

於二零零五年十二月十四日，本公司完成增發新股後，截至二零零五年十二月三十一日，本公司總股本為1,274,451,000股，其中發起人持有711,470,000股，佔總股本的55.83%，境外H股股東持有562,981,000股，佔總股本的44.17%。

股東人數

於二零零五年十二月三十一日，本公司註冊股東人數及類別如下：

國有法人股股東(由發起人持有)	1
H股股東數	80
股東總數	81

THE CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS INDEPENDENCE

The Company has already received the Annual Letter of Confirmation from every independent non-executive director on their independence. Their independence accord to every independence index issued in article 3.13 in List Regulation and they are independent person.

SHARE CAPITAL STRUCTURE

As at 14th, December, 2005, the Company completed the work of new-shares issuing. By the end of 31st, December, 2005, the share capital structure of the Company comprised of 1,274,451,000 shares, of which 711,470,000 shares were held by the promoter (representing 55.83% of the entire share capital) and 562,981,000 shares were held by overseas H shares investors (representing 44.17% of the entire share capital).

NUMBER OF SHAREHOLDERS

Details of the Company's registered shareholders as at 31st, December, 2005 were as follows:

Holders of State Shares (held by the Promoter)	1
Holders of H Shares	80
Total number of shareholders	81

董事會報告書 (續)

Report of the Directors – (continued)

首十名股東

於二零零五年十二月三十一日，本公司股東名冊上持股量最多的首十名股東的持股情況如下：

TOP TEN SHAREHOLDERS

As at 31st, December, 2005, the top ten registered shareholders who hold the most shares were as follows:

股東名稱 Name of Shareholders	股數 Number of Shares	持股百分比 Percentage of Shares Holding	備註 Remark
哈爾濱電站設備集團 Harbin Power Plant Equipment Group Corporation	711,470,000	55.83%	國有法人股 state shares
HKSCC Nominees Limited	553,330,598	43.40%	H股 H shares
HSBC Nominees (Hong Kong) Limited <A/C BR-1>	7,410,000	0.58%	H股 H shares
HSBC Nominees (Hong Kong) Ltd	264,000	0.02%	H股 H shares
Cheung Yum Tin	200,000	0.02%	H股 H shares
Lam Man Lai	200,000	0.02%	H股 H shares
Ng Siu Hang	120,000	0.01%	H股 H shares
Au Lei Man	100,000	0.01%	H股 H shares
Chan Suk Wan	100,000	0.01%	H股 H shares
Ho Chi Kun	100,000	0.01%	H股 H shares

董事會報告書(續)

Report of the Directors – (continued)

H股股東股權分析(根據二零零五年十二月三十一日股東名冊)

範圍	Scope (number of shares)	人數 People Number	持股數 Number of Share Holding	佔已發行H股百分比 Percentage to Issued H Shares
1-1000	1-1000	4	402	0.00%
1,001-5,000	1,001-5,000	22	54,000	0.01%
5,001-10,000	5,001-10,000	19	172,000	0.03%
10,001-100,000	10,001-100,000	29	1,230,000	0.22%
100,001-以上	100,001-above	6	561,524,598	99.74%
合計	total	80	562,981,000	100%

標準守則

公司董事會批准把《上市規則》附錄十規定的《標準守則》作為公司的守則。經向董事查詢，證實所有董事在期內均已遵守《標準守則》之規定。

企業管治常規守則

本公司在二零零五年任何時間均已遵守香港聯交所《上市規則》附錄十四《公司管治常規守則》

INTEREST'S IN THE SHARE CAPITAL ANALYSIS OF HOLDERS OF H SHARES (ACCORDING TO SHAREHOLDERS LIST AT 31ST DECEMBER, 2005)

MODEL CODE

The Board of Directors of the Company approved to use Appendix 10 of the Listing Rules-Model Code as the Company's Code. Through inquiring to directors, the Company confirmed that all directors had complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies within the period under review.

GENERAL CODE FOR CORPORATE GOVERNANCE

The Company has obeyed the regulation of Appendix 14 of HKSE Listing Rules-General Code for Corporate Governance at any time in 2005.

董事會報告書 (續)

Report of the Directors – (continued)

結算日後事項

二零零六年四月十四日，公司董事會決定從二零零六年五月一日起，聘任馬遂先生擔任新的公司秘書，鄧先元先生因工作變動不再擔任本公司的公司秘書，馬遂先生簡歷如下：

馬遂先生，現年48歲，工商管理碩士，副教授職稱，現任本公司董事會秘書局主任兼總經理辦公室主任。馬先生一九七六年參加工作，一九八二年畢業於東北重型機械學院，同年加入哈電集團，曾於本集團原電機廠長期從事員工培訓和企業策劃工作。先後擔任職工大學副校長、公司辦公室副主任、企業策劃部部長、副總經濟師等職務。二零零三年五月起任本公司總經理辦公室主任，二零零六年三月起兼任董事會秘書局主任。

核數師

自本公司成立日始，德勤•關黃陳方會計師行及德勤華永會計師事務所有限公司已被聘任為核數師。

承董事會命
董事長
耿雷

二零零六年四月十四日

MATTERS AFTER THE BALANCE SHEET DATE

On 14th April, 2006, the Board of Directors of the Company decided to appointed Mr. Ma Sui as the new company secretary from 1st May, 2006, Mr. Deng Xian-yuan would not be the company secretary any longer because of the position alteration. The resume of Mr. Ma Sui is as following:

Mr. Ma Sui, 48, assistant professor and master of business administration, now the company secretary and director of the management office of the Company. Mr. Ma joined in the work in 1976, he graduated from Mechanical Institute of Northeast Heavy Machinery Institute in 1982 and joined in HPEGC in the same year. He has been engaged in the employee training and enterprise planning in former Electric Machinery Works of the Group, and has been assistant president of the Employee College, deputy director of general manager office, director of enterprise planning department and vice chief economist of the Electric Machinery Company. Since May 2003, he has been transferred acting as the director of management office of the Company, and appointed as the director of the board secretaries department in March 2006.

AUDITORS

Messrs. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Limited have acted as auditors of the Company since its date of incorporation.

On behalf of the Board of Directors
Chairman
Geng Lei

Harbin, the People's Republic of China, 14th April, 2006