



# Annual Report 2009

**Haitian International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**Stock Code:1882**



 **TIANJIAN**  
PLASTICS MACHINERY



 **HAITIAN**  
PLASTICS MACHINERY



 **ZHAFIR**  
PLASTICS MACHINERY





A D V A N T A G E



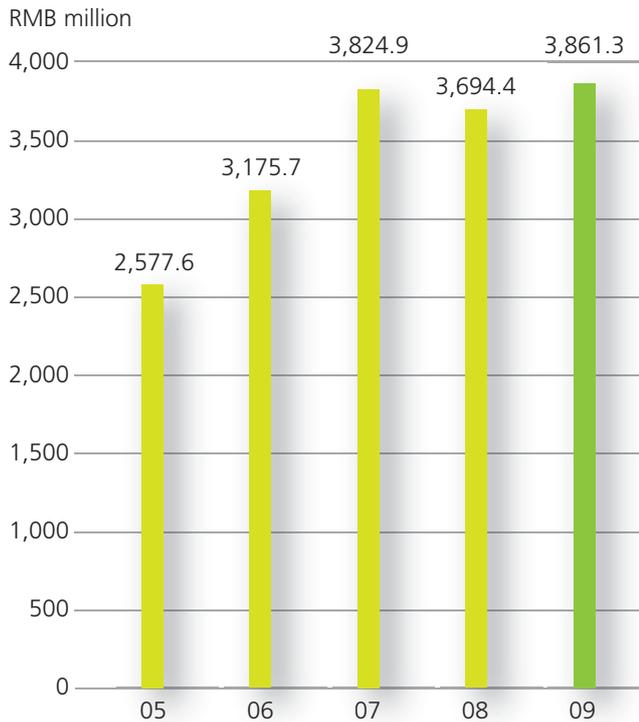


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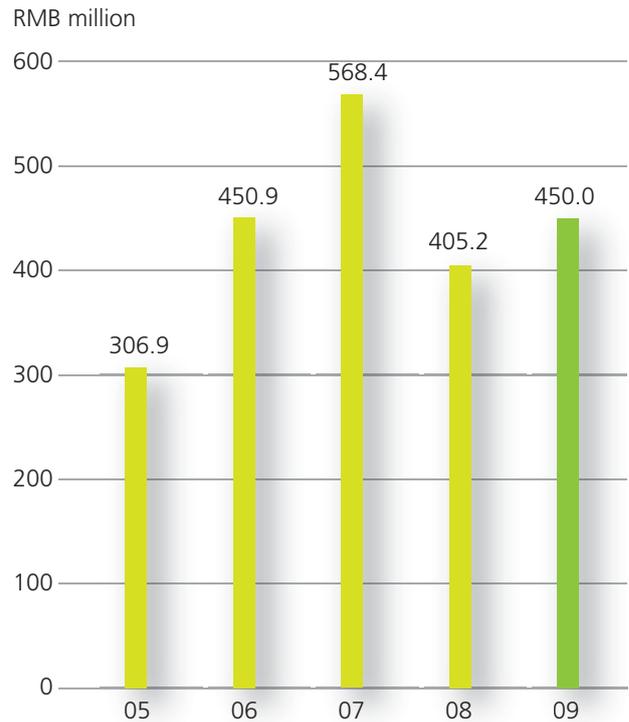
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# Financial Highlights

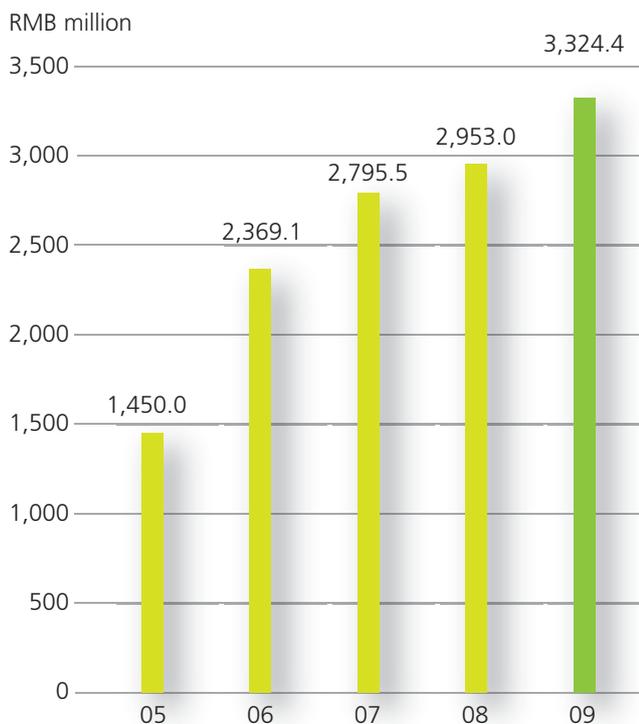
## Revenue



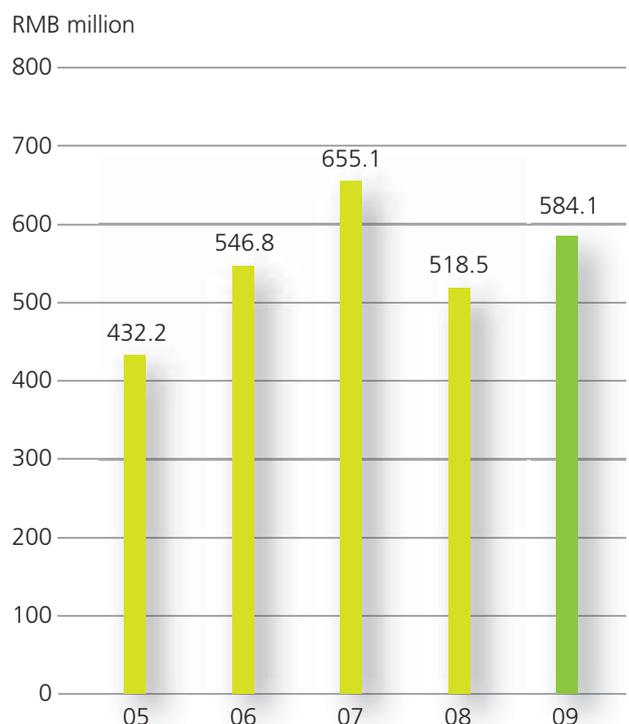
## Profit attributable to the equity holders of the Company



## Capital and reserves attributable to equity holders of the Company



## EBITDA



# Company Profile and Corporate Information

## Executive Directors

Mr. ZHANG Jingzhang (*Chairman*)  
Mr. ZHANG Jianming (*Chief Executive Officer*)  
Prof. Helmut Helmar Franz  
Mr. ZHANG Jianguo  
Mr. ZHANG Jianfeng  
Mr. GUO Mingguang  
Mr. LIU Jianbo  
Ms. CHEN Ningning

## Non-Executive Director

Mr. HU Guiqing

## Independent Non-Executive Directors

Mr. PAN Chaoyang  
Mr. GAO Xunxian  
Mr. DAI Xiangbo  
Dr. Steven CHOW

## Company Secretary and Qualified Accountant

Mr. LO Chi Chiu

## Legal Advisors

Coudert Brothers in association with  
Orrick, Herrington & Sutcliffe LLP

## Registered Office

Cricket Square, Hutchins Drive  
PO Box 2681, Grand Cayman KY1-1111  
Cayman Islands

## Auditor

PricewaterhouseCoopers  
*Certified Public Accountants*

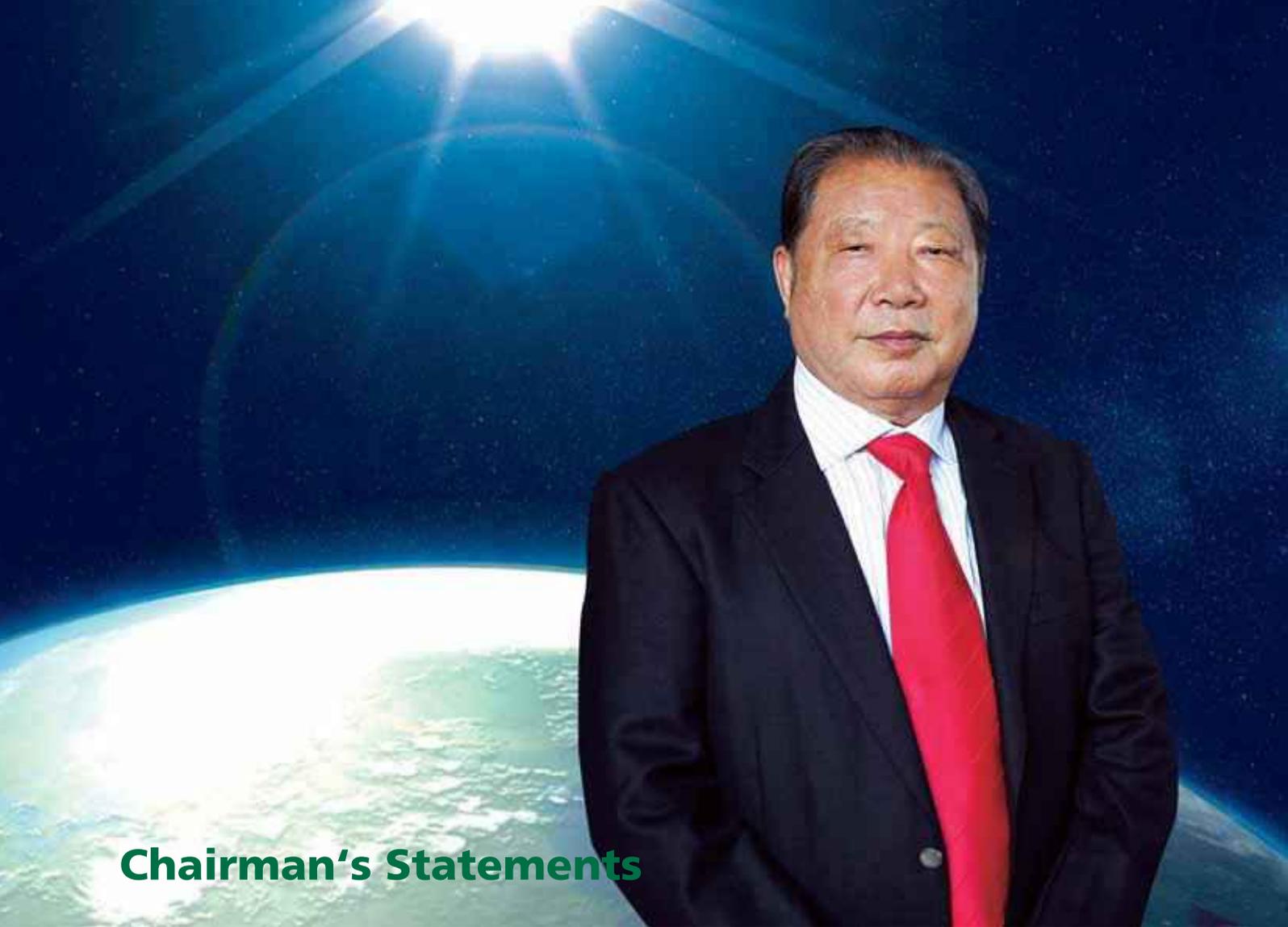
## Principal Place of Business

*China*  
No. 32–35, Central Jiangnan Road  
Ningbo 315821, Zhejiang  
China

*Hong Kong*  
Unit 1105, Level 11  
Metroplaza, Tower 2  
223 Hing Fong Road  
Kwai Fong, N.T.  
Hong Kong

## Principal Bankers

Agricultural Bank of China  
Bank of China  
Shenzhen Development Bank  
Industrial and Commercial Bank of China  
Industrial Bank Co. Limited



## Chairman's Statements

### Dear Shareholders,

On behalf of Haitian International Holdings Limited, ("Haitian Holdings" or the "Company"), with its subsidiaries (together, the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2009.

### Business Review

Following the outbreak of the global financial crises in the fourth quarter of 2008, year 2009 began with a sharp decline in sales and orders. The operating environment improved since the second quarter of 2009 due to massive stimulus packages implemented by governments worldwide. With the launch of the Chinese Government RMB four-trillion Economic Stimulus Package and the national plans for readjustment and revitalization of key industries, China was one of the first economies to recover from the impact of the financial crises. The financial crisis has driven the focus of the plastic injection moulding machine manufacturing industry in the world to the China market. The Chinese market demonstrated an impressive and sustained recovery since the second quarter of 2009. As market conditions gradually stabilized in other parts of the world, the pace of our sales recovery from the second quarter onwards was so remarkable that it turned around the shortfall of sales in the first half of 2009. Total sales in the second half of 2009 was up 80.8% compared to the first half. Consequently, the Group achieved turnover of RMB3,861.3 million in 2009, representing an increase of 4.5% compared with RMB3,694.4 million in 2008.

## Chairman's Statements (Continued)

The Group's sales by geographic areas are summarized in the following table:

(RMB million)	1H2008	2H2008	2008	1H2009	2H2009	2009	09 Vs 08 Change	2H Vs 1H Change
Domestic Sales	1,348.9	914.1	2,263.0	1,011.2	1,905.7	2,916.9	28.9%	88.5%
Export Sales	667.4	676.1	1,343.5	313.6	527.5	841.1	-37.4%	68.2%
Parts	43.7	44.2	87.9	50.2	53.1	103.3	17.5%	5.8%
	2,060.0	1,634.4	3,694.4	1,375.0	2,486.3	3,861.3	4.5%	80.8%

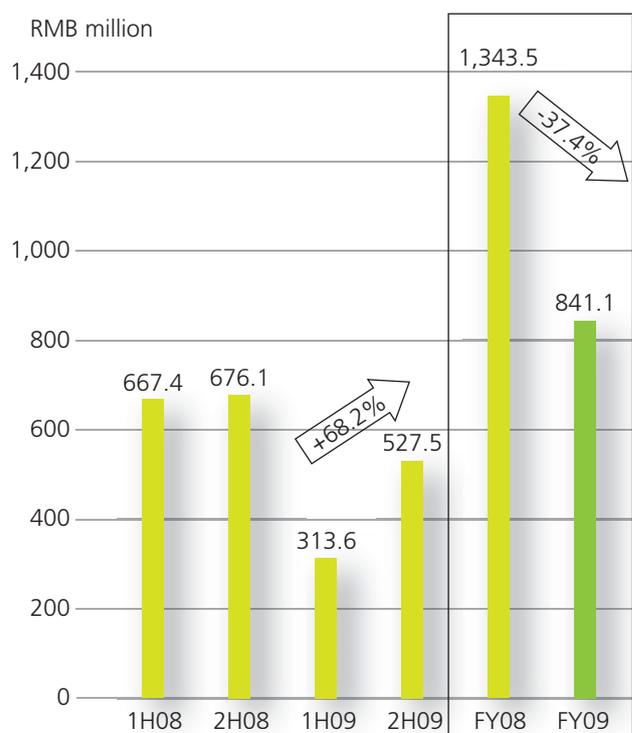
Boosted by the execution of the RMB four-trillion Economic Stimulus Package and the plans to resuscitate key industries in China, domestic demand for properties and motor vehicles increased substantially. Demand for the relevant plastic consumer products also showed a remarkable increase, which posted an impressive growth and thus brought the sequential improvement in investor confidence. Since the Value-Added Tax (VAT) reform that allows companies to deduct 17% VAT for fixed assets purchased, corporate investment in equipment in China has been encouraged and the replacement cycle of equipment has been shortened. Therefore, we recorded an impressive sales growth of 28.9% for the domestic market amounting to RMB2,916.9 million in 2009.

Even though there appeared to be signs of economic stabilization and recovery in the export markets since the second half of 2009, the levels of intensity and paces for China were unmatched. The economic revival in other parts of the world was still at a preliminary stage. Our export sales in the second half of 2009 were up 68.2% compared to the first half, yet the results were still approximately 20% lower than the pre-crisis level. Consequently, the overall export sales recorded a decline of 37.4% and amounted to RMB841.1 million for the year.

### Domestic Sales Analysis



### Export Sales Analysis



## Chairman's Statements (Continued)

The Group's sales by small tonnage and medium-to-large tonnage plastic injection moulding machines (PIMMs) are summarized in the following table:

(RMB million)	1H2008	2H2008	2008	1H2009	2H2009	2009	09 Vs 08 Change	2H Vs 1H Change
Small tonnage	1,280.1	948.8	2,228.9	956.1	1,668.7	2,624.8	17.8%	74.5%
Medium-to-large tonnage	736.2	641.4	1,377.6	368.7	764.5	1,133.2	-17.7%	107.4%
Parts	43.7	44.2	87.9	50.2	53.1	103.3	17.5%	5.8%
	2,060.0	1,634.4	3,694.4	1,375.0	2,486.3	3,861.3	4.5%	80.8%

During the year under review, the sales of small-tonnage PIMMs increased by 17.8% and the sales of medium-to-large-tonnage PIMMs decreased by 17.7%. Generally, the sales of small tonnage PIMMs are usually more sensitive and response faster to change in market situation. Riding on the gradual market improvement, the small-tonnage PIMMs showcased a strong recovery in the beginning of the second quarter. Coupled with a significant market share gain from Mars (J5 series), of which PIMMs come with strong energy-saving and higher-precision features, the sales of small-tonnage PIMMs surged by 17.8% amounting to RMB2,624.8 million in 2009.

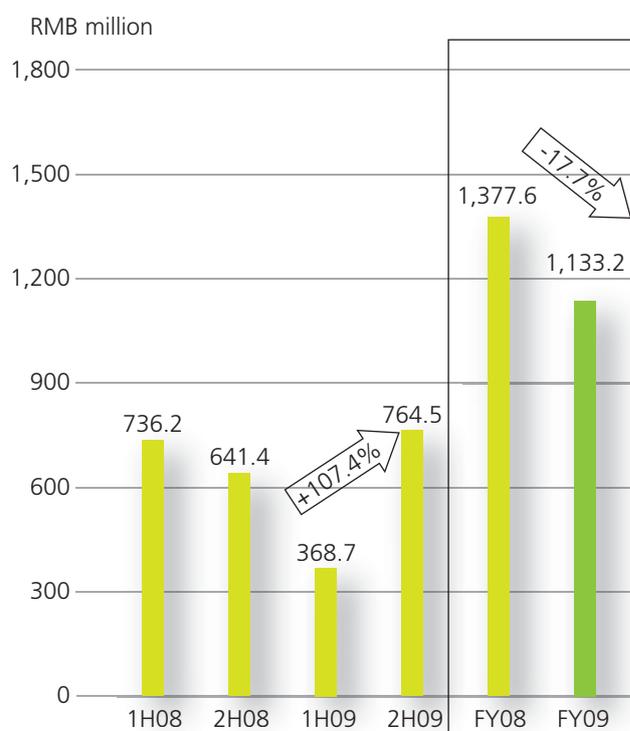
Due to the longer delivery time lag of medium-to-large-tonnage PIMMs, the sales improvement could only be realized starting from the third quarter. The sales of medium-to-large-tonnage PIMMs in the second half was up by a remarkable 107.4% against the first half. Despite the robust results, which were approximately 5% higher than the pre-crisis level, overall sales of this category still decreased by 17.7% year-over-year.

In year 2009, our profitability also improved. Our continuous efforts in implementation of cost control measures and optimization in production process to lower the production and logistic costs, coupled with correction in raw material and component costs after the financial crisis, all contributed to the Group's net profit margin improvement from 11.0% in 2008 to 11.7% in 2009. The Group's profit attributable to equity holders for year 2009 is RMB450.0 million, which is 11.0% higher than that of 2008.

### Small Tonnage Machines Analysis



### Medium-to-large Tonnage Machine Analysis



## Chairman's Statements (Continued)

For Haitian International, 2009 was a difficult but rewarding year. Although 2009 was not one of our most profitable years, we achieved a record setting half-yearly sales and profit in the second half of 2009. Our success is not only built on the stabilization of market environment in 2009, but also on the long-term strategy of expanding our product penetration in different industries and markets, as well as persistent efforts in research and development of innovative and affordable products to cater to customer needs. It is also the result of the Company's effort of diversification and adjustment to the sales network area during the financial crisis. Our diversified customer portfolio allowed us to be more resilient to the market downturn and avoid unnecessary scale-down of business caused by short-term adjustment to market conditions. We are in an unrivaled position to benefit from opportunities arising from the strong market recovery. With our ace-product, Mars (J5), which currently accounted for more than 50% of our total sales, we gained a remarkable market share from other industry players during the recovery. During the year, the sales of Mars increased by 104.9% from RMB1,016.5 million in 2008 to RMB2,082 million in 2009. Continuous increase in the sales ratio of the Mars machine is also due to its compliance with the macro policy of low-carbon, energy saving and environmental-friendly promoted by the PRC government. As a result, we have significantly outperformed our industry players as the PIMM market improved.

## Prospect

We believe that the worst of the financial crises is over and the global economy is on the right track to a sustainable recovery. There is a clear sign of continued economic recovery from recent economic data, which indicated the rebound in global manufacturing activities, stabilization of unemployment rate and improved consumer sentiment and investment confidence. The pace and scale of recovery vary in different countries. It is very clear that the growth rate of the PRC economy will take the lead against the rest of the world. With more than 70% of sales in domestic market, we will be in a prime position to benefit from the economic growth. In the second half of 2009, our export sales resumed to approximately 80% against the normal level. As other countries started gaining momentum, we expect a full recovery of export business to be witnessed in 2010.

Business momentum for our sales in the first two months of 2010 remained encouraging. Despite the usual low level of sales activities during the Chinese New Year holidays, the billing and delivery of PIMMs for the first two months reached RMB863.3 million, setting a new record for the same period. With sales activities being well-above the pre-crisis period, we have already returned back to the growth phase and expect to record another year of strong performance compared to past record-breaking years.

With the ambition in future growth, we cannot disregard that there remains some fragility in the economic outlook and we need to be cautious dealing with uncertainties, including possible hiking of steel and component costs, timing of fiscal policy adjustments in response to inflation and overheat economy, and possible sovereign-debt crunch in certain EU nations. We have established a track record of steady growth as well as the capability to overcome challenges and difficulties, such as that of the recent financial crisis. Leveraging on our prestigious brand, unmatched quality, self-developed core technology and efficient production scale, we are confident to create much higher value in the production process than industry peers and maintain satisfactory profitability in this environment. Building on our strong performance in 2009 and our past efforts in consolidating our businesses, we are well-prepared to reach new heights in the future.

## Appreciation

Finally, on behalf of the Board of Directors, I would like to thank all staff members for their contribution in the past year and at the same time, I would also like to express our gratitude towards our shareholders, consumers, suppliers and business partners for their continued confidence in and support to the Group.

**Mr. Zhang Jingzhang**  
*Chairman of the Group*

15 April 2010

## CEO's Report



### Highlights

	2009 RMB'million	2008 RMB'million	Change %
Sales	3,861.3	3,694.4	4.5
Profit before taxation	513.0	442.0	16.1
Profit attributable to equity holders of the Company	450.0	405.2	11.0
Basic Earnings per share (expressed in RMB per Share)	0.28	0.25	11.0
Dividend per share (expressed in HK\$ per Share)			
Proposed final	0.100	0.030	233.3
Full year (including interim)	0.130	0.095	36.8

- Strong sales picked up in the second half 2009 of 80.8% which resulted in turnaround the sales shortfall in the first half. The sales of 2009 increased by 4.5%
- Improved net profit margin from 11.0% in 2008 to 11.7% in 2009
- Profit attributable to equity holders of the Company increased to RMB450.0 million, representing an increase of 11.0%
- Achieved a record setting half yearly sales and profit
- The Board proposed a final dividend of HK10.0 cents per share, total dividend for the year amounted to HK13.0 cents increased by 36.8%
- Significant increase in net cash from RMB925.1 million in 2008 to RMB1,597.0 million in 2009



## Financial Review

### Sales

Gaining from the growing signs of domestic demand and global economic stabilization since the second quarter of 2009, the Group's sales rebounded with strong momentum in the second half of 2009. In fact, the remarkable sales improvement in the second half of 2009 contributed to the turnaround of the full-year performance. The Group's sales recorded a surge from RMB3,694.4 million to RMB3,861.3 million, representing an increase of 4.5% during the year.

The Group's sales by geographic areas is shown in the following table:

	2009 RMB million	2008 RMB million	
Domestic	2,916.9	2,263.0	28.9%
Export	841.1	1,343.5	-37.4%
Others	103.3	87.9	17.5%
<b>Total</b>	<b>3,861.3</b>	3,694.4	4.5%

We benefitted from the increase in domestic fixed asset investment which was derived from the initiatives of the RMB four-trillion Economic Stimulus Package implemented by the Chinese Government, as well as the VAT reform in China that eases the VAT tax burden on machines purchased. During the year, the sales in domestic market substantially increased by 28.9% to RMB2,916.9 million.

On the contrary, the rest of the world showed a slower pace of recovery than China. Despite signs of economic stabilization and recovery since the second half of 2009, yet at different levels of intensity and slower paces than China, the recovery of other world economies was only beginning. Therefore, the sales in international market posted a decrease by 37.4% to RMB841.1 million.

## CEO's Report (Continued)

### Gross Profit

During the year, the Group recorded gross profit of approximately RMB998.7 million, representing an increase of approximately 1.3% compared to the corresponding period in 2008. Overall gross margin has decreased from 26.7% in 2008 to 25.9% in 2009. The decrease in gross margin for the year was mainly due to the low gross margin of 22.1% recorded in the first half of 2009 which was caused by: i) the consumption of higher cost of materials and components which were purchased before the financial crisis, and ii) low utilization of plants and machineries in the first quarter of 2009, and iii) the decrease in sales mix in export sales and medium-to-large-tonnage PIMMs which yield higher profit margin. In the second half of 2009, our gross profit margin restored back to normal level and was approximately 27.9%.

### Selling and administrative expenses

The selling and administrative expenses decreased by 6.8% from RMB580.4 million in 2008 to RMB541.0 million in 2009, primarily due to: i) our efforts in cost-saving measures implemented, and ii) the decrease in sales commission expenses and transportation charges resulted from decrease in export sales which generally incurs a higher percentage of sales commission and transportation charges.

### Other income

Other income, mainly represented by government subsidy, decreased by 10.3% from RMB26.6 million in 2008 to RMB23.8 million in 2009.

### Other gains/(losses), net

Other gains/(losses), net, mainly referred to exchange gains/(losses) and gains/(losses) of disposal in fixed assets and land use rights.

### Operating profit

As a result of the abovementioned, the operating profit increased from RMB417.0 million in 2008 to RMB500.5 million in 2009.

### Finance income, net

Finance income, net, decreased by 51.0% from RMB24.9 million in 2008 to RMB12.2 million in 2009. The reduction was due to substantial decline in interest rate resulted from the fiscal monetary policies in response to the financial crisis.

### Income tax expenses

Income tax expenses increased by 71.2% from RMB36.8 million in 2008 to RMB63.0 million in 2009 due to: i) the increase in operating profit and ii) the provision of 5% dividend withholding tax for the Chinese subsidiaries.

### Products and Research and Development ("R&D")

Recognising the importance of the ability to continuously develop new and advanced products and to meet the changing needs of market demand, we are committed to product innovation and enhancement. The Group accelerated the technological and product development and emerged in to a better position compared to some of our competitors who scaled back the R&D spending during the financial crises. We have started several product development projects to meet the increasing need of customer including:

Zhafir Mercury Series – a high end series of all electric PIMMs which open new horizons for the design of moulded parts and for the use of innovative plastics that are difficult to process and using totally new design principles for customer benefits

Haitian Pallas Series – an enhanced version of our Mars series with significant improvement in injection speed, precision, cycle time and operating efficiency

Haitian Talos Series – an affordable high precision PIMMs, combining hydraulic and electric drive principles which particularly fits for the production of IT components, thin-wall plastic product and packaging plastics products.

### Capital Expenditure

In the year ended 31 December 2009, our capital expenditure consisted of additions of land use rights and property, plant and equipment amounted to RMB135.5 million (2008: RMB406.8 million).

### Liquidity and Financial Resources

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders' equity. As at 31 December 2009, the Group is in a strong financial position with a net cash position amounting to RMB1,597.0 million (2008: RMB925.1 million). Hence, no gearing ratio is presented.

## CEO's Report (Continued)



Haitian Pallas Series



Zhafir Mercury Series

### Charges on Group Assets

As at 31 December 2009, the Group has pledged deposits of RMB1.0 million (2008: RMB2.4 million) as collaterals against certain trade finance facilities granted by banks and of RMB137 million (2008: Nil) secured for certain U.S. dollars-denominated bank borrowings.

### Foreign Exchange Risk Management

The Group exports approximately 22% of its products to international markets which sales are denominated in U.S. dollars or other foreign currencies, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of total purchases. The Group has not used any forward contracts or other means to hedge its foreign currency exposure however the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts. During the year, the Group borrowed a U.S. dollars-denominated bank loan amounted to RMB137.4 million to hedge the exchange risk of U.S. dollars-denominated receivable arising from export sales.

### Contingent Liabilities

As at 31 December 2009, the Group has RMB457.2 million (2008: RMB309.2 million) guarantee given to the banks in connection with facilities granted to customers.

### Human Resources

As at 31 December 2009, the Group had a total workforce of approximately 3,800, majority of which is located in Mainland China. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses will be paid to staff based on individual and Group performance. The Group is committed to nurturing a learning culture in the organization. Total staff costs for 2009 amounted to RMB287.4 million compared against RMB283.3 million in 2008.

### Proposed Final Dividend

The Board has resolved to recommend the payment of a final dividend of HK\$0.10 per share for the year ended 31 December 2009 which is expected to be paid on or before 27 May 2010 to its shareholders whose names appear on the register of members at the close of business on 17 May 2010, subject to final approval at the Annual General Meeting of the Company.

### Closure of Register of Members

The register of members of the Company will be closed from 13 May 2010 to 17 May 2010 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 12 May 2010.

#### Zhang Jianming

Chief Executive Officer

15 April 2010



## Directors and Senior Management

## Directors and Senior Management (Continued)

### Executive Directors

**Mr. Zhang Jingzhang (張靜章)**, aged 73, is an executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has in-depth knowledge of, and more than 40 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) (“Ningbo Haitian”) from 1970 to 1994. He was named an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People’s Government, and was also awarded the title of an “Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo” (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affairs and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was named as an economist by the Ningbo Municipal People’s Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) was also elected as a deputy to the People’s Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the chairman of the China Plastic Machine Industry Association (中國塑料機械協會).

Mr. Zhang is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng and the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive directors of the Company. He is also a director of Sky Treasure Capital Limited (“Sky Treasure”) and Premier Capital Management (PTC) Ltd. (“Premier Capital”), which interests in the Company have been detailed under the paragraph headed “Interests and Short Positions of Shareholders” in the Directors’ report.



## Directors and Senior Management (Continued)



**Mr. Zhang Jianming (張劍鳴)**, aged 47, is an executive Director and the chief executive officer of the Group and is responsible for the overall daily operations of the Group such as production, sales and marketing. By introduction of Mr. Zhang Jingzhang, Mr. Zhang joined the Group in August 1977 as worker and has gained extensive exposure in various departments of the Group. With over 30 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. Currently, he is the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang Jianming is the eldest son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive Directors of the Company, and a director of Sky Treasure and Premier Capital.



**Prof. Helmut Helmar Franz**, aged 60, is an executive Director and the Chief Strategic Officer of the Group. He joined the Group in September 2007, has over 30 years of experience in the plastic processing machinery industry. Prof. Franz obtained a degree in engineering specialising in plastic machinery and processes and joined Plastmaschinenwerk Schwerin in the former German Democratic Republic in 1972. At Plastmaschinenwerk, Prof. Franz worked as a senior executive in research and development and marketing. In 1985, he joined WWW Import-Export in Berlin, Germany where he served as the managing director for WWW Import-Export's sales and services in Iraq, Egypt and Russia. In 1991, he joined Demag Ergotech (previously known as Mannesmann Demag Kunststofftechnik) ("Demag"), initially as the managing director for Demag's sales and services branch in Moscow, Russia. From 1995 until 1999, he served as the managing director for Demag's manufacturing plant for small machines in Wiehe, Germany. He was then promoted to Demag's chairman in 1999 and held the office until 2005. Prof. Franz had been a member of the board of the VDMA (the German Engineering Federation) association of German plastics machinery manufacturers for many years. He served as the chairman of the board of the VDMA from July 2003 until April 2005. Since December 2005, Prof. Franz has been the sole managing director of Zhafir Plastics Machinery GmbH, a German limited liability company which is engaged in the research and development of plastic injection moulding machineries. The Group acquired a 91% equity interest in Zhafir Plastics Machinery GmbH in August 2007 and Prof. Franz is interested in the remaining 9% equity interest in Zhafir Plastics Machinery GmbH.

## Directors and Senior Management (Continued)

**Mr. Zhang Jianguo (張建國)**, aged 54, is an executive Director and the senior vice president of research and development of the Group. Mr. Zhang joined the Group in January 1974 and has more than 35 years of experience in the plastic processing machinery industry. He obtained a diploma in electrical and mechanical engineering from Zhejiang Radio TV University (浙江省廣播電視大學) in 1987. Mr. Zhang joined the Group in January 1974 initially working in the quality control division. He was subsequently promoted to the head of quality control in 1996. He has been appointed as the senior vice president of research and development of the Group since 1999. He has helped the Group in developing and improving its products including the HTFX series, the HTFW series and the HTK series. He was named as an outstanding technological worker in a township enterprise at provincial level (省級鄉鎮企業優秀科技工作者) in 1990 and twice named as a professional technician with outstanding contributions to the Ningbo region (區級有突出貢獻專業人員) by the people's government of Ningbo Beilun district in 1990 and 1997. In 1999, Mr. Zhang was awarded by the Ningbo Municipal People's Government the titles of outstanding professional technician of (寧波市優秀專業技術人員) and pioneer in technological innovations in Ningbo (寧波市首屆科技創新功臣). He was also named an excellent labour model of Ningbo (寧波市特等勞動模範) in April 2000. In 2001, Mr. Zhang obtained a "Great Achievement in the World Technology" award (世界科學技術發展成就獎) from the Hong Kong International EXPO Organising Committee for Patented Technology.



Mr. Zhang is a director of Sky Treasure and Premier Capital.

**Mr. Zhang Jianfeng (張劍峰)**, aged 40, is an executive Director and the senior vice president of sales and marketing of the Group. Mr. Zhang joined the Group in October 1985 and has more than 20 years of experience in the plastic processing machinery industry. He was promoted to the deputy head of the Group's sales division in the sales and marketing department in 1997. He has been appointed as the senior vice president of sales and marketing of the Group since 2002. Mr. Zhang is the youngest son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive Directors of the Company, and a director of Sky Treasure and Premier Capital. Since 2004 and until immediately prior to the Reorganisation, Mr. Zhang served as the deputy general manager to Ningbo Haitian.



## Directors and Senior Management (Continued)



**Mr. Guo Mingguang (郭明光)**, aged 44, is an executive Director and the vice president of manufacturing of the Group. Mr. Guo joined the Group in January 1983 and has more than 20 years of experience in the plastic processing machinery industry. In 1985, he was transferred to the Group's customer services department, and was transferred again in 1989 to the Group's engineering department. From 1994 to 1999, he served as the deputy general manager of Ningbo Zongtian Plastic Processing Machinery Manufacturing Co., Ltd. From 1999 to 2002, he served as the general manager of factory of the Group. In 2003, he was appointed as the deputy head of production of the Group and was promoted to the vice president of production of the Group in 2004. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming and Mr. Zhang Jianfeng, all of whom are executive Directors of the Company and a director of Sky Treasure and Premier Capital.



**Ms. Chen Ningning (陳寧寧)**, aged 47, is an executive Director and the vice president of finance of the Group. Ms. Chen is a qualified accountant in China. Ms. Chen first joined the Group in May 1984. Ms. Chen served as the deputy head of the finance and accounting department, and the head of the accounting division, the cost division and the inventory division of the Group from 1999 to 2003. Since 2004, Ms. Chen has served as the vice president of finance of the Group. Since 2003, Ms. Chen has been appointed as a director of the Accounting Association of Ningbo Beilun District. She was named as an outstanding accountant of Ningbo in 2005. Ms. Chen is a director of Sky Treasure and Premier Capital.



**Mr. Liu Jianbo (劉劍波)**, aged 42, is an executive Director and the vice president of quality control and customer service of the Group. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming and Mr. Zhang Jianfeng, all of whom are executive Directors of the Company, and a director of Sky Treasure and Premier Capital.

## Directors and Senior Management (Continued)

### Non-Executive Director

**Mr. Hu Guiqing (胡桂青)**, aged 69, is a non-executive Director of the Company and a non-executive Director of Ningbo Haitian. Mr. Hu served as the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian, from 1968 to 1970. After the establishment of Ningbo Haitian, Mr. Hu served as the vice executive officer of the Haitian Group until he retired at the end of 2005. Mr. Hu is a director of Sky Treasure and Premier Capital.

### Independent Non-Executive Directors

**Mr. Pan Chaoyang (潘朝陽)**, aged 64, joined the Group in August 2006 as an independent non-executive Director. Mr. Pan has over 10 years of experience in the machinery industry. Between 1968 and 1980, Mr. Pan was employed with the Ningbo Machining Factory (寧波機床廠) and held various positions in the factory during that period. From 1980 to 1994, Mr. Pan held various governmental positions in the city of Ningbo including the Vice Office Administrator of the Ningbo Municipal People's Government (寧波市人民政府辦公廳副主任), the People's Representative of the Ningbo (寧波市人大代表), the Administrator of Beilun District, Ningbo (寧波市北侖區人民政府區長) and Member of Party Committee of Ningbo (寧波市市委委員). Since 1993, Mr. Pan has served as the director of The Entrepreneur Association of Ningbo and as the president of the Economic Development Association of Ningbo (寧波經濟建設促進會). In April 1994, Mr. Pan was appointed as the vice general manager of Zhong Xin Daxie Development Company (中信集團大謝開發公司).

**Mr. Gao Xunxian (高訓賢)**, aged 64, joined the Group in August 2006 as an independent non-executive Director. He is a qualified accountant and a tax agent in China. During 1972 to 1980, he worked with the Taxation Bureau of Zhenhai (鎮海縣財政部稅務局) and the Taxation Bureau of Chengguan (城關財稅所) as the secretary and administrator. In 1984, he was appointed as the vice director of the Taxation Bureau of Zhenhai and from 1985 to 1987, he served as the vice director of the Finance and Taxation Bureau of Ningbo Beilun District (寧波市北侖區財政稅務局) and the general manager of Cai Zheng XinYong Investment Ltd. (財政信用投資公司). In 1987, he was promoted as the director of the Finance and Taxation Bureau of Ningbo Beilun District. From February, 1998 to June, 2006, he served as the vice chairman of Ningbo Beilun District Committee of the Chinese People's Politics Consultation Conference (寧波北侖政協).

**Mr. Dai Xiangbo (戴祥波)**, aged 47, joined the Group in August 2006 as an independent non-executive Director. He graduated from Jiangxi College of Finance and Economics (江西財經學院) in 1984, majoring in industrial accounting, and completed his postgraduate study in Zhejiang University in 2002, majoring in economics. Mr. Dai has obtained PRC certified accountant and senior accountant certificates. He currently serves as the deputy secretary of Zhejiang Certified Public Accountant Association (浙江省註冊會計師協會) president of Zhejiang Internal Audit Association (浙江省內部審核計協會), a director of Zhejiang Accounting Society and a professor specially retained by the Accounting College of Zhejiang Finance Economics College (浙江財經學院會計學院). He also serves as an independent non-executive director of each of Shenzhou International Group Holdings Limited (申洲國際集團控股有限公司), Eastcompeace Smart Card Co., Ltd. (東信和平智能卡股份有限公司), Gem-year Industrial Co., Ltd. (普億實業股份有限公司) and Nature Service Technology Co., (耐吉科技股份有限公司). Mr. Dai served as the deputy section head of the second division of the Audit Bureau in Zhejiang (浙江省審計局二處) from 1984 to 1997, the deputy director of the Audit Bureau in Xianju County, Zhejiang (浙江仙居縣審計局) from 1992 to 1994 and the deputy head of the legal system division of Audit Office in Zhejiang (浙江省審計局法制處) 1994 to 1997. Mr. Dai has been a director on the boards of the following listed public companies: Shenzhou International Group Holdings Limited and Eastcompeace Smart Card Co., Ltd.

## Directors and Senior Management (Continued)

**Dr. Steven Chow (周志文)**, aged 65, joined the Group in September 2007 as an independent non-executive director. He is a licensed investment advisor and has over 30 years of experience in banking and investment. He received his Bachelor of Science Degree from Bishop's University and his Master's Degree in Business Administration and PhD degree (in Economics) from Boston University. Dr. Chow is a senior representative for a European bank as well as a managing director of its local company providing wealth management services for high net worth clients in Asia. Dr. Chow serves as independent non-executive director of CNT Group Ltd. and C.Y. Foundation Group Limited, which shares are listed on the Main Board of the Stock Exchange. He has been a member of the Chinese People's Political Consultative Commission, Ningbo since 1989.

### Senior Management

**Yu Wenxian (虞文賢)**, aged 40, is a vice president of human resources and administration of the Group. Mr. Yu graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in mechanical engineering in 1991. He joined the Group in May 1993 as an engineer. Since 1997, Mr. Yu has been working in the areas of administration and human resources and served various managerial roles in those areas. He has been appointed as the vice president of human resources and administration of the Group since 2003 and has been serving as the executive assistant to the chief executive officer of the Group since 2004.

**Bei Haibo (貝海波)**, aged 43, is the general manager of Haitian Heavywork and a deputy general manager of Haitian Sales. Mr. Bei joined the Group in January 1983 and has more than 20 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales services in 1997 and was promoted to deputy general manager of the Group's sales department in 1998. He currently serves as the general manager of Haitian Heavywork and a deputy general manager of Haitian Sales responsible for the Group's domestic sales.

**Chen Weiqun (陳蔚群)**, aged 38, is a deputy general manager of Haitian Sales and the general manager of Haitian Huayuan. Mr. Chen graduated from Huadong Yejin College (華東冶金學院) with a bachelor's degree in mechanics in August 1993. In 2005, he obtained a master's degree in business administration from the University of Zhejiang. He joined the research and development department of the Group in 1993. In 1994, he joined the international sales team of the sales department. He was appointed as an assistant to the chief executive officer in 2000 and as the deputy general manager of international sales in 2003. He has been appointed as the deputy general manager of Haitian Sales responsible for the Group's international sales since 2004. He was also appointed as the general manager of Haitian Huayuan in 2004.

**Mr. Lo Chi Chiu (盧志超)**, aged 36, is the Group's Chief Financial Officer and joined the Group in August 2006. Mr. Lo graduated from the University of Hong Kong with a bachelor's degree in business administration. He is a member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Prior to joining the Group, he has obtained over 10 years of auditing, accounting and financing experience including six years with major international accounting firms and four years in senior accounting positions in various industries. Mr. Lo also is the Group's Company Secretary and qualified accountant.

**Shi Huajun (施華均)**, aged 38, was appointed as the Group's Investor Relations Manager in July 2006. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 10 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

## **Directors and Senior Management** (Continued)

### **Strategy and Development Committee**

Besides the Board has a balance of skill and experience and a balanced composition of Executive and Non-Executive Directors to formulate overall strategy of the Group, the Company has established a strategy and development committee. The primary duties of the strategy and development committee is to advise the Board on the Company's strategy for business development and future prospects in the international market for plastic injection moulding machines. It is intended that members of this committee shall consist of domestic and international experts in plastic processing machinery industry and other related industries. The initial members of this committee consist of Professor Helmut Helmar Franz, Mr. Wang Xingtian and Mr. Ma Mingdao and the chairman of this committee will be Professor Helmut Helmar Franz.



# Corporate Governance Report



Haitian International Holdings Limited (the “Company”) recognises the importance of good corporate governance to its healthy growth, thus has devoted much efforts into formulating the best corporate governance practices that agree with its business needs. The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. The directors of the Company (“Directors”) consider that the Company has complied with the code provisions of the CG Code throughout the year ended 31 December 2009.

### Board of Directors

The board of Directors (the “Board”) comprises 8 Executive Directors, 1 Non-executive Director and 4 Independent Non-executive Directors. The Board has a balance of skill and experience and a balanced composition of Executive and Non-Executive Directors and is responsible to formulate overall strategy of the Group, monitor its operational and financial performance and oversight of the management of the Company’s business and affairs. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company. The biographies and relevant relationships amongst them are set out in the Directors and Senior Management Section of this annual report.

## Corporate Governance Report (Continued)

The Chairman and the Chief Executive Officer of the Company are Mr. Zhang Jingzhang and Mr. Zhang Jianming respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

The Non-executive Directors, with diversified industry expertise but not involved in the day-to-day management of the Group, serve the important function of advising the management on strategic development, and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances for safeguarding the interests of the Company and the shareholders of the Company as a whole. The Company has received annual confirmations of independence from all existing Independent Non-executive Directors and considers them independent, in accordance with the Rule 3.13 of the Listing Rules. All Directors have a term of office of three years.

## Board Meetings

It is intended that the Board should meet regularly for at least four times a year, i.e. at approximately quarterly intervals. Special meetings of the Board will be convened if the situation requires so. For the year ended 31 December 2009, the Board convened a total of 4 Board meetings and the individual attendance record of the Directors is tabulated as follows:

### Attendance

#### Executive Directors

Mr. Zhang Jingzhang ( <i>Chairman</i> )	4/4
Mr. Zhang Jianming	4/4
Mr. Zhang Jianguo	4/4
Mr. Zhang Jianfeng	4/4
Mr. Guo Mingguang	4/4
Ms. Chen Ningning	4/4
Professor Helmut Helmar Franz	4/4
Mr. Liu Jianbo	4/4

#### Non-executive Director

Mr. Hu Guiqing	4/4
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#### Independent Non-executive Directors

Mr. Pan Chaoyang	4/4
Mr. Gao Xunxian	3/4
Mr. Dai Xiangbo	4/4
Dr. Steven Chow	3/4

## Corporate Governance Report (Continued)

### Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that the Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2009.

### Relationship of the Directors

Among the members of the Board, Mr. Zhang Jingzhang, the Chairman, is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng and the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive directors of the Company. Mr. Zhang Jianming is also the Chief Executive Officer of the Company.

### Nomination of Directors

The Company has not set up any nomination committee. In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates.

### Audit Committee

The Audit Committee was established to review the Group's financial reporting, internal controls and corporate governance issues and to make relevant recommendations to the Board. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Dai Xiangbo (Chairman of the Committee), Mr. Pan Chaoyang and Mr. Gao Xunxian. All committee members possess appropriate industry and financial expertise to advise on the above matters. The Audit Committee shall meet at least twice a year and the senior management and

a representative of the external auditor of the Company shall normally be invited to attend the meetings to discuss the significant internal and external audit findings, the audit plans, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the financial statements before recommending them to the Board for approval). During the year ended 31 December 2009, there were two meetings held by the Audit committee with an attendance rate of 100%. The Audit Committee reviewed the Group's result for the year ended 31 December 2009.

### Remuneration Committee

The Remuneration Committee comprises the chief executive officer, Mr. Zhang Jianming (Chairman of the Committee) and Independent Non-executive Directors, namely Mr. Pan Chaoyang and Mr. Gao Xunxian. During the year ended 31 December 2009, there was one meeting held by the Remuneration Committee on 23 March 2009 with an attendance rate of 100%. Remuneration Committee is responsible to review the policy for remuneration of the Directors and other senior management of the Group. The Group's policy for remuneration (including basic salary and performance bonus) of the Directors and other senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice.

### Internal Control

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control. In 2009, the Board has conducted a review with the management of the effectiveness of the system of internal control of the Company and its subsidiaries and considered that the internal control system is effective.

## Corporate Governance Report (Continued)

### Directors' and Auditor's Acknowledgement

The Board acknowledge their responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on page 36.

### Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB2,780,000 for audit services.

### Investor Relations and Shareholders' Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting

analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 business days before the meeting and will also be made available on the Stock Exchange's website. The Directors will answer questions on the Company's business at the meeting. External auditors will also attend the annual general meeting. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are provided for in the Articles. Details of such rights and procedures are included in the relevant circulars to shareholders and will be explained during the proceedings of meetings where appropriate. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained. Poll results will be posted on the website of the Stock Exchange on the business day following the shareholders' meeting. As a channel to further promote effective communication, the Company maintains a website ([www.haitianinter.com](http://www.haitianinter.com)) to disseminate the Company's announcements and other relevant financial and non-financial information electronically on a timely basis.



# Investor Information

## Listing Information

Listing: Hong Kong Stock Exchange  
Stock code: 1882

## Key Dates

23 March 2010	—	Result Announcement of 2009
13–17 May 2010	—	Closure of register of members
18 May 2010	—	Annual General Meeting
27 May 2010 or before	—	Paid date of Proposed Final dividend

## Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2009:  
1,596,000,000 shares

Market Capitalisation as at 31 December 2009:  
HK\$6,767 million

Earnings per share for 2009: RMB0.28

Dividend per share for 2009

Interim dividend	HK3.0 cents
Proposed final dividend	HK10.0 cents

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Total HK13.0 cents

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## Share Registrar Transfer Offices

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Enquires Contact

Investor Relations Department  
Tel : 86-574-86182786  
Fax: 86-574-86182787  
E-mail: andy@mail.haitian.com  
Address: No. 32, Jiangnan Road Central,  
Beilun District, Ningbo,  
Zhejiang Province, China  
Postal code: 315821

## Website

<http://www.haitianinter.com> or  
<http://www.haitian.com>

# Report of the Director



## **Report of the Directors** (Continued)

The directors submit their report together with the audited financial statements for the year ended 31 December 2009.

### **Principal Activities and Analysis of Operations**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 8 to the financial statements. Details of the analysis of the Group's performance for the year by business segments and geographical segments are set out in note 21 to the financial statements.

### **Results and Appropriations**

The results of the Group for the year are set out in the consolidated income statement on page 40. The directors declared an interim dividend of HK3.0 cents per share, totalling RMB42,168,000 which was paid on 28 September 2009. The directors recommended the payment of a final dividend of HK10.0 cents per share, totalling approximately RMB140,379,000.

### **Reserves**

Movements in the reserves of the Group and of the Company during the year are set out in note 15 to the financial statements.

### **Donations**

The Group donated RMB803,000 during the year.

### **Property, Plant and Equipment**

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

### **Share Capital**

Details of the movements in share capital of the Company are set out in note 14 to the financial statements.

### **Distributable Reserves**

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated losses which in aggregate amounted to RMB1,509.8 million as at 31 December, 2009. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

## Report of the Directors (Continued)

### Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2009 and for the previous four financial years are set out on page 96.

### Share Option Scheme

The Company adopted a share option scheme (the "Scheme") on 25 October 2007 after approval of the shareholders in an extraordinary general meeting held on the same day.

#### (i) Purpose

The purpose of the Scheme is to provide incentives or rewards to Eligible Person (as defined below) for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group or any entity in which the Group holds any equity interest.

#### (ii) Qualifying participants

Any employee or proposed employee of any member of the Group including director, manager and officer of the Group, any business partner, agent, consultant or representative of the Group (collectively referred to as "Eligible Person") and any associates (as defined in the Listing Rules) of an Eligible Person.

#### (iii) Maximum number of shares

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes must not exceed 30% of the shares in issue from time to time. Subject to the aforesaid limit, the total number of shares available for issue under options which may be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the shares in issue.

As at 31 December 2009, the number of shares available for issue under the Scheme is 159,600,000 shares representing 10% of the issued share capital of the Company and no share options were granted and remained outstanding.

#### (iv) Limit for each participant

No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

#### (v) Option period

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The Board has the authority to determine the minimum period for which an option must be held before it can be exercised. The Scheme itself does not specify any minimum holding period.

#### (vi) Payment on application and acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 30 days from the date of offer (or such other period as the Board may specify in the offer and acceptance letter). HK\$1 is payable by the grantee to the Company on acceptance of the offer.

## Report of the Directors (Continued)

### (vii) Exercise price

The exercise price shall be decided by the Board in its absolute discretion but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

### (viii) Remaining life of the scheme

The Board may at any time within 10 years commencing on 25 October 2007 make offers for the grant of options under the Scheme. No share option was granted or outstanding during the year ended.

## Directors

The Directors who held office during the year and up to the date of this report were:

### *Executive Directors*

Mr. Zhang Jingzhang

Mr. Zhang Jianming

Mr. Zhang Jianfeng

Mr. Zhang Jianguo

Mr. Guo Mingguang

Ms. Chen Ningning

Prof. Helmut Helmar Franz

Mr. Liu Jianbo

### *Non-executive Director*

Mr. Hu Guiqing

### *Independent Non-executive Directors*

Mr. Pan Chaoyang

Mr. Gao Xunxian

Mr. Dai Xiangbo

Dr. Steven Chow

In accordance with Article 87(1) and Article 86(3) of the Company's Bye-laws, Articles of Association, Mr. Zhang Jianming, Mr. Guo Mingguang, Mr. Liu Jianbo, Mr. Gao Xunxian and Dr. Steven Chow will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

## Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service agreements with the Company or any other member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Report of the Directors (Continued)

### Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year excepted as disclosed under Connected Transactions stated below and note 35 to the financial statements.

### Biographical Details of Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 13 to 18.

### Directors' and Chief Executives' Interests and Short Positions in Shares Underlying Shares and Debentures

As at 31 December 2009, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

#### Long position in shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest <sup>(1)</sup>	1,091,424,600	68.39%
Mr. Zhang Jianming	Corporate Interest <sup>(1)</sup>	1,091,424,600	68.39%
	Personal Interest	7,642,000	0.48%
Mr. Zhang Jianfeng	Personal Interest	2,600,000	0.16%
Mr. Zhang Jianguo	Personal Interest	312,000	0.02%
Ms. Chen Ningning	Personal Interest	600,000	0.04%
Prof. Helmut Helmar Franz	Personal Interest	206,000	0.01%

Note:

(1) Mr. Zhang Jingzhang and Mr. Zhang Jianming are deemed under the SFO to be interested in 1,091,424,600 shares of the Company held by Sky Treasure Capital Limited.

## Report of the Directors (Continued)

### Long position in shares and underlying shares of associated corporations of the Company

Name of Director	Name of association corporation <sup>(1)</sup>	Capacity/Nature of interest	Approximate percentage of shareholding in the associated corporations
Mr. Zhang Jingzhang	Sky Treasure Capital Limited ("Sky Treasure")	Corporate <sup>(2)</sup>	14.08%
		Corporate <sup>(3)</sup>	54.81%
Mr. Zhang Jianming	Sky Treasure	Corporate <sup>(2)</sup>	9.55%
		Corporate <sup>(3)</sup>	54.81%
Mr. Hu Guiqing	Sky Treasure	Corporate <sup>(2)</sup>	6.92%
Mr. Zhang Jianguo	Sky Treasure	Corporate <sup>(2)</sup>	5.72%
Mr. Zhang Jianfeng	Sky Treasure	Corporate <sup>(2)</sup>	5.37%
Ms. Chen Ningning	Sky Treasure	Corporate <sup>(2)</sup>	2.98%
Mr. Guo Mingguang	Sky Treasure	Beneficiary under a trust <sup>(4)</sup>	1.79%
Prof. Helmut Helmar Franz	Sky Treasure	Corporate <sup>(2)</sup>	0.55%
	Zhafir Plastics Machinery GmbH ("Zhafir")	Personal	9%
Mr. Liu Jianbo	Sky Treasure	Beneficiary under a trust <sup>(4)</sup>	1.49%

Notes:

- (1) As at 31 December 2009, Sky Treasure is the holder of 68.39% of the issued share capital of the Company and Zhafir is a non-wholly owned subsidiary of the Company and both are associated corporations under the SFO.
- (2) Such Directors are deemed under the SFO to be interested in shares of Sky Treasure which are held by their wholly-owned investment holding companies.
- (3) Mr. Zhang Jingzhang and Mr. Zhang Jianming are separately entitled to exercise or control the exercise of one third or more voting power in the general meetings of Cambridge Management Consultants (PTC) Ltd. and Premier Capital Management (PTC) Ltd. which are respectively the trustee of the Haitian Employee Fixed Equity Trust and Haitian Employee Discretionary Equity Trust which are interested in 13.97% and 40.84% shares in Sky Treasure respectively. Accordingly, they are deemed under SFO to be interested in such shares in Sky Treasure.
- (4) Such Directors are beneficiaries under a trust which is interested in 13.97% shares of Sky Treasure.

## Report of the Directors (Continued)

Save as disclosed above, as at 31 December 2009, none of the directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company and the Stock Exchange pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code. At no time during the year was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

## Interests and Short Positions of Shareholders

As at 31 December 2009, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

<b>Name of Shareholder</b>	<b>Capacity/Nature of interest</b>	<b>Total number of Shares</b>	<b>Approximate percentage of shareholding</b>
Sky Treasure Capital Limited	Beneficial owner	1,091,424,600 (L)	68.39%
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation <sup>(1)</sup>	1,091,424,600 (L)	68.39%

(L) denotes a long position

Note:

(1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 1,091,424,600 shares held by Sky Treasure Capital Limited as at 31 December 2009

Save as disclosed above, as at 31 December 2009, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## Management Contracts

During the year, the Company did not enter into any contract in respect of the management or administration of the entire business or any significant business of the Group nor any such contract subsisting.

## Report of the Directors (Continued)

### Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year. None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers at all times.

### Competing Business

None of the directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2009.

Each member of the Haitian Management has confirmed to the Company that he/she has complied with the non-competitor undertaking as disclosed in the prospectus of the Company dated 11 December 2006.

### Connected Transactions

On 25 September 2007 and 31 October 2008, the Group entered into machinery equipment purchase agreements with Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming and Mr. Zhang Jianfeng, all executive Directors of the Company and associates of each other due to their family relationships, pursuant to which the Group purchased certain CNC turning machines and machining centres ("CNC Machines") manufactured by Haitian Precision for an aggregate consideration of RMB78,083,600 and RMB8,262,200 respectively. During the year, the CNC Machines had been delivered to the Group amounted to RMB13,568,000. The CNC Machines purchased are used for processing of parts and components for the manufacture of plastic injection moulding machines by the Group.

The nature and reasons for the above connected transaction had previously been disclosed in the Company's announcement dated 25 September 2007 and 31 October 2008.

On 15 July 2009, the Group entered into the Land Transfer Agreement with Haitian Precision pursuant to which the Group disposed a piece of vacant land of approximately 121,294 square metres located at Ningbo in PRC to Haitian Precision at a consideration of RMB46,334,000.

The nature and reasons for the above connected transaction had previously been disclosed in the Company's announcement dated 16 July 2009.

### Continuing Connected Transactions

Certain related party transactions as disclosed in note 35 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant information had been disclosed in the Company's announcement dated 20 January 2009.

## Report of the Directors (Continued)

### Purchase of servo systems

On 20 January 2009, the Group entered into the Servo System Purchase Framework Agreement with Ningbo Haitian Electric Machinery Co., Ltd. ("HEM") relating to the purchase of servo systems for a term commencing from the 20 January 2009 and ending on 31 December 2011, whereby the Group agreed to purchase servo system from HEM or its related companies at the price no less favourable than the terms at which HEM offers to independent third parties for the same or similar products. HEM was an associate of Mr. Zhang Jingzhang and Mr. Zhang Jianming, each of them an executive director of the Company and therefore are connected persons by virtue of Rule 14A.11(4) of the Listing Rules.

During the year, the Group's purchase of servo systems from HEM amounted to RMB195.4 million.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the agreement entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Based on the work performed, the auditor of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions:

- (1) have been approved by the Board of Directors of the Company;
- (2) are in accordance with the pricing policies of the Group;
- (3) have been entered into in accordance with the terms of the relevant agreements governing the transaction; and
- (4) have not exceeded the caps according to the Company's announcement dated 20 January 2009.

### Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

### Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

## **Report of the Directors** (Continued)

### **Auditor**

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

### **Public Float**

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, 30.9% of the issued share capital of the Company was held by the public.

On behalf of the Board

**Zhang Jianming**

*Chief Executive Officer*

15 April 2010

# Independent Auditor's Report



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22/F, Prince's Building  
Central, Hong Kong

**TO THE SHAREHOLDERS OF  
HAITIAN INTERNATIONAL HOLDINGS LIMITED**  
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 95, which comprise the consolidated and Company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 15 April 2010

# Consolidated Balance Sheet

As at 31 December 2009  
(Amounts expressed in RMB)

	Note	2009 RMB'000	2008 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	5	137,796	248,983
Property, plant and equipment	6	1,158,459	1,135,898
Intangible assets	7	5,601	7,701
Investment in an associate	9	1,589	642
Deferred income tax assets	20	37,131	33,701
		<b>1,340,576</b>	1,426,925
<b>Current assets</b>			
Inventories	10	940,162	896,295
Trade and bills receivables	11	1,251,591	865,048
Prepayments, deposits and other receivables	12	379,766	136,342
Pledged bank deposits	13	138,030	2,373
Cash and cash equivalents	13	1,696,118	1,235,080
		<b>4,405,667</b>	3,135,138
<b>Total assets</b>		<b>5,746,243</b>	4,562,063
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	14	160,510	160,510
Reserves	15	3,163,877	2,792,492
<b>Total equity</b>		<b>3,324,387</b>	2,953,002

## Consolidated Balance Sheet (Continued)

As at 31 December 2009  
(Amounts expressed in RMB)

	Note	2009 RMB'000	2008 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income	19	13,188	22,369
Deferred income tax liabilities	20	14,682	—
		<b>27,870</b>	22,369
<b>Current liabilities</b>			
Trade and bills payables	16	1,530,590	793,059
Accruals and other payables	17	601,076	479,131
Current income tax liabilities		25,132	2,149
Bank borrowings	18	237,188	312,353
		<b>2,393,986</b>	1,586,692
<b>Total liabilities</b>		<b>2,421,856</b>	1,609,061
<b>Total equity and liabilities</b>		<b>5,746,243</b>	4,562,063
<b>Net current assets</b>		<b>2,011,681</b>	1,548,446
<b>Total assets less current liabilities</b>		<b>3,352,257</b>	2,975,371

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 April 2010 and were signed on its behalf.

**Zhang Jianming**  
Director

**Chen Ningning**  
Director

# Balance Sheet

As at 31 December 2009  
(Amounts Expressed in RMB)

	Note	2009 RMB'000	2008 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	8(a)	778,077	778,077
Due from subsidiaries	8(b)	950,239	950,580
		<b>1,728,316</b>	1,728,657
<b>Current assets</b>			
Due from subsidiaries	8(c)	35,303	120,819
Cash and cash equivalents	13	657	307
		<b>35,960</b>	121,126
<b>Total assets</b>		<b>1,764,276</b>	1,849,783
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	14	160,510	160,510
Reserves	15	1,509,804	1,596,307
<b>Total equity</b>		<b>1,670,314</b>	1,756,817
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Due to subsidiaries	8(c)	93,180	91,874
Other payables		782	1,092
<b>Total liabilities</b>		<b>93,962</b>	92,966
<b>Total equity and liabilities</b>		<b>1,764,276</b>	1,849,783
<b>Net current (liabilities)/assets</b>		<b>(58,002)</b>	28,160
<b>Total assets less current liabilities</b>		<b>1,670,314</b>	1,756,817

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 April 2010 and were signed on its behalf.

**Zhang Jianming**  
Director

**Chen Ningning**  
Director

# Consolidated Income Statement

For the year ended 31 December 2009  
(Amounts Expressed in RMB)

	Note	2009 RMB'000	2008 RMB'000
Sales	21	3,861,341	3,694,370
Cost of sales	22	(2,862,617)	(2,708,606)
<b>Gross profit</b>		<b>998,724</b>	<b>985,764</b>
Selling and marketing expenses	22	(333,370)	(386,212)
General and administrative expenses	22	(207,639)	(194,192)
Other income	23	23,812	26,554
Other gains/(losses) — net	24	18,927	(14,963)
<b>Operating profit</b>		<b>500,454</b>	<b>416,951</b>
Finance income	27	21,115	29,982
Finance costs	27	(8,901)	(5,066)
Finance income — net	27	12,214	24,916
Share of profit of an associate	9	322	161
<b>Profit before income tax</b>		<b>512,990</b>	<b>442,028</b>
Income tax expense	28	(62,964)	(36,781)
<b>Profit for the year</b>		<b>450,026</b>	<b>405,247</b>
<b>Attributable to:</b>			
Equity holders of the Company		450,026	405,247
<b>Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)</b>			
— basic	30	0.28	0.25
<b>Dividends</b>	31	<b>182,547</b>	<b>136,732</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009  
(Amounts Expressed in RMB)

	2009 RMB'000	2008 RMB'000
<b>Profit for the year</b>	<b>450,026</b>	405,247
<b>Other comprehensive income:</b>		
Currency translation differences	5,743	(9,406)
<b>Total comprehensive income for the year</b>	<b>455,769</b>	395,841
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	455,769	395,841

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009  
(Amounts Expressed in RMB)

	Note	Attributable to equity holders of the Company		Minority interest	Total equity
		Share capital (Note 14) RMB'000	Reserves (Note 15) RMB'000		
<b>Balance at 1 January 2008</b>		160,510	2,634,992	1,060	2,796,562
<b>Comprehensive income</b>					
Profit for the year		—	405,247	—	405,247
<b>Other comprehensive income</b>					
Currency translation differences		—	(9,406)	—	(9,406)
<b>Total comprehensive income for the year ended 31 December 2008</b>		—	395,841	—	395,841
<b>Transactions with owners</b>					
Dividend paid					
— 2007 final		—	(144,885)	—	(144,885)
— 2008 interim	31	—	(94,516)	—	(94,516)
Total distributions to owners		—	(239,401)	—	(239,401)
Contribution from minority interest	15(i)	—	1,060	(1,060)	—
<b>Total transactions with owners</b>		—	(238,341)	(1,060)	(239,401)
<b>Balance at 31 December 2008</b>		160,510	2,792,492	—	2,953,002
<b>Balance at 1 January 2009</b>		160,510	2,792,492	—	2,953,002
<b>Comprehensive income</b>					
Profit for the year		—	450,026	—	450,026
<b>Other comprehensive income</b>					
Currency translation differences		—	5,743	—	5,743
<b>Total comprehensive income for the year ended 31 December 2009</b>		—	455,769	—	455,769
<b>Transactions with owners</b>					
Dividend paid					
— 2008 final	31	—	(42,216)	—	(42,216)
— 2009 interim	31	—	(42,168)	—	(42,168)
Total distributions to owners		—	(84,384)	—	(84,384)
<b>Total transactions with owners</b>		—	(84,384)	—	(84,384)
<b>Balance at 31 December 2009</b>		160,510	3,163,877	—	3,324,387

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Cash Flow

For the year ended 31 December 2009  
(Amounts Expressed in RMB)

	Note	2009 RMB'000	2008 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	32(a)	812,827	284,175
Interest paid		(5,964)	(7,681)
Income tax paid		(20,442)	(53,678)
Net cash generated from operating activities		786,421	222,816
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(156,124)	(292,211)
Prepayment for purchase of land use rights		(51,299)	—
Purchase of land use rights		—	(138,911)
Payment for increase in investment in an associate		(625)	—
Interest received from banks		26,782	17,133
Interest received from other loans		1,268	2,073
Proceeds from disposal of land use rights	32(b)	116,137	16,426
Proceeds from disposal of property, plant and equipment	32(c)	35,027	1,983
Net cash used in investing activities		(28,834)	(393,507)
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		167,355	312,353
Repayments of bank borrowings		(242,520)	(158,766)
Payment of bank deposits for securing bank borrowings		(137,000)	—
Dividends paid to the Company's equity holders	31	(84,384)	(239,401)
Net cash used in financing activities		(296,549)	(85,814)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>461,038</b>	<b>(256,505)</b>
Cash and cash equivalents at beginning of year	13	1,235,080	1,491,585
<b>Cash and cash equivalents at end of year</b>	<b>13</b>	<b>1,696,118</b>	<b>1,235,080</b>

The accompanying notes are an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

## 1. General Information

Haitian International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and distribution of plastic injection moulding machines.

The Company was incorporated in Cayman Islands on 13 July 2006, as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company’s registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Sky Treasure Capital Limited, a company incorporated in the British Virgin Islands.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 22 December 2006.

These consolidated financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated. These financial statements have been approved for issue by the Company’s Board of Directors on 15 April 2010.

## 2. Summary of Significant Accounting Policies

These consolidated financial statements comprise the consolidated and the Company’s balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year ended, and a summary of significant accounting policies and other explanatory notes.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management’s best knowledge of events and actions, actual results ultimately may differ from those estimates.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

#### Changes in accounting policy and disclosures

##### (a) New and amended standards effective in 2009 and relevant to the Group

- HKFRS 7 'Financial Instruments — Disclosures' (amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. It does not have any material impact on the Group's financial statements, as the major financial instruments of the Group are receivables and payables carried at amortised cost.
- HKFRS 8, 'Operating segments'—effective 1 January 2009. HKFRS 8 replaces HKAS 14 'Segment reporting' and aligns segment reporting with the requirements of the US standard SFAS 131 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

The Group is mainly engaged in the manufacturing and the sale of plastic injection moulding machines business. The internal reporting for the chief operating decision-maker is provided on a whole-entity basis as over 90% of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines and over 90% of the Group's productions and operating assets are located in Mainland China. Accordingly the Group only has one reportable segment which is the same as previously reported.

- HKAS 1 (revised) 'Presentation of financial statements' — effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- HKAS 23 (revised), 'Borrowing costs' — effective 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Group has applied HKAS 23 (revised) from 1 January 2009, but it has no impact on the Group's financial statements as the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets under the original HKAS 23.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 2. Summary of Significant Accounting Policies (Continued)

#### 2.1 Basis of preparation (Continued)

##### Changes in accounting policy and disclosures (Continued)

##### (b) New and amended standards effective in 2009 but not relevant to the Group's operations

- HKFRS 2 (amendment) 'Share-based payment' — effective 1 January 2009. The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not relevant to the Group.

##### (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17 'Distribution of non-cash assets to owners' — effective from 1 July 2009. The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and the Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.
- HKAS 27 (revised) 'Consolidated and separate financial statements' — effective from 1 July 2009. The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.
- HKFRS 3 (revised) 'Business combinations' — effective from 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

#### Changes in accounting policy and disclosures (Continued)

- (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)
- HKAS 38 (amendment) 'Intangible Assets' — effective from 1 July 2009. The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and the Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The Group will apply the amendment prospectively to all business combinations from 1 January 2010.
  - HKFRS 5 (amendment) 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and the Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.
  - HKAS 1 (amendment) 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.
  - HKFRS 2 (amendments) 'Group cash-settled share-based payment transactions' — effective from 1 January 2010. In addition to incorporating HK(IFRIC)-Int 8 'Scope of HKFRS 2' and HK(IFRIC)-Int 11 'HKFRS 2 — Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that are not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

#### Changes in accounting policy and disclosures (Continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HKICPA's improvements to HKFRS published in May 2009
  - HKFRS 2 (amendment), 'Share-based payment'
  - HKFRS 5 (amendment), 'Non-current assets held for sale and discounted operations'
  - HKFRS 8 (amendment), 'Operating segments'
  - HKAS 1 (amendment), 'Presentation of financial statements'
  - HKAS 7 (amendment), 'Statement of cash flows'
  - HKAS 17 (amendment), 'Lease'
  - HKAS 18 (amendment), 'Revenue'
  - HKAS 36 (amendment), 'Impairment of assets'
  - HKAS 38 (amendment), 'Intangible assets'
  - HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'
  - HK(IFRIC) 9 (amendment), 'Reassessment of embedded derivatives'
  - HK(IFRIC) 16 (amendment), 'Hedges of a net investment in a foreign operation'

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.2 Consolidation (Continued)

#### (a) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

Accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

#### (b) Minority interests

Minority interests represent the interest of outside shareholders in the operating results and net assets of the subsidiaries.

Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

#### (c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.8 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.2 Consolidation (Continued)

#### (c) Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions. The executive committee comprises all executive directors and top management.

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains/(losses) — net'.

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.4 Foreign currency translation (Continued)

#### (c) Group companies (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.5 Property, plant and equipment

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss (if any) of the assets, other than freehold land and construction in progress, to their residual value over their estimated useful lives.

During the year, the management of the Group has reviewed and revised the useful lives of certain categories of property, plant and equipment (Note 4(a)). The revised useful lives are as follows:

Buildings	30 years
Plant and machinery	10-15 years
Vehicles	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) — net', in the consolidated income statement.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 2. Summary of Significant Accounting Policies (Continued)

#### 2.6 Land use rights

The up-front prepayments made for land use rights are accounted for as operating leases. They are expensed in the income statement on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is expensed in the income statement.

#### 2.7 Intangible asset

##### (a) Technology know-how

Technology know-how acquired in a business combination is identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such technology know-how is its fair value at the acquisition date.

Technology know-how has a definite useful life of 5 years and is carried at cost less accumulated amortisation and impairment loss if any, subsequent to initial recognition. Technology know-how is amortised over estimated useful life using straight-line method.

##### (b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### 2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 2. Summary of Significant Accounting Policies (Continued)

#### 2.8 Impairment of investments in subsidiaries, associates and non-financial assets (Continued)

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 2.9 Financial assets — loans and receivables

The Group's financial assets are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.12 and 2.13).

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

#### 2.10 Impairment of financial assets

##### Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.10 Impairment of financial assets (Continued)

#### Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 2. Summary of Significant Accounting Policies (Continued)

#### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### 2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

#### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 2. Summary of Significant Accounting Policies (Continued)

#### 2.19 Employee benefits

Group companies operate various defined contribution retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### 2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### 2.21 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are recognised in the consolidated income statement on a straight-line basis over periods and in the proportions in which depreciation on these assets is charged.

#### 2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 2. Summary of Significant Accounting Policies (Continued)

#### 2.22 Revenue recognition (Continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **Sale of goods**

Revenue from sale of goods is recognised when the group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) **Sale of services**

Revenue from sale of services is recognised in the accounting periods in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

#### 2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

#### 2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### 2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. Its risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

##### (a) Foreign exchange risk

The Group mainly operates in Mainland China. The functional currency of the Company and most of its subsidiaries is RMB. Most of the Group's transactions, assets and liabilities are denominated in RMB, United States dollars, Euro, Brazilian Real, Hong Kong dollars ("HKD"). The exchange rate of HKD is pegged to United States dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, such as trade receivables, cash and cash equivalents, trade payables and borrowings. The Group has not used any financial instrument to hedge foreign exchange risk.

As at 31 December 2009, if RMB had strengthened/weakened by 0.1% (2008: 6.0%) against the United States dollars and HKD with all other variables held constant, profit before income tax would have been approximately RMB357,000 lower/higher (2008: RMB4,913,000 higher/lower) mainly as a result of foreign exchange difference on translation of United State dollars and HKD denominated trade receivables, cash and cash equivalents, trade payables and bank borrowings.

As at 31 December 2009, if RMB had strengthened/weakened by 1.4% (2008: 9.5%) against the Euro with all other variables held constant, profit before income tax for the each year would have been approximately RMB2,145,000 (2008: RMB4,074,000) lower/higher mainly as a result of foreign exchange difference on translation of Euro denominated trade receivables, cash and cash equivalents and trade payables.

The Group also has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Most of the Group's net assets of the foreign operations are denominated in Euro and Brazilian Real. As at 31 December 2009, the net assets denominated in Euro and Brazilian Real are approximately RMB46,172,000 (2008: RMB12,840,000) and RMB19,237,000 (2008: RMB15,164,000) respectively. All resulting exchanges differences are recognised as translation differences in equity.

As at 31 December 2009, if RMB had strengthened/weakened by 1.4% (2008: 9.5%) against the Euro with all other variables held constant, the translation differences would have been approximately RMB803,000 (2008: RMB1,760,000) lower/higher.

As at 31 December 2009, if RMB had strengthened/weakened by 34% (2008: 29%) against the Brazilian Real with all other variables held constant, the translation differences would have been approximately RMB6,740,000 (2008: RMB4,472,000) lower/higher.

##### (b) Cash flow and fair value interest rate risk

Except for bank deposits and loans to suppliers, the Group has no interest-bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any financial instruments to hedge its exposure to cash flow and fair value interest rate risk.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2009, if interest rates on United States dollars—denominated borrowings had been 1.04 percentage-points (2008: 2.2 percentage-points) higher/lower with all other variables held constant, profit before income tax would have been RMB1,635,000 (2008: RMB3,638,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2009, if interest rates on Japanese Yen—denominated borrowings had been 0.5 percentage-points (2008: None) higher/lower with all other variables held constant, profit before income tax would have been RMB127,000 (2008: None) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

##### (c) Credit risk

Though the global financial situation has begun to recover from the crisis, debtors of the Group may be still affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has revised the expected future cash flows in their impairment assessments.

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement made with insurance from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 24 months.

The Group provides guarantee to certain banks in connection with banking facilities granted to certain customers in connection with their purchases of the Group's plastic injection moulding machines. These customers are introduced by the Group's major distributors, which have provided the Group with counter guarantees.

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2009, most of the pledged bank deposits and cash and cash equivalents are placed with major financial institutions in Mainland China.

##### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (d) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows.

	2009 Within 1 year RMB'000	2008 Within 1 year RMB'000
Borrowings (i)	238,098	317,662
Trade and other payables	2,120,229	1,271,909
	<b>2,358,327</b>	<b>1,589,571</b>

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 December 2009 and 2008, without taking into account any subsequent changes in the amount of borrowings. Floating rate interest is based on current interest rate as at 31 December 2009 and 2008.

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

As at 31 December 2009, the Group was in a net cash position (total borrowings were less than the total of pledged bank deposits and cash and cash equivalents).

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity of the Group as shown in the consolidated balance sheet.

The gearing ratio was as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Total borrowings (Note 18)	237,188	312,353
Total equity	3,324,387	2,953,002
Gearing ratio	7%	11%

The decrease in the gearing ratio resulted primarily from decrease in borrowings to finance working capital.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

During the year, the management of the Group has reviewed and revised the useful lives of certain categories of property, plant and equipment (Note 2.5) as following:

	Previous useful lives	Revised useful lives
Buildings	20 years	30 years
Plant and machinery	10 years	10-15 years

The change in accounting estimates on the useful lives of property, plant and equipment has decreased the depreciation charge by RMB28,797,000 for the year ended 31 December 2009 and is expected to have approximately the same impact for each subsequent financial year.

#### (b) Impairment of property, plant and equipment and land use rights

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing : (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 4. Critical Accounting Estimates and Judgements (Continued)

#### (c) Impairment of receivables

The Group's management determines the provision for impairment of trade, bills and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

#### (d) Net realisable value of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

#### (e) Income taxes and deferred income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

#### (f) Provision for loss on guarantees

The Group provides guarantees for loans granted by PRC banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer default on a loan, the Group is obliged to settle the payable amounts. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different judgments or estimates could significantly affect the provision amounts and materially impact the results of operations.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 5. Land Use Rights — Group

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2009 RMB'000	2008 RMB'000
At beginning of year		
Cost	259,029	149,120
Accumulated amortisation	(10,046)	(7,556)
Net book amount	248,983	141,564
Opening net book amount	248,983	141,564
Additions	—	126,335
Disposals	(107,701)	(16,426)
Amortisation	(3,486)	(2,490)
Closing net book amount	137,796	248,983
At end of year		
Cost	150,453	259,029
Accumulated amortisation	(12,657)	(10,046)
Net book amount	137,796	248,983

All land use rights are located in Mainland China. As at 31 December 2009, the remaining period of land use rights was ranged from 24 to 49 years (2008: 25 to 50 years).

Amortisation has been included in general and administrative expenses.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 6. Property, Plant and Equipment — Group

	*Freehold land and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>At 1 January 2008</b>						
Cost	480,151	625,320	87,805	52,396	127,462	1,373,134
Accumulated depreciation	(93,400)	(260,986)	(37,792)	(20,402)	—	(412,580)
Net book amount	386,751	364,334	50,013	31,994	127,462	960,554
<b>Year ended 31 December 2008</b>						
Opening net book amount	386,751	364,334	50,013	31,994	127,462	960,554
Exchange differences	(4,364)	(79)	—	(861)	(294)	(5,598)
Additions	618	15,823	18,712	4,574	240,722	280,449
Transfer	155,912	39,575	—	135	(195,622)	—
Disposals	(28)	(1,328)	(141)	(1,060)	—	(2,557)
Depreciation	(22,932)	(50,280)	(15,803)	(7,935)	—	(96,950)
Closing net book amount	515,957	368,045	52,781	26,847	172,268	1,135,898
<b>At 31 December 2008</b>						
Cost	632,166	679,211	104,494	48,311	172,268	1,636,450
Accumulated depreciation	(116,209)	(311,166)	(51,713)	(21,464)	—	(500,552)
Net book amount	515,957	368,045	52,781	26,847	172,268	1,135,898
<b>Year ended 31 December 2009</b>						
Opening net book amount	515,957	368,045	52,781	26,847	172,268	1,135,898
Exchange differences	534	25	108	145	—	812
Additions	29,769	27,335	4,745	2,879	70,791	135,519
Transfer	106,658	58,276	—	—	(164,934)	—
Disposals	(1,400)	(120)	(627)	(3,235)	(30,357)	(35,739)
Depreciation	(19,091)	(36,788)	(15,358)	(6,794)	—	(78,031)
Closing net book amount	632,427	416,773	41,649	19,842	47,768	1,158,459
<b>At 31 December 2009</b>						
Cost	767,757	763,675	107,375	46,665	47,768	1,733,240
Accumulated depreciation	(135,330)	(346,902)	(65,726)	(26,823)	—	(574,781)
Net book amount	632,427	416,773	41,649	19,842	47,768	1,158,459

\* Freehold land is located in Germany. It is stated at cost of RMB4,564,000 (2008: RMB4,499,000) and is not subject to depreciation.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 6. Property, Plant and Equipment — Group (Continued)

Depreciation has been charged to the consolidated income statement as follows:

	2009 RMB'000	2008 RMB'000
Cost of sales	43,804	69,153
General and administrative expenses	29,241	22,472
Selling and marketing expenses	4,986	5,325
	<b>78,031</b>	<b>96,950</b>

### 7. Intangible Assets — Group

Intangible assets consist of technology know-how.

	2009 RMB'000	2008 RMB'000
At beginning of year		
Cost	10,501	10,501
Accumulated amortisation	(2,800)	(700)
Net book amount	7,701	9,801
Opening net book amount	7,701	9,801
Amortisation	(2,100)	(2,100)
Closing net book amount	5,601	7,701
At end of year		
Cost	10,501	10,501
Accumulated amortisation	(4,900)	(2,800)
Net book amount	5,601	7,701

Amortisation has been included in general and administrative expenses.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 8. Investments in and Loans to Subsidiaries — Company

#### (a) Investments in subsidiaries

	2009 RMB'000	2008 RMB'000
Investments, at cost:		
— Unlisted shares	778,077	778,077

The following is a list of the principal subsidiaries, which are unlisted, at 31 December 2009:

Name	Place of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Guo Hua Limited	British Virgin Islands (“BVI”), limited liability company	USD50,000	100%	—	Investment holding, BVI
Guo Hua Enterprises Group Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and machinery accessories, Hong Kong
Haitian Europe S.p.A	Italy, limited liability company	EURO100,000	—	100%	Sale of plastic injection moulding machines, Italy
Haitian Guohua (Dalian) Plastic Processing Machinery Co., Ltd. (海天國華(大連)塑料機械有限公司)	Mainland China, foreign equity joint venture	—	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and machinery accessories, Hong Kong
Haitian Huayuan Middle East Makina Dis Ticaret Limited Sirketi	Turkey, limited liability company	LIRA500,000	—	100%	Sale of plastic injection moulding machines, Turkey
Haitian Huayuan South America Com. De MAQS.Ltd.	Brazil, limited liability company	REAL5,360,000	—	100%	Sale of plastic injection moulding machines, Brazil
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. (海天塑料機械(廣州)有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. (“Daxie Haitian”) (寧波大樹開發區海天機械有限公司)	Mainland China, foreign equity joint venture	USD1,550,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. (“Haitian Beihua”) (寧波海天北化科技有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 8. Investments in and Loans to Subsidiaries — Company (Continued)

#### (a) Investments in subsidiaries (Continued)

Name	Place of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Ningbo Haitian Heavywork Machinery Co., Ltd. (“Haitian Heavywork”) (寧波海天重工機械有限公司)	Mainland China, foreign equity joint venture	USD39,800,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Huayuan Co., Ltd. (“Haitian Huayuan”) (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD18,000,000	—	100%	Manufacture and sale of plastic injection moulding machines to foreign countries, Mainland China
Ningbo Haitian Logistic Co., Ltd. (寧波海天物流有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Machinery Sales Co., Ltd. (寧波海天機械銷售有限公司)	Mainland China, limited liability company	RMB18,000,000	—	100%	Sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Plastic Machinery Group Limited (“Haitian Plastic Machinery”) (寧波海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD97,500,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Shili Machinery Co., Ltd. (“Haitian Shili”) (寧波海天實力機械有限公司)	Mainland China, foreign equity joint venture	USD12,000,000	—	100%	Manufacture and sale of accessories of plastic injection moulding machines, Mainland China
Ningbo Haitian Technology Co., Ltd. (“Haitian Technology”) (寧波海天科技有限公司)	Mainland China, foreign equity joint venture	USD65,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Zhafir Plastics Machinery Co., Ltd. (“Ningbo Zhafir”) (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD6,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Wuxi Haitian Machinery Co., Ltd. (“Wuxi Haitian”) (無錫海天機械有限公司)	Mainland China, foreign equity joint venture	USD25,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Zhafir Plastics Machinery GmbH	Germany, limited liability company	DM100,000	—	91%	Research and development, manufacture, sale of plastic injection moulding machines, Germany

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2009 (2008: None).

The English names of certain subsidiaries represent the best effort by the Group’s management to translate their Chinese names as they do not have official English names.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 8. Investments in and Loans to Subsidiaries — Company (Continued)

#### (b) Due from subsidiaries — non-current

Due from subsidiaries represent equity funding by the Company to the subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries.

They are unsecured, non-interest bearing and denominated in the following currencies:

	2009 RMB'000	2008 RMB'000
Hong Kong dollars	907,969	947,451
United States dollars	42,270	3,129
	<b>950,239</b>	950,580

#### (c) Due from/(to) subsidiaries

These balance are unsecured, non-interest bearing without fixed repayment terms.

Due to subsidiaries are denominated in Hong Kong dollars and due from subsidiaries are denominated in the following currencies:

	2009 RMB'000	2008 RMB'000
Euro	33,530	—
United States dollars	1,373	120,819
Hong Kong dollars	400	—
	<b>35,303</b>	120,819

### 9. Investment in an Associate — Group

	2009 RMB'000	2008 RMB'000
Beginning of the year	642	481
Acquisition of additional interest	625	—
Share of profit	322	161
End of the year	<b>1,589</b>	642

Investment in an associate at 31 December 2009 includes goodwill of RMB225,000 (2008: None).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 9. Investment in an Associate — Group (Continued)

The Group's shares of the assets, liabilities, sales and results of the associate are as follows:

	2009 RMB'000	2008 RMB'000
Assets	2,297	1,034
Liabilities	933	392
Sales	2,011	1,105
Profit for the year	322	161

Particulars of the associate, which is unlisted, are as follows:

Name	Place of incorporation and kind of legal entity	Paid up capital	Attributable indirect equity interest to the Company	Principal activities and place of operation
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang" (杭州科强智能控制系统有限公司))	Mainland China, limited liability company	RMB1,735,000	44% (2008: 30%)	Manufacture and sale of intelligence control system in Mainland China

The English name of the associate represents the best effort by the management of the Group to translate the Chinese name as it does not have an official English name.

### 10. Inventories — Group

	2009 RMB'000	2008 RMB'000
Raw materials	496,656	398,562
Work-in-progress	182,107	86,270
Finished goods	261,399	411,463
	940,162	896,295

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB2,841,929,000 (2008: RMB2,693,280,000).

In 2009, the Group recorded write-down of inventories of approximately RMB20,688,000 (2008: RMB15,326,000). This amount has been included in cost of sales.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 11. Trade and Bills Receivables — Group

	2009 RMB'000	2008 RMB'000
Trade and bills receivables	1,266,028	884,996
Less: provision for impairment	(14,437)	(19,948)
	<b>1,251,591</b>	865,048

The fair values of trade and bills receivables approximate their carrying amounts.

As at 31 December 2009, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivables (2008: None). There was no concentration of credit risk with respect to the Group's trade and bills receivables.

Majority of trade and bills receivables are with customers having an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangements from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 24 months. The ageing analysis of trade and bills receivables based on invoice date is as follows:

	2009 RMB'000	2008 RMB'000
Up to 6 months	1,148,360	728,784
6 months to 1 year	67,523	97,448
1 year to 2 years	38,744	42,536
Over 2 years	11,401	16,228
	<b>1,266,028</b>	884,996

As at 31 December 2009, trade receivables of RMB5,115,000 (2008: RMB3,837,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no recent history of default. The past due ageing analysis of these trade receivables is as follows:

	2009 RMB'000	2008 RMB'000
Up to 6 months	2,043	2,752
6 months to 1 year	—	880
1 year to 2 years	848	205
Over 2 years	2,224	—
	<b>5,115</b>	3,837

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 11. Trade and Bills Receivables — Group (Continued)

As at 31 December 2009, trade receivables of approximately RMB26,103,000 (2008: RMB33,563,000) were impaired. The amount of provision was RMB14,437,000 (2008:RMB19,948,000) as at 31 December 2009. The individually impaired receivables mainly relate to customers with different credit history. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2009 RMB'000	2008 RMB'000
Up to 6 months	217	97
6 months to 1 year	6	2,724
1 year to 2 years	16,703	14,514
Over 2 years	9,177	16,228
	<b>26,103</b>	<b>33,563</b>

Trade and bills receivables are denominated in the following currencies:

	2009 RMB'000	2008 RMB'000
RMB	996,136	653,752
United States dollars	186,101	211,171
Brazilian Real	54,748	133
Euro	22,978	19,617
Others	6,065	323
	<b>1,266,028</b>	<b>884,996</b>

Movements of the provision for impairment of trade receivables are:

	2009 RMB'000	2008 RMB'000
At 1 January	19,948	22,864
Provision for/(reversal of) trade receivables (Note 22)	3,297	(1,665)
Written off as uncollectible	(8,808)	(1,251)
At 31 December	<b>14,437</b>	<b>19,948</b>

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 11. Trade and Bills Receivables — Group (Continued)

The creation and reversal of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of trade and bills receivables.

### 12. Prepayments, Deposits and Other Receivables — Group

	2009 RMB'000	2008 RMB'000
Loans to distributors (i)	2,800	32,800
Loans to suppliers (ii)	12,000	—
Advances to construction contractors	10,000	—
Advances to customers (iii)	4,692	6,804
Prepayments and deposits		
— for purchases of raw materials	241,768	21,533
— for purchases of land use rights	65,299	14,000
— others	4,218	2,639
Value Added Tax recoverable	15,860	23,841
Prepaid current income tax	3,642	12,397
Receivables from employees	6,347	4,521
Interest receivables	3,852	10,787
Due from related parties	1,341	1,698
Others	7,947	5,322
	<b>379,766</b>	<b>136,342</b>

Notes:

(i) As at 31 December 2009, loans to distributors are non-interest bearing and unsecured.

As at 31 December 2008, loans to distributors of RMB30,000,000 bore interest at an effective rate of 7.5% per annum and the remaining balance was non-interest bearing. All these loans were unsecured.

(ii) As at 31 December 2009, loans to suppliers bore interest at an effective rate of 5.31% per annum and are unsecured.

(iii) Advances to customers are secured by guarantees provided by the relevant distributors.

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 13. Pledged Bank Deposits and Cash and Cash Equivalents

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Pledged bank deposits	138,030	2,373	—	—
Cash at bank and in hand	1,056,242	688,038	657	307
Short-term bank deposits	639,876	547,042	—	—
Cash and cash equivalents	1,696,118	1,235,080	657	307
	1,834,148	1,237,453	657	307

Pledged bank deposits are related to the secured bank borrowings (Note 18), the banking facilities granted by banks to certain customers, and the finance facilities for issuing letters of credit by banks.

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash and cash equivalents.

As at 31 December 2009, the weighted average effective interest rate on pledged bank deposits and cash and cash equivalents of the Group is 1.0% (2008: 1.9%) per annum.

The pledged bank deposits have maturities of 12 months at inception (2008: ranging from 12 to 18 months). The short-term bank deposits have maturities of ranging from 7 days to 12 months at inception (2008: ranging from 3 to 6 months).

Pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
RMB	1,534,036	1,117,922	—	—
United States dollars	232,073	67,007	624	162
Euro	54,360	40,260	—	—
Hong Kong dollars	1,355	590	33	145
Brazilian Real	12,287	11,463	—	—
Others	37	211	—	—
	1,834,148	1,237,453	657	307

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 13. Pledged Bank Deposits and Cash and Cash Equivalents (Continued)

Majority of the pledged bank deposits and cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China Government.

### 14. Share Capital

	Authorised share capital		
	Number of shares '000	Amount HKD'000	RMB'000
As at 31 December 2008 and 2009 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

	Issued and fully paid up		
	Number of shares '000	Amount HKD'000	RMB'000
As at 31 December 2008 and 2009 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 15. Reserves

#### Group

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 (note ii)	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
<b>At 1 January 2008</b>	1,331,913	151,513	186,741	(1,963)	966,788	2,634,992
Contribution from minority interest (note i)	—	1,060	—	—	—	1,060
Profit for the year	—	—	—	—	405,247	405,247
Appropriations	—	—	76,725	—	(76,725)	—
Dividend paid						
— 2007 final	—	—	—	—	(144,885)	(144,885)
— 2008 interim (Note 31)	—	—	—	—	(94,516)	(94,516)
Currency translation differences	—	—	—	(9,406)	—	(9,406)
<b>At 31 December 2008</b>	1,331,913	152,573	263,466	(11,369)	1,055,909	2,792,492
Profit for the year	—	—	—	—	450,026	450,026
Appropriations	—	—	1,132	—	(1,132)	—
Effect of liquidation of a subsidiary	—	—	(14,267)	—	14,267	—
Dividend paid						
— 2008 final (Note 31)	—	—	—	—	(42,216)	(42,216)
— 2009 interim (Note 31)	—	—	—	—	(42,168)	(42,168)
Currency translation differences	—	—	—	5,743	—	5,743
<b>At 31 December 2009</b>	1,331,913	152,573	250,331	(5,626)	1,434,686	3,163,877

#### (i) Contribution from minority interest

In 2008, a minority shareholder of a subsidiary transferred its entire interests in Haitian Beihua to the Company at no cost. After the transfer, Haitian Beihua has become a wholly owned subsidiary of the Company.

#### (ii) Statutory reserves

Subsidiaries in Mainland China are required to transfer certain percentages of their after-tax profit after offsetting accumulated losses from prior years to statutory reserves, namely statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund, before the corresponding subsidiaries can distribute any dividend to their equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in Mainland China at the rate of 10%, or at the discretion of the board of directors of the respective subsidiaries.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 15. Reserves (Continued)

#### Group (Continued)

##### (ii) Statutory reserves (Continued)

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses, or to increase capital of the relevant subsidiaries, and cannot be distributed to equity holders of the subsidiaries. Movements in the statutory reserves are as follows:

	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Enterprise expansion fund RMB'000	Discretionary reserve fund RMB'000	Total RMB'000
At 1 January 2008	2,038	556	85,991	98,156	186,741
Additions	39,182	—	37,543	—	76,725
At 31 December 2008	41,220	556	123,534	98,156	263,466
Additions	1,132	—	—	—	1,132
Effect of liquidation of a subsidiary	(14,267)	—	—	—	(14,267)
At 31 December 2009	28,085	556	123,534	98,156	250,331

#### Company

	Share premium RMB'000	Contributed surplus RMB'000 (note iii)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2008	1,331,913	638,574	(65,387)	1,905,100
Loss for the year	—	—	(69,392)	(69,392)
Dividend paid				
— 2007 final	—	(144,885)	—	(144,885)
— 2008 interim (Note 31)	—	(94,516)	—	(94,516)
At 31 December 2008	1,331,913	399,173	(134,779)	1,596,307
Loss for the year	—	—	(2,119)	(2,119)
Dividend paid				
— 2008 final (Note 31)	—	(42,216)	—	(42,216)
— 2009 interim (Note 31)	—	(42,168)	—	(42,168)
At 31 December 2009	1,331,913	314,789	(136,898)	1,509,804

##### (iii) Contributed surplus

Contributed surplus arose when the Company issued shares in exchange for the shares of subsidiaries being acquired in connection with a reorganisation of the Group prior to the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired. Contributed surplus is distributable to equity holders according to Companies Law of Cayman Islands subject to a solvency test.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 16. Trade and Bills Payables — Group

	2009 RMB'000	2008 RMB'000
Trade payables	543,793	325,789
Bills payable	938,963	467,270
Trade and bills payables	1,482,756	793,059
Due to related parties — trade related ( <i>Note 35(b)</i> )	47,834	—
	<b>1,530,590</b>	793,059

The ageing analysis of the trade and bills payables is as follows:

	2009 RMB'000	2008 RMB'000
Up to 6 months	1,527,373	791,390
6 months to 1 year	2,289	605
1 year to 2 years	570	1,064
Over 2 years	358	—
	<b>1,530,590</b>	793,059

Trade and bills payables are denominated in the following currencies:

	2009 RMB'000	2008 RMB'000
RMB	1,481,414	777,477
United States dollars	15,735	4,694
EURO	31,163	4,628
Hong Kong dollars	2,156	5,902
Others	122	358
	<b>1,530,590</b>	793,059

The fair values of trade and bills payables approximate their carrying amounts.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 17. Accruals and Other Payables — Group

	2009 RMB'000	2008 RMB'000
Welfare payables	90,044	97,175
Salaries, wages and bonus payables	50,189	35,118
Sales commission and after-sales service expenses payables	208,946	152,081
Customers deposits	192,633	139,823
Payable for purchase of property, plant and equipment and land use rights	7,174	22,891
Accrued operating expenses	10,639	7,130
Value Added Tax payables	13,907	10,144
Deferred income — current portion (Note 19)	11,437	281
Other payables	16,107	14,488
	<b>601,076</b>	<b>479,131</b>

The fair values of accruals and other payables approximate their carrying amounts, as the impact of discounting is not significant.

### 18. Bank Borrowings — Group

	2009 RMB'000	2008 RMB'000
At floating rate in United States dollars	137,355	268,258
At floating rate in Hong Kong dollars	—	44,095
At floating rate in Japanese Yen	69,833	—
At fixed rate in RMB	30,000	—
	<b>237,188</b>	<b>312,353</b>

The weighted average effective interest rates (per annum) at year end are as follows:

	2009	2008
RMB	2.8%	—
Hong Kong dollars	—	2.1%
United States dollars	1.3%	3.0%
Japanese Yen	1.4%	—

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 18. Bank Borrowings — Group (Continued)

The fair values of short-term borrowings approximate their carrying amounts.

As at 31 December 2009, bank borrowings of approximately RMB137,355,000 were secured by the pledged bank deposits of RMB137,000,000 (Note 13), of approximately RMB69,833,000 were guaranteed by the Company (2008: RMB283,306,000), and of RMB30,000,000 were secured by commercial acceptance bills.

As at 31 December 2008, bank borrowings of approximately RMB29,047,000 were guaranteed by one subsidiary.

### 19. Deferred Income — Group

	2009 RMB'000	2008 RMB'000
Deferred government grants	24,625	22,650
Less: Current portion included in current liabilities (Note 17)	(11,437)	(281)
	<b>13,188</b>	22,369

Movements are as follows:

	2009 RMB'000	2008 RMB'000
At 1 January	22,650	—
Granted during the year	3,756	23,789
Amortised as income (Note 23)	(1,781)	(1,139)
At 31 December	<b>24,625</b>	22,650

### 20. Deferred Income Tax — Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2009 RMB'000	2008 RMB'000
Deferred income tax asset to be recovered within 12 months	37,131	33,701
Deferred income tax liability to be recovered within 12 months	14,682	—

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 20. Deferred Income Tax — Group (Continued)

The movement in deferred income tax assets during the year is as follows:

	Temporary differences in respect of provisions and accruals RMB'000	Tax losses RMB'000	Unrealised profit on inventories RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2008</b>	17,748	—	—	398	18,146
Recognised in the consolidated income statement (Note 28)	4,943	3,387	7,413	(188)	15,555
<b>At 31 December 2008</b>	22,691	3,387	7,413	210	33,701
Recognised in the consolidated income statement (Note 28)	2,562	(384)	1,146	106	3,430
<b>At 31 December 2009</b>	25,253	3,003	8,559	316	37,131

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB23,015,000 (2008: RMB20,001,000) in respect of losses amounting to RMB91,482,000 (2008: RMB71,186,000) that can be carried forward against future taxable income. Cumulative tax losses of RMB66,481,000 (2008: RMB40,706,000) can be carried forward indefinitely; while cumulative tax losses of RMB25,001,000 (2008: RMB30,480,000) will expire within five years.

The movement in deferred income tax liabilities is as follows:

	Withholding tax RMB'000	Temporary differences in respect of receivables RMB'000	Total RMB'000
<b>At 31 December 2008</b>	—	—	—
Recognised in the consolidated income statement (Note 28)	11,004	3,210	14,214
Exchange differences	—	468	468
<b>At 31 December 2009</b>	11,004	3,678	14,682

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 20. Deferred Income Tax — Group (Continued)

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China, in respect of earnings after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, a company incorporated in Hong Kong and is subject to 5% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2009, deferred income tax liabilities of RMB43,069,000 (2008: RMB32,030,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are expected to be permanently reinvested in Mainland China. Unremitted earnings totaled RMB861,387,000 at 31 December 2009 (2008: RMB640,602,000).

### 21. Sales and Segment Information

	2009 RMB'000	2008 RMB'000
Sales of plastic injection moulding machines and related products	3,861,341	3,694,370

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and top management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker has determined that no segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines, and over 90% of the Group's productions and operating assets are located in Mainland China, which is considered as one segment with similar risks and returns.

The Group is domiciled in Mainland China. The result of its sales from external customers in different countries is as follows:

	2009 RMB'000	2008 RMB'000
— Mainland China	3,003,365	2,331,238
— Hong Kong and other overseas countries	857,976	1,363,132
Total sales	3,861,341	3,694,370

Sales are attributed to countries on the basis of the customers' location.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 21. Sales and Segment Information (Continued)

The total of non-current assets other than deferred income tax assets located in different countries are as follows:

	2009 RMB'000	2008 RMB'000
Total non-current assets other than deferred tax assets		
— Mainland China	1,196,615	1,329,976
— Hong Kong and other overseas countries	106,830	63,248
Deferred income tax assets	37,131	33,701
Total non-current assets	1,340,576	1,426,925

### 22. Expenses by Nature

	2009 RMB'000	2008 RMB'000
Depreciation and amortisation (Notes 5, 6 and 7)	83,617	101,540
Changes in inventories of finished goods and work in progress	49,996	112,447
Raw materials and consumables used	2,530,984	2,314,177
Operating lease for buildings	5,942	5,278
Sales commission and after-sales service expenses	220,259	265,623
Provision for/(reversal of) impairment of trade receivables (Note 11)	3,297	(1,665)
Provision for write-down of inventories	20,688	15,326
Employee costs (Note 25)	287,419	283,283
Freight charges	28,161	33,684
Utilities	41,891	32,180
Travelling expenses	14,084	13,743
Research and development expenses	8,950	9,243
Auditor's remuneration	2,780	2,780
Others	105,558	101,371
Total cost of sales, selling and marketing expenses and general and administrative expenses	3,403,626	3,289,010

### 23. Other Income

	2009 RMB'000	2008 RMB'000
Government grants (i)	22,031	25,415
Amortisation of deferred income (Note 19)	1,781	1,139
	23,812	26,554

(i) Government grants mainly represent subsidies and assistance received from local municipal government in connection with the Group's achievements in developing innovative and high technology plastic injection moulding machines.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 24. Other Gains/(Losses) — Net

	2009 RMB'000	2008 RMB'000
Net exchange gains/(losses)	9,547	(14,689)
Loss on disposals of property, plant and equipment, net	(712)	(574)
Gain on disposal of land use rights, net	8,436	—
Others	1,656	300
	<b>18,927</b>	<b>(14,963)</b>

### 25. Employee Costs

	2009 RMB'000	2008 RMB'000
Salaries, wages and bonus	234,063	229,611
Pension cost — defined contribution plan ( <i>note i</i> )	14,384	15,376
Other benefits ( <i>note ii</i> )	38,972	38,296
	<b>287,419</b>	<b>283,283</b>

#### (i) Pension cost — defined contribution plan

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of their basic salary, while the Group contributes 12% to 20% of employees' basic salary and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a cap of HK\$1,000 and thereafter contributions are voluntary. The Group has no further obligations for post-retirement benefits beyond the contributions.

#### (ii) Other benefits

In addition, the Group's employees in Mainland China participate in state-sponsored employee social security plans, including medical, housing and other welfare benefits. The Group contributes 8% and 10% of employees' basic salary to medical and housing plans, respectively.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 26. Directors and Senior Management's Emoluments

#### (a) Directors' emoluments

The emoluments of individual director are set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Other benefits RMB'000	Total RMB'000
2009				
Executive directors				
— Mr. Zhang Jingzhang	—	700	6	706
— Mr. Zhang Jianming	—	730	20	750
— Mr. Zhang Jianfeng	—	500	20	520
— Mr. Zhang Jianguo	—	450	20	470
— Mr. Guo Mingguang	—	420	20	440
— Ms. Chen Ningning	—	400	20	420
— Mr. Liu Jianbo	—	400	20	420
— Professor Helmut Helmar Franz	—	680	—	680
	—	4,280	126	4,406
Non-executive director				
— Mr. Hu Guiqing	—	50	—	50
Independent non-executive directors				
— Mr. Pan Chaoyang	64	—	—	64
— Mr. Gao Xunxian	64	—	—	64
— Mr. Dai Xiangbo	64	—	—	64
— Dr. Steven Chow	88	—	—	88
	280	—	—	280
	280	4,330	126	4,736

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 26. Directors and Senior Management's Emoluments (Continued)

#### (a) Directors' emoluments (Continued)

Name of Director	Fees RMB'000	Salaries RMB'000	Other benefits RMB'000	Total RMB'000
2008				
Executive directors				
— Mr. Zhang Jingzhang	—	700	6	706
— Mr. Zhang Jianming	—	730	15	745
— Mr. Zhang Jianfeng	—	450	15	465
— Mr. Zhang Jianguo	—	450	15	465
— Mr. Guo Mingguang	—	400	15	415
— Ms. Chen Ningning	—	380	15	395
— Mr. Liu Jianbo	—	380	15	395
— Professor Helmut Helmar Franz	—	680	—	680
	—	4,170	96	4,266
Non-executive director				
— Mr. Hu Guiqing	—	50	—	50
Independent non-executive directors				
— Mr. Pan Chaoyang	60	—	—	60
— Mr. Gao Xunxian	60	—	—	60
— Mr. Dai Xiangbo	60	—	—	60
— Dr. Steven Chow	91	—	—	91
	271	—	—	271
	271	4,220	96	4,587

None of the directors waived any emoluments during the year ended 31 December 2009 (2008: Nil).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 26. Directors and Senior Management's Emoluments (Continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group did not include any (2008: included two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (2008: remaining three) individuals are as follows:

	2009 RMB'000	2008 RMB'000
Salaries	5,551	2,531
Other benefits	216	969
	<b>5,767</b>	<b>3,500</b>

The emoluments fall within the following bands:

	Number of individuals	
	2009	2008
Nil — HKD1,000,000 (equivalent to approximately RMB 881,000)	1	—
HKD1,000,001 (equivalent to approximately RMB881,000) — HKD1,500,000 (equivalent to approximately RMB1,322,000)	3	3
HKD1,500,001 (equivalent to approximately RMB1,322,000) — HKD2,000,000 (equivalent to approximately RMB1,762,000)	1	—

- (c) During the year ended 31 December 2009, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

### 27. Finance Income/Costs

	2009 RMB'000	2008 RMB'000
Finance costs:		
Interest expense on borrowings	(8,072)	(7,681)
Net foreign exchange (losses)/gains on borrowings	(829)	2,615
	<b>(8,901)</b>	<b>(5,066)</b>
Finance income:		
Interest income on pledged bank deposits and cash and cash equivalents	19,847	27,909
Interest income on loans to distributors and suppliers	1,268	2,073
	<b>21,115</b>	<b>29,982</b>
Finance income, net	<b>12,214</b>	<b>24,916</b>

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 28. Income Tax Expense

The amount of income tax charged to the consolidated income statement represents:

	2009 RMB'000	2008 RMB'000
Current income tax		
— Mainland China enterprise income tax	47,992	52,104
— Overseas tax	4,188	232
Deferred taxation ( <i>Note 20</i> )	10,784	(15,555)
	<b>62,964</b>	<b>36,781</b>

Haitian Shili, Wuxi Haitian and Haitian Heavywork (subsidiaries) were entitled for a reduced tax rate of 12.5% for the year 2009. Haitian Technology and Ningbo Zhafir (subsidiaries) were entitled for exemption of enterprise income tax for the year 2009.

Haitian Beihua, Haitian Plastic Machinery, Haitian Heavywork, Haitian Huayuan and Wuxi Haitian (subsidiaries) were certified as High and New Technology Enterprises in 2008 or 2009 and were entitled to a reduced tax rate of 15% respectively for three years commencing from 1 January 2008 or 2009. They are entitled to re-apply for preferential tax treatment when the preferential tax period expires.

Daxie Haitian (subsidiary)'s enterprise income tax rate would gradually increase to 20% for the year 2009, 22% for the year 2010, 24% for the year 2011 and 25% for the year 2012.

Other major operating subsidiaries in Mainland China are subject to enterprise income tax rate of 25% for the year 2009.

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2009 (2008: 16.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the countries in which the Group operates.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 28. Income Tax Expense (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2009 RMB'000	2008 RMB'000
Profit before income tax, after excluding share of profit of an associate	512,668	441,867
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	127,836	108,567
Expenses not deductible for tax purpose	5,018	3,826
Tax losses for which no deferred income tax assets was recognised	7,598	7,619
Effect of tax concession	(88,492)	(83,231)
Effect of withholding tax at 5% on the distributable profits of the subsidiaries in Mainland China	11,004	—
Income tax expense	62,964	36,781
The weighted average applicable tax rate	12.3%	8.3%

Share of income tax expense of an associate for the year ended 31 December 2009 amounting to RMB9,000 (2008: RMB40,000) was included in the consolidated income statement for the share of profit of an associate.

For the year ended 31 December 2009, there was no tax charge relating to components of other comprehensive income (2008: Nil).

### 29. Loss Attributable to the Equity Holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss of approximately RMB2,119,000 (2008: RMB69,392,000).

### 30. Earnings Per Share

The calculation of basic earnings per share for the year is based on the profit attributable to the equity holders of the Company of approximately RMB450,026,000 (2008: RMB405,247,000) and on the weighted average number of approximately 1,596,000,000 (2008: 1,596,000,000) ordinary shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive ordinary shares.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 31. Dividends

	2009 RMB'000	2008 RMB'000
Interim dividend paid of HKD3.0 cents (2008: HKD6.5 cents) per ordinary share	42,168	94,516
Proposed final dividend of HKD10.0 cents (2008: HKD3.0 cents) per ordinary share	140,379	42,216
	<b>182,547</b>	136,732

The Company's Board of Directors has recommended payment of a final dividend of HKD10.0 cents per share for the year ended 31 December 2009 (2008: HKD3.0 cents per share), which is subject to the approval by the Company's shareholders at the upcoming Annual General Meeting. Total dividend for the year ended 31 December 2009 is HKD13.0 cents per share. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings during the year ending 31 December 2010.

### 32. Notes to Consolidated Statement of Cash Flow

#### (a) Cash generated from operations

	2009 RMB'000	2008 RMB'000
Profit before income tax	512,990	442,028
Adjustments for:		
— share of profit of an associate (Note 9)	(322)	(161)
— amortisation of land use rights (Note 5)	3,486	2,490
— depreciation of property, plant and equipment (Note 6)	78,031	96,950
— amortisation of intangible assets (Note 7)	2,100	2,100
— amortisation of deferred income (Note 19)	1,781	1,139
— loss on disposal of property, plant and equipment (Note 24)	712	574
— gain on disposal of land use rights (Note 24)	(8,436)	—
— provision for/(reversal of) impairment of trade receivables (Note 22)	3,297	(1,665)
— provision for write-down of inventories (Note 22)	20,688	15,326
— finance income — net (Note 27)	(12,214)	(24,916)
	<b>602,113</b>	533,865
Changes in working capital:		
— decrease in pledged bank deposits	1,343	3,848
— (increase)/decrease in trade and other receivables	(597,613)	198,543
— (increase)/decrease in inventories	(64,555)	80,489
— increase/(decrease) in trade and bills payables and accruals and other payables	871,539	(532,570)
Cash generated from operations	<b>812,827</b>	284,175

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 32. Notes to Consolidated Statement of Cash Flow (Continued)

(b) In the statement of cash flow, proceeds from disposal of land use rights comprise:

	2009 RMB'000	2008 RMB'000
Net book amount (Note 5)	107,701	16,426
Gain on disposal of land use rights (Note 24)	8,436	—
Proceeds from disposal of land use rights	116,137	16,426

(c) In the statement of cash flow, proceeds from disposal of property, plant and equipment comprise:

	2009 RMB'000	2008 RMB'000
Net book amount (Note 6)	35,739	2,557
Loss on disposal of property, plant and equipment (Note 24)	(712)	(574)
Proceeds from disposal of property, plant and equipment	35,027	1,983

### 33. Commitments

(a) Capital commitments

	2009 RMB'000	2008 RMB'000
Acquisition of property, plant and equipment — Contracted but not provided for	7,456	91,059

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 33. Commitments (Continued)

#### (b) Operating lease commitments

The Group leases certain of its office premises and plant and equipment under non-cancellable operating lease agreements. The leases have renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2009 RMB'000	2008 RMB'000
Not later than 1 year	2,529	2,623
Later than 1 year and not later than 5 years	880	1,896
	<b>3,409</b>	<b>4,519</b>

### 34. Contingent Liabilities

Contingent liabilities not provided for in the consolidated financial statements is as follows:

	2009 RMB'000	2008 RMB'000
Guarantee given to the banks in connection with banking facilities granted to customers	457,218	309,221

### 35. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 68.39% of the Company's shares. The Company's directors regard Sky Treasure as being the ultimate holding company.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Related Party Transactions (Continued)

The following companies are considered to be related parties of the Group:

Company name	Relationships
Ningbo Haitian Precision Machinery Co., Ltd. (“Haitian Precision”) (寧波海天精工機械有限公司)	Controlled by directors of the Group
Ningbo Anson CNC Technique Co., Ltd. (“Ningbo Anson”) (寧波安信數控技術有限公司)	Controlled by directors of the Group
Hangzhou Keqiang Intelligence Control System Co., Ltd. (“Hangzhou Keqiang”) (杭州科強智能控制系統有限公司)	Associate of the Group
Haitian South American Industry and Machinery Commerce Limited (“Haitian Brazil”)	Controlled by directors of the Group

#### (a) Transactions with related parties:

The following material transactions were carried out with related parties:

	2009 RMB'000	2008 RMB'000
(i) Sales of land use rights and property, plant and equipment to: Haitian Precision	46,334	—
(ii) Purchases of goods from:		
Ningbo Anson	195,394	—
Hangzhou Keqiang	6,041	3,718
Haitian Brazil	—	1,330
	201,435	5,048

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Related Party Transactions (Continued)

#### (a) Transactions with related parties: (Continued)

	2009 RMB'000	2008 RMB'000
(iii) Purchase of equipment from: Haitian Precision	13,568	—

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

#### (b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2009 and 2008:

	2009 RMB'000	2008 RMB'000
Due from related parties		
Trade related		
— Hangzhou Keqiang	1,000	1,500
Non-trade related		
— Mr. Zhang Jianming	192	—
— Mr. Zhang Jianfeng	149	198
	341	198
Due to related parties		
Trade related		
— Ningbo Anson	46,706	—
— Hangzhou Keqiang	1,128	—
	47,834	—

Balances with related parties were unsecured, non-interest bearing, and had no pre-determined repayment terms.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Related Party Transactions (Continued)

#### (b) Balances with related parties: (Continued)

Maximum balance outstanding for amounts due from/to related parties for the year ended 31 December 2009 and 2008 were as follows:

	2009 RMB'000	2008 RMB'000
Due from related parties		
Trade related		
— Hangzhou Keqiang	1,000	1,500
Non-trade related		
— Mr. Zhang Jianming	336	468
— Mr. Zhang Jianfeng	363	325
	699	793
Due to related parties		
Trade related		
— Ningbo Anson	68,497	—
— Hangzhou Keqiang	2,080	1,180
	70,577	1,180

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Related Party Transactions (Continued)

#### (c) Key management compensation

Key management includes directors, general managers of certain subsidiaries, Chief Financial Officer, Investment Relations Manager and the Head of Human Resources and Administration. The compensation paid or payable to key management for employee services is shown below:

	2009 RMB'000	2008 RMB'000
Salaries and bonus	7,768	7,291
Other benefits	205	160
	7,973	7,451

# Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
<b>Results</b>					
Revenue	<b>3,861,341</b>	3,694,370	3,824,850	3,175,732	2,577,589
Profit before income tax	<b>512,990</b>	442,028	600,116	483,636	351,389
Income tax expenses	<b>(62,964)</b>	(36,781)	(31,948)	(21,863)	(22,056)
Minority interests	<b>—</b>	—	255	(10,906)	(22,435)
Profit attributable to shareholders	<b>450,026</b>	405,247	568,423	450,867	306,898
<b>Assets</b>					
Non-current assets	<b>1,340,576</b>	1,426,925	1,155,046	813,514	1,054,998
Current assets	<b>4,405,667</b>	3,135,138	3,649,418	3,341,760	2,209,268
Total assets	<b>5,746,243</b>	4,562,063	4,804,464	4,155,274	3,264,266
<b>Liabilities</b>					
Non-current liabilities	<b>(27,870)</b>	(22,369)	—	(150,000)	—
Current liabilities	<b>(2,393,986)</b>	(1,586,692)	(2,007,902)	(1,634,909)	(1,711,491)
Total liabilities	<b>(2,421,856)</b>	(1,609,061)	(2,007,902)	(1,784,909)	(1,711,491)
Total equity	<b>3,324,387</b>	2,953,002	2,796,562	2,370,365	1,552,775
Minority interests	<b>—</b>	—	(1,060)	(1,308)	(102,810)
Capital and reserves attributable to equity holders of the Company	<b>3,324,387</b>	2,953,002	2,795,502	2,369,057	1,449,965

Notes: The Company was incorporated on 13 July 2006 in Cayman Islands and became the holding company of the Group with effect from 5 December 2006 upon completion of the Reorganisation as set out in the Company's prospectus dated 11 December 2006.





Haitian International Holdings Limited