

董事會報告書

Report of the Directors

董事會欣然提呈本公司2006年年度報告和截至2006年12月31日止年度經審計的財務報表。

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7。

本集團所有業務均以中國為基地，其中約87.8%之集團營業額來自中國。

截至2006年12月31日止年度，本集團產品出口營業額為354,405萬元，佔總營業額的12.2%。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2006年12月31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 are pleasure to submit 2006 annual report and audited financial statements for the year ended 31st December 2006 of the Company.

PRINCIPLE ACTIVITIES

The Company and its principal subsidiaries are mainly engaged in manufacturing and sales of various kinds of power equipments and power station engineering services, which are set out in Note 7 to the financial statements.

All the activities of the Group are based in the PRC, where 87.8 per cent of the Group's turnover is derived from.

The export sales of the Group for the year ended 31st December 2006 amounted to Rmb 3,544.05 million, representing 12.2 per cent 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 of 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 2006 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2006年12月31日止之年度業績載於本年報第60頁的綜合損益表中。

董事會建議本公司二零零六年度除稅及少數股東收益後溢利分配如下：

1. 提取法定公積金人民幣101,836,477.03元。
2. 董事會建議向2007年5月15日登記在股東名冊的股東派發二零零六年度股息每股人民幣0.090元，合共派發股息人民幣123,912,540元。H股股東的股息將以港幣支付，匯率乃按2007年4月20日前五天中國人民銀行公佈的人民幣兌港幣匯率市場價計算，即1元人民幣折合港幣1.011元，H股股東每股可獲股息0.0909元港幣。
3. 公司定於2007年5月15日至6月14日（包括首尾兩天）暫停辦理股票過戶登記，暫停登記前已經在冊的股東均有權出席股東周年大會並表決及有權獲派2006年度股息。

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。

FINANCIAL RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31st December 2006 are set out in the consolidated income statement on page 60 of the annual report.

The Directors propose the distribution of profit after taxation and minority interests for 2006 as follows:

1. To transfer Rmb101,836,477.03 to the statutory reserve.
2. The Directors propose a dividend of Rmb0.09 per share for shareholders who registered on shareholder' list before 15th May 2007; payment of dividends totally amounted to Rmb123,912,540. Shareholders of H share will be paid in Hong Kong dollar; the exchange rate used is based on average closing rate of the People's Bank of China during the five days preceding the date of 20th April 2007, which is Rmb 1 for HK\$1.011. The dividend for every H share will be HK\$0.0909.
3. The Register of members of the Company will be closed from 15th May 2007 to 14th June 2007, both days inclusive, during which period no transfer of shares can be registered. Shareholders whose names appear on the Register of Members on 15th May 2007 shall be entitled to present in the meeting and the dividend payment for the year 2006.

DIRECTORS AND SUPERVISORS

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

董事會報告書(續)

Report of the Directors – (continued)

董事、監事及高級管理人員的股本權益

於2006年12月31日，本公司各董事、監事及高級管理人員概無在本公司及其／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。

董事、監事的服務合約

公司董事會、監事會根據2006年9月29日召開的股東特別大會選舉產生了公司第五屆董事會成員和第五屆監事會成員（詳情見本年報《董事、監事及高級管理人員》一節）。

各董事及監事均與本公司訂有服務合約，該等合約於2009年9月29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。

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

As at 31st December, 2006, none of the directors, supervisors and senior management 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 of any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such director, supervisor or senior management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the Register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listing Companies as contained in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

During the Special General Meeting convened on 29th September 2006, the company reelected members of the fifth session of the Board of Directors and the Supervisory Committee (as detailed in the section headed "DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT").

There are service contracts between every director, supervisor and the Company, which will expire by 29th September 2009. Besides this, there are no existing and suggesting service contracts between every director, supervisor and any member company of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the director or supervisor of the Company has any 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.

董事會報告書 (續)

Report of the Directors – (continued)

董事及監事酬金

截至2006年12月31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12。

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15。

儲備

於2006年12月31日，本集團儲備總額為人民幣355,702萬元，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。

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31。

本集團期間內在建工程的利息資本化金額為人民幣32萬元。

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 2006 are set out in Note 12 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 15 to the financial statements.

RESERVES

The Company's reserves available for distribution are Rmb3,557.02 million until 31st December 2006. Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

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 31 to the financial statements.

Interest capitalized by the Group during the year amounted to Rmb0.32 million in respect of construction in-progress.

董事會報告書 (續)

Report of the Directors – (continued)

購買、出售及贖回本公司之上市證券

於2006年12月31日，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債券。

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。

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10.69%。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4.63%。
2. 期內本集團首五大客戶合共佔總營業額百分比為50.58%。其中最大的客戶是中國國電集團公司，佔總營業額百分比為14.26%。其次分別為中國華能集團公司佔11.67%，中國大唐集團公司佔10.42%，中國電力投資集團公司佔8.31%，中國華電集團公司佔5.93%。
3. 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%或以上本公司股份者）在上述供應商或客戶中概無任何權益。

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

As at 31st December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or PRC Law, which would require the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

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 10.69 per cent of the Group's total purchases. Among which the largest supplier is German Mannesmann Company, presenting 4.63 per cent.
2. 50.58 per cent of the total turnover of the Group during the period was attributable to the Group's five largest customers. Amongst which was the largest customer, accounting for 14.26 per cent of the total turnover. Others include Huaneng Power International for 11.67 per cent, Datang International Power Generation Co., Ltd. for 10.42 per cent, China Power Investment Corporation for 8.31 per cent, and China Huadian Corporation for 5.93 per cent.
3. None of the directors, supervisors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5 per cent of the Company's share capital) has any interest in above mentioned suppliers or customers.

董事會報告書 (續)

Report of the Directors – (continued)

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2006年12月31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。

稅收政策

根據中國財政部及中國國家稅務局於1994年3月29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2003年10月15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2004年9月14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2004年7月1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。

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, 2006, the Company had no entrusted deposits in commercial banks or non-bank financial institutions and had no due deposits that had not been withdrawn.

INCOME TAX AND EXPORT VAT REBATE

According to provisions of Notice on Certain Preferential Tax Policies on Enterprise Income Tax (《關於企業所得稅若干優惠政策的通知》) issued by the Ministry of Finance and the State Administration for Taxation on 29th March 1994, enterprises within High and New Technology Industrial Zones approved by the State Council shall be entitled to income tax at a reduced tax rate of 15 per cent, which has been the tax rate applied by the Group. Since the Group meets the requirements of related laws and regulations, the Board considers it is appropriate for the major subsidiaries of the Group to apply the 15 per cent income tax rate.

In accordance with regulations of the State Administration for Taxation, the rate for tax rebate of the Group’s new export products contracts is 13 per cent since 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 14th 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.

董事會報告書 (續)

Report of the Directors – (continued)

關聯交易

有關關聯交易詳情載於本年報財務報表附註41。

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。

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。

CONNECTED TRANSACTIONS

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

CONFIRMATION ON CONNECTED TRANSACTIONS

The Audit Committee have, in such capacity, reviewed the connected transactions (as defined in the Listing Rule) 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.

QUALIFIED ACCOUNTANT

The Company already has an accountant who meets the regulations set out in article 3.24 of the Listing Rules, but he is neither a fellow or associate member of the Hong Kong Society of Accountants nor of a similar body of accountants recognized 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 the above-mentioned qualification to assist the Company's accountant in supervising the Company's financial reporting procedures and internal 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

截至2006年12月31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2006年12月31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	65
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股東總數	66
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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 Listing Rules and they are independent person.

SHARE CAPITAL STRUCTURE

As at 31st December 2006, 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 per cent of the entire share capital) and 562,981,000 shares were held by overseas H shares investors (representing 44.17 per cent of the entire share capital).

NUMBER OF SHAREHOLDERS

Details of the Company's registered shareholders as at 31st December 2006 were as follows:

Holders of State Shares (held by the Promoter)	1
Holders of H Shares	65
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Total number of shareholders	66
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董事會報告書(續)

Report of the Directors – (continued)

首十名股東

於2006年12月31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 2006, 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 Note
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	553,720,598	43.45%	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	270,000	0.02%	H股 H shares
Lam Man Lai	250,000	0.02%	H股 H shares
Cheung Yum Tin	200,000	0.02%	H股 H shares
Ng Siu Hang	120,000	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
Tam Tung Sun	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2006年12月31日股東名冊)

INTEREST'S IN THE SHARE CAPITAL ANALYSIS OF HOLDERS OF H SHARES (ACCORDING TO SHAREHOLDERS LIST AT 31ST DECEMBER, 2006)

範圍	Scope (number of shares)	人數 Number of shareholders	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	20	48,000	0.01%
5,001 – 10,000	5,001 – 10,000	14	122,000	0.02%
10,001 – 100,000	10,001 – 100,000	21	840,000	0.15%
100,001 – 以上	100,001 – above	6	561,970,598	99.82%
合計	total	65	562,981,000	100%

標準守則

經向董事查詢，證實所有董事在期內均已遵守《上市規則》附錄十規定的《標準守則》之規定。

企業管治常規守則

本公司在2006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》。

結算日後事項

於2007年3月2日，公司董事會根據股東周年大會的一般授權發行了10,235.5萬股新H股，該等股份佔發行前H股總量的18.18%，發行價格為每股10元港幣，集資淨額約10億港元。

MODEL CODE

The Company, having made specific enquiry, confirms that all members of the Board complied with the Model Code set out in Appendix 10 of the Listing Rules throughout the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the year of 2006 with all code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

POST BALANCE SHEET EVENTS

As at 2nd March 2007, the Board of the Company issued 102.355 million new H shares (representing 18.18 per cent of existing H shares before the issue) under the general mandate of the Annual General Meeting, at an issue price of HK\$10 per share, to raise approximately HK\$1 billion.

董事會報告書(續)

Report of the Directors – (continued)

核數師

本公司是中國國有企業的附屬公司，因此按照中華人民共和國國務院國有資產監督管理委員會頒佈的有關集中處理國有企業審計工作的新政策，德勤會計師事務所辭任本公司核數師。根據2006年6月16日召開的公司2005年度股東周年大會的授權及公司章程的規定，公司董事會委聘岳華會計師事務所有限責任公司及岳華會計師事務所有限公司（統稱「岳華」）為本公司新的核數師。

公司董事會將在2006年度股東周年大會上提呈議案，授權本公司董事會決定本公司聘任核數師事項並釐定其酬金。

承董事會命
董事長
宮晶堃

2007年4月20日

AUDITORS

The Company is a subsidiary of a state-owned enterprise of China. To comply with a new policy issued by the State-owned Assets and Supervision and Administration Commission of the State Council in the People's Republic of China to centralize the audit works of State-owned enterprises, Deloitte Touche Tohmatsu CPA Limited have rendered their resignation as the auditors of the Company. The Board has appointed Yuehua Certified Public Accountants Company Limited and Yuehua (Hong Kong) CPA Limited as new auditors of the Company, in accordance with the authorization of the 2005 Annual General Meeting convened on 16th June 2006 and provisions of the Articles of Association of the Company.

The Board of Directors of the Company will propose motion for approval at the 2006 Annual General Meeting to authorize the Board of Directors of the Company to determine the appointment of auditors and to fix their remuneration.

By order of the Board
Gong Jing-kun
Chairman

20th April, 2007