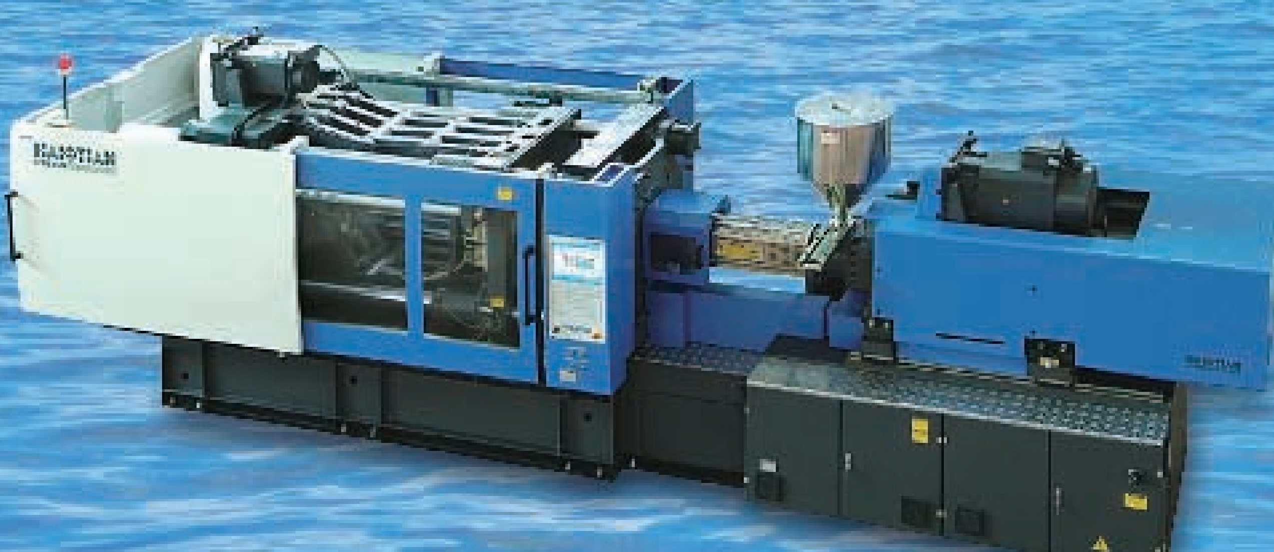
HAITIAN

Haitian International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1882

Annual Report 2006



Mission Statement

To be the world’s largest producer of plastic injection moulding machinery in term of sales.

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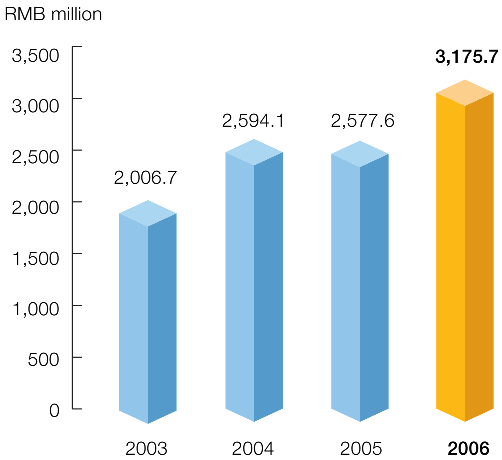
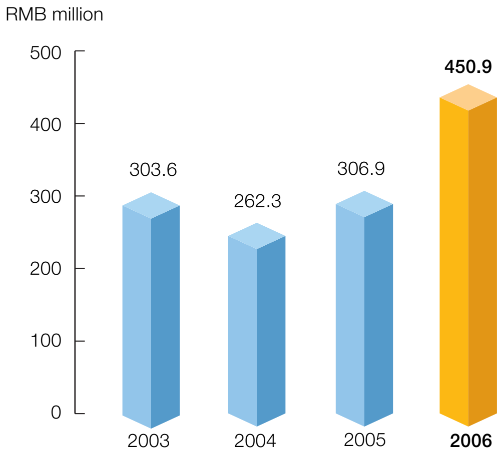
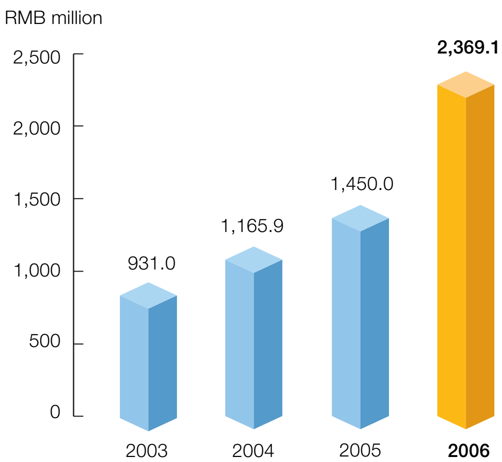
Revenue



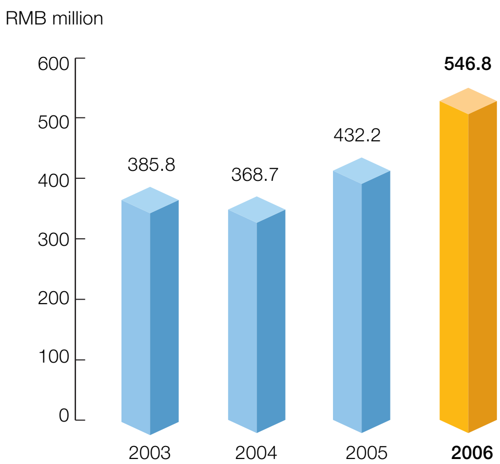
Profit attributable to the equity holders of the Company



Capital and reserves attributable to the Company's equity holders



EBITDA



Company Profile and Corporate Information

Executive Directors

Mr. ZHANG Jingzhang *(Chairman)*
Mr. ZHANG Jianming *(Chief Executive Officer)*
Mr. ZHANG Jianguo
Mr. ZHANG Jianfeng
Mr. GUO Mingguang
Ms. CHEN Ningning

Non-executive Director

Mr. HU Guiqing

Independent Non-executive Directors

Mr. PAN Chaoyang
Mr. GAO Xunxian
Mr. DAI Xiangbo

Company Secretary and Qualified Accountant

Mr. LO Chi Chiu

Legal Advisors

Coudert Brothers
in association with
Orrick, Herrington & Sutcliffe LLP

Compliance Advisor

Guotai Junan Capital Limited

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 D, 12 th Floor, Seabright Plaza
9-23 Shell Street, North Point
Hong Kong

Principal Bankers

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

40 years experience in the industry

Chairman's Statements

"The keys to our success are our people, our cost management and our capital ("three core elements")"

Dear Shareholders,

On behalf of Haitian International Holdings Limited, ("Haitian Holdings" or the "Company"), together with its subsidiaries (the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2006.

Performance Review

The Group had an outstanding year of 2006 with remarkable growth in business and financial performance. In 2006, the Group not only has consolidated and strengthened its leading position in China, but also succeeded in the international market. The domestic plastic injection moulding machines ("PIMMs") industry in China posted a recovery in 2006 following last year's lackluster industry performance which was mainly caused by the Government's austerity measures and the high volatility of crude oil prices. Against this background, the Group stepped up its efforts to expand the domestic market and made a breakthrough in domestic sales values in 2006 with significant growth of 26.2% as compared to 2005. Capitalising on its quality product, international brand recognition and comprehensive sales network, the export sales has once again reached its record high of approximately RMB954.5 million, representing 21.8% growth compared to 2005. As a result, the Group's turnover increased by 23.2% to approximately RMB3,175.7 million in 2006.

Besides the sales growth, the profitability of the Group also improved satisfactorily in 2006. During the year, the profit attributable to the equity holders of the Company reached RMB450.9 million, representing an increase of 46.9% compared to 2005. After taking out the effect of one-off interest income from subscription of new shares

The Company listed on the Main Board of the Stock Exchange on 22 December 2006 which amounted to RMB23.2 million, the profit attributable to the equity holders of the Company will be RMB427.6 million representing an increase of 39.3% compared to 2005. Leveraging on economies of scales and effective cost control, the net profit margin excluding the one-off interest income also improved from 11.9% in 2005 to 13.5% in 2006.

Future Prospects

We remain optimistic about the Group's performance in 2007 in view of the recent development in new products, increased production capacity in Wuxi and steady growth of demand for PIMMs globally.

In order to capture the opportunity of the growing market demand of three types of PIMMs identified by the Group, namely 1) large tonnage PIMMs, 2) environmental friendly PIMMs, and 3) high speed and high precision PIMMs, the Group will continue to maintain strong commitment in R&D focusing on these three areas. In 2006, the Group introduced two series of new products in the fourth quarter, namely J5 series, a new generation of energy saving PIMMs and HTD series, the full electric PIMMs. The market response to these two new series have been very encouraging. The J5 series was considered a revolution of old energy saving PIMMs by using a electric servo motors to replace variable pump or frequency conversion electromotor to drive hydraulic system of PIMMs. It has not only higher energy saving features and cycle time but also higher precision than fully hydraulic systems. The introduction of HTD series, the full electric PIMMs, also enables the Group to enter the new market segment previously dominated by Japanese manufacturers. Being the first Chinese domestic player to mass produce full electric PIMMs with cost advantages, we believe that a higher penetration rate of the new market can be attained at a fast pace.

We expect the growth of demand in PIMMs will continue in coming years in view of the increasing trend in the use of plastic materials, which are considered to be relatively inexpensive, durable and light-weight substitution to timber and steel and with wide application for automotive, logistic and recycling businesses. We remain optimistic on the overall global economy and expect there will be steady growth in demand for the PIMMs market in 2007. To capture the growth of the market, we have built a new factory in Wuxi, which commenced its operation in the last quarter of 2006. The Wuxi factory is strategically located in one of the three regions with highest demand for PIMMs and named plastic material manufacturing provinces in China. This factory will further increase the Group's production capacity approximately from 18,000 to 22,000 PIMMs in 2007.

"Haitian" is named as a major Chinese brand for export sales (重點培育和發展的中國出口名牌) by the Ministry of Commerce of China

A new factory in Wuxi commenced its operation in the last quarter of 2006

After the Group's listing in December 2006, the increase in reputation and brand awareness of "Haitian" will certainly improve our export operations to better promote our products to overseas and multi-national corporate customers. In the coming years, the Group will continue to expand our export operations by introducing more technologically advanced and high-end products, enhancing our international third party sales network and improving the quality of end-customer service by establishing more overseas service centres such as North Africa, Russia and India etc.

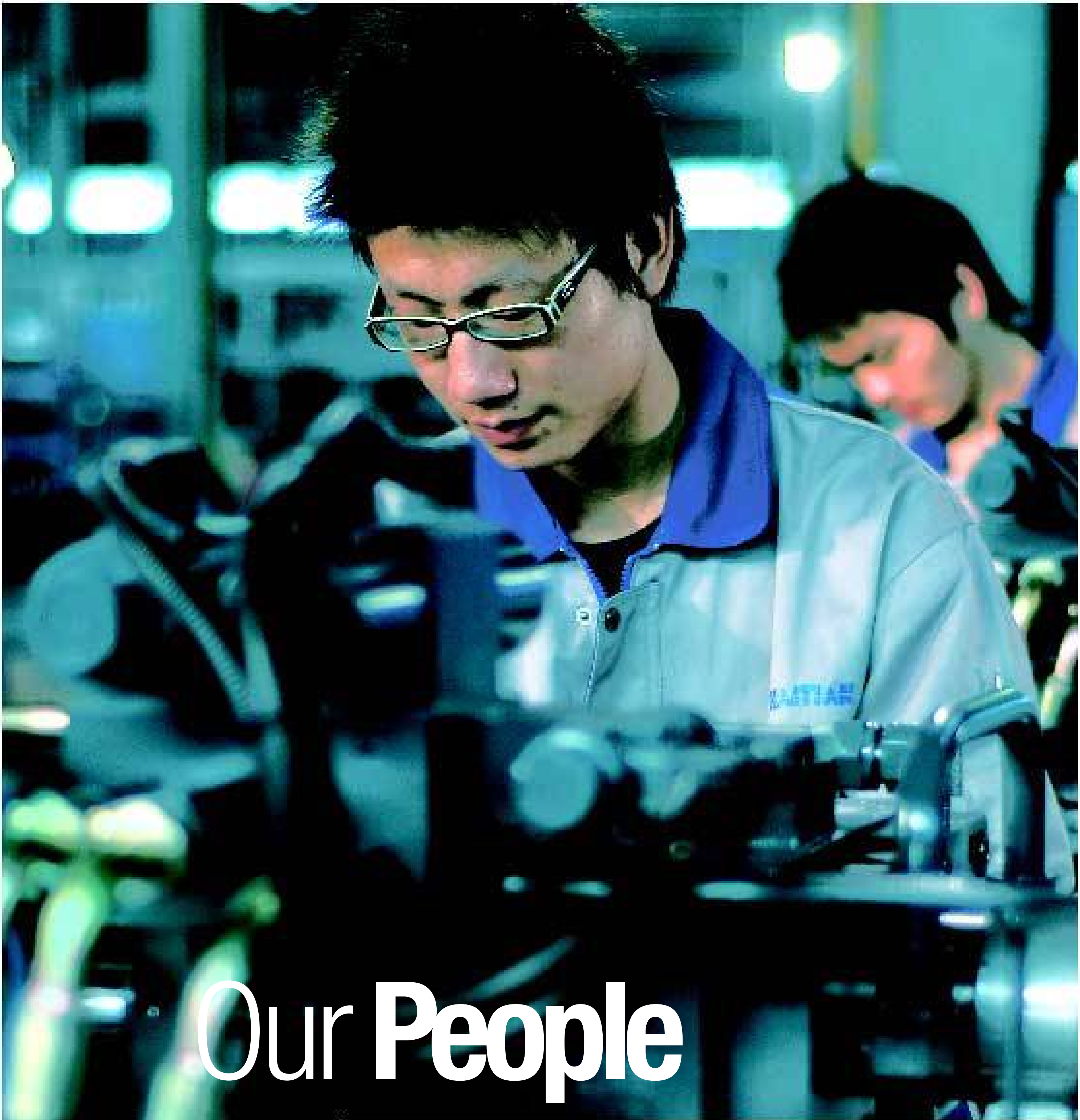
With competitive new PIMMs, strong R&D team and increased production capacity with favourable market demand, we are confident of achieving an excellent business performance to enhance the values of our shareholders.

Appreciation

2006 was also a special year for the Group as we were successfully listed on the Main Board of the Stock Exchange and celebrating 40th Anniversary of Haitian Group. Whilst we are proud of our achievements over the past four decades, we would like to take this opportunity to express our gratitude to the Group's employees for their invaluable contributions to the Group and customers, suppliers and business partners for their continued confidence in and support to the Group.

Mr. Zhang Jingzhang
Chairman of the Group

20 April 2007



Our People

CEO's Report

"Our R&D focus will be on the following three aspects:

1) large tonnage PIMMs;

2) environmental friendly PIMMs; and

3) high speed and high precision PIMMs"

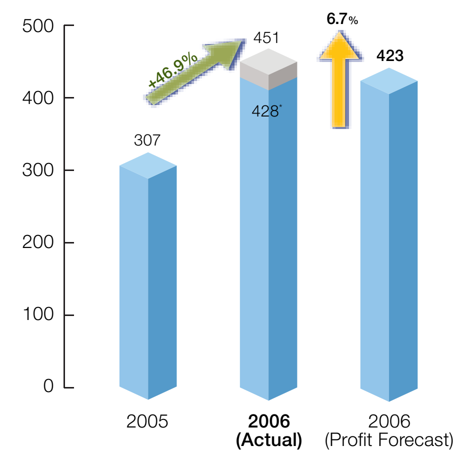
Highlights

	Year ended 31 December		
	2006	2005	Change
	RMB'million	RMB'million	%
Sales	**3,175.7**	2,577.6	23.2
Operating profit	**470.1**	354.1	32.8
Profit attributable to equity holders of the Company	**450.9**	306.9	46.9
Profit attributable to equity holders of the Company excluding one-off interest income from over subscription of new issue of shares ("New Issue")	**427.6**	306.9	39.3
Basic earnings per share (expressed in RMB per share)	**0.37**	0.26	42.3

- Successfully listed on the Main Board of Hong Kong Stock Exchange on 22 December 2006 with strong response from the market.
- Outstanding performance in 2006 with sales of RMB3,175.7 million, an increase of 23.2% over 2005.
- Profit attributable to equity holders of the Company excluding one-off interest income from over subscription of New Issue increased to RMB427.6 million, representing an increase of 39.3% over 2005.
- Net margin of profit attributable to equity holders of the Company excluding one-off interest income from over subscription of New Issue increased from 11.9% to 13.5%.
- Solid balance sheet with net cash of RMB1,498.1 million to fund future growth.

The Company's exhibition centre located in Ningbo

Profit Attributable to Equity Holders



* *Excluding the one-off interest income of RMB23 million from over subscription of new issue of shares during our initial public offering period in December 2006.*

The Group had an outstanding year of 2006 with remarkable growth in business and financial performance. The Group's turnover increased 23.2% from approximately RMB2,577.6 million in 2005 to approximately RMB3,175.7 million in 2006. During the year, the Group's profit attributable to the equity holders of the Company reached RMB450.9 million representing an increase of 46.9% compared to 2005 and was 6.7% above the profit forecast as stated in the Company's prospectus dated 11 December 2006 ("Prospectus"). The better than forecast results was mainly resulted from strong market response to our new issue of shares ("New Issue") and we recorded an one-off interest income from over subscription which amounted to RMB23.2 million. After taking out the effect of this one-off item, the Group's profit attributable to the equity holders of the Company will be RMB427.6 million representing an increase of 39.3% compared to 2005 and the net profit margin improved from 11.9% in 2005 to 13.5% in 2006.

Basic earnings per share was RMB0.37 in 2006 (2005: RMB0.26). The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2006.

Market review

In 2006, China continued to experience robust and sustainable growth in its economy with a 10.7% increase in GDP year-on-year. This created an increasing demand for plastic products. According to the China Plastic Machine Industry Association, China's estimated demand for plastic injection moulding machines ("PIMMs") was approximately RMB28.3 billion in 2006, with an estimated growth at a CAGR of 9.9% to approximately RMB41.3 billion in 2010.

In addition to the strong domestic demand for PIMMs, overseas demand has been rising over the past year. The Group has approximately 60% of the market share for medium-to-large tonnage PIMMs in China and is the world's largest producer of PIMMs by production volume. Leveraging on our strong brand, manufacturing capability and economies of scale, the Group will further strengthen its market leading position in the industry.

Financial Review

Sales

In 2006 the market condition continued to improve after adjustment to the austerity measures by Chinese Government and fluctuation of crude oil prices. These have boosted investment confidence and the demand for PIMMs rebounded satisfactorily. We were successful in capturing the improved market condition and demand through our continuous efforts in expansion of both domestic and international markets which contributed to the growth of the Group's revenue. As a result, we reported a revenue of RMB3,175.7 million in 2006, representing an increase of 23.2% compared with 2005. During the year, the sales to domestic and international market increased by 26.2% and 21.8% respectively.

Sales Breakdown

RMB million

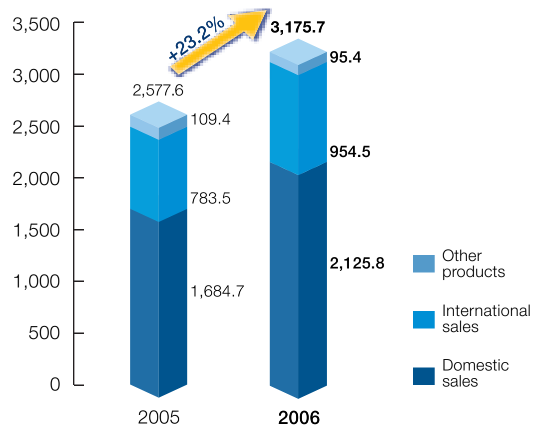


Table 1. Sales Breakdown

	Year ended 31 December		
	2006 RMB'000	2005 RMB'000	
Plastic Injection Moulding Machines			
Domestic Sales	**2,125,779**	1,684,675	26.2%
International Sales	**954,513**	783,487	21.8%
Others (i)	**95,440**	109,427	-12.8%
	3,175,732	2,577,589	23.2%

(i) Other products include related parts for plastic injection moulding machines and products of the non-plastic injection moulding machines business.

Gross Profit

During the year under review, gross profits reached approximately RMB893.7 million, representing an increase of 26.0% compared with 2005. Benefiting from the relatively stable average iron and steel price and effective cost control, our gross profit margin has improved from 27.5% in 2005 to 28.1% in 2006.

Selling and administrative expenses

The selling and administrative expenses increased by 28.5% from RMB352.3 million in 2005 to RMB452.7 million in 2006 which was in line with our effort in sales development, including an increase of sales incentive and commission to achieve stronger growth of sales and expansion of the Group's business.

Other income

Other income increased by 41.9% from RMB17.8 million in 2005 to RMB25.2 million in 2006 resulted from the increase in government subsidies received.

Other gains/(losses), net

We recorded a net income of RMB3.9 million for other gains/(losses) in 2006 as compared to a net expenses of RMB20.8 million in 2005. This change was primarily due to the decrease in exchange losses during the year.

Finance income/(costs), net

For finance income/(costs), net, we recorded a net income of RMB13.5 million in 2006 as compared to a net expenses of RMB2.5 million in 2005. This change was primarily due to the one-off interest income from over subscription of New Issue which amounted to RMB23.2 million recorded during the year.

Income tax expenses

After the Group Reorganisaton, there was an increase in profit contribution from subsidiaries which enjoyed tax holiday. Consequently, the effective tax rate decreased from 6.3% in 2005 to 4.5% in 2006.

Profit attributable to minority interests

Profit attributable to minority interests decreased from RMB22.4 million in 2005 to RMB10.9 million in 2006 as a result of the substantial decrease in minority shareholdings in the operating subsidiaries of the Group after the Group Reorganisaton.

Profit attributable to shareholders of the Company

As a result of foregoing, the profit attributable to shareholders of the Company increased by 46.9% from RMB306.9 million in 2005 to RMB450.9 million in 2006.

Table 2. Key Financial Ratios

	Year ended 31 December	
	2006	2005
Gross profit margin	**28.1%**	27.5%
Operating profit margin	**14.8%**	13.7%
Net margin of profit attributable to equity holders of the Company	**14.2%**	11.9%
Net margin of profit attributable to equity holders of the Company excluding one-off interest income from oversubscription of New Share	**13.5%**	11.9%

Sales Network

- **Covering 24 provinces in China**
- **Extensive international network covering over 80 countries.**

Business Review

Sales Network

The Group has dedicated teams of third-party sales agents/distributors to market our products, provide aftersales and technical support services to its end-user customers both domestically and worldwidely. Currently, the Group sells products to end-user customers in China and over 80 countries worldwide. As at 31 December 2006, the Group's sales network comprised 25 third-party sales agents/distributors in China covering 24 provinces and 12 overseas third-party sales agents/ distributors with a sales network covering more than 80 countries in Europe, Middle East, South America, North America, Asia Pacific and Africa. In addition, the Group has 14 service centres throughout China and a service centre in Italy to provide after-sales technical support, product demonstrations, system integration and training to end-user customers.

To further strengthen our sales network and high quality after-sales service coverage, the Group will continue to seek strategic partners to pursue business opportunities in China and overseas.

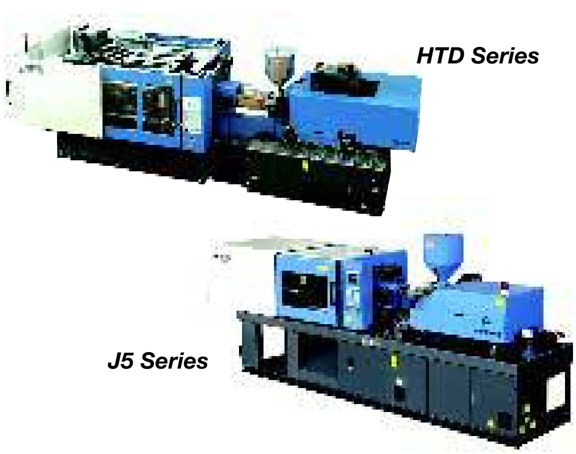
Research and Development

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. With decades-long commitment in R&D activities, the Group is the only plastic machinery producer recognised as one of 103 pioneers for innovative enterprises by the Stated-owned Assets Supervision and Administration Commission of the State Council, All China Federation of Trade Unions

The Company's R&D centre is recognised as a national technology centre and Ministry of Science and Technology of China in 2006. The 103 pioneers for innovative enterprises also include Lenovo (China) Co. Ltd, ZTE Corporation and Huawei Technologies Co. Ltd. etc.

As at 31 December 2006, the Group's research and development team comprises more than 190 engineers and technicians, representing approximately 6% of our total staff. We are also dedicated in technological advancement and have been working with a number of academic institutions in technological research. We have formed a joint venture with Beijing University of Chemical Technology, a leading academic institution in the area of plastic machinery to further strengthen our R&D capabilities including: 1) improvements on the existing products such as the high-speed, high-precision plastic injection moulding machines and two-platen plastic injection moulding machines; 2) research and development of new plastic processing technologies; and 3) provide technical advisory services and technical training to the Group.

In order to capture the opportunity of the growing market demand of three types of PIMMs identified by the Group namely 1) large tonnage PIMMs, 2) environmental friendly PIMMs; and 3) high speed and high precision PIMMs, the Group will continue to maintain strong commitment in R&D focusing on these three areas. The Group successfully developed and launched two series of new products in the last quarter of 2006, namely J5 series, a new generation of energy saving injection machines and HTD series, the full electric injection machines. These new products certainly will be another source of revenue driver in future.



Mission and future Strategies

Currently, the Group is the world's largest producer of PIMMs by production volume. Looking forward, the Group aims to maintain our leading position in China and increase our global market share so as to become the world's largest producer of PIMM in terms of sales by leveraging our competitive strengths and implementing the following strategies:

1. continue to invest in R&D to develop high-margin, high value-added products: the Group plans to develop or acquire a new R&D centre to research and develop more advanced technologies for PIMMs.

2. further increase production capacity and efficiency: the Group plans to construct a new facility in each of Guangzhou and Ningbo, both of which are expected to be completed in 2008 and 2009 respectively.

3. increase market share in China and overseas: the Group intends to establish additional service centres in Xiamen, Shanghai, Chongqing and Chengdu in China, as well as new overseas service centres in countries such as Russia and India and in North Africa.

4. pursue strategic acquisitions and joint ventures overseas: currently the Group is considering different opportunities to acquire overseas PIMM manufacturers with high capability and advanced technologies in all-electric PIMM, strong R&D capabilities, experienced management team and established scale of operation.

Liquidity and Financial Resources

On 22 December 2006, the Company's shares were listed on the Main Board of the Stock Exchange. The Company raised approximately RMB1,492.6 million, net of direct listing expenses from the issue of 399 million new ordinary shares in the Company. The listing enlarged the base of shareholders of the Company and provided additional funds for the Group's future development.

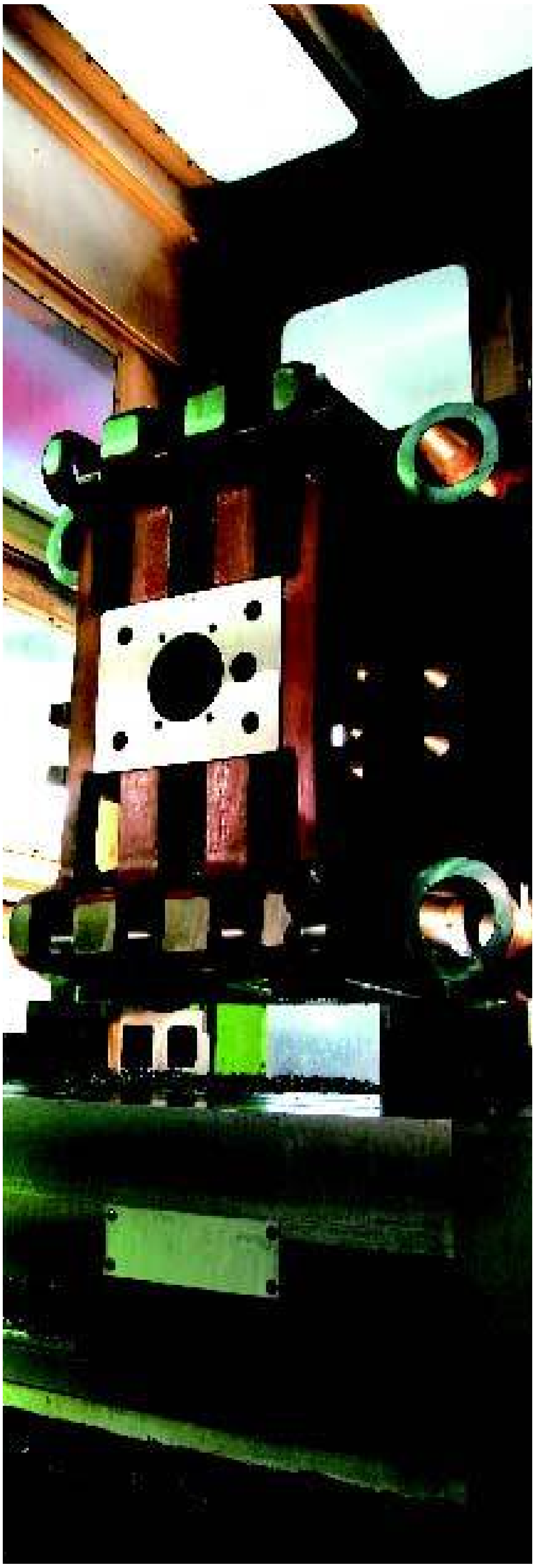
The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders' equity. As at 31 December 2006, the Group is in a strong financial position with a net cash position amounting to RMB1,498.1 million. Hence, no gearing ratio is presented.

Charges on Group Assets

As at 31 December 2006, the Group has pledged deposits of RMB27.2 million as collaterals against certain trade finance facilities granted by banks and bank borrowings of RMB84.3 million were secured by the discounted bill receivables.

Foreign Exchange Risk Management

For year 2006, the Group exported approximately 30% of its products to international markets which sales were 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 did not utilise 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.



Contingent Liabilities

As at 31 December 2006, the Group provided guarantee to banks in connection with facilities granted to the customers amounted to RMB300.6 million (2005: RMB213.5 million).

Employees

As at 31 December 2006, the Group had a total workforce of approximately 3,000 employees, the majority of which was located in China.

The Group offers its staff with competitive remuneration schemes. In addition, discretionary bonuses will be paid to staff based on individual and the Group's performance.

The Group is committed to nurturing a learning culture in the organisation. Total staff costs for 2006 amounted to RMB200.3 million compared against RMB163.9 million in 2005.

Use of Proceeds

The Company raised approximately RMB1,492.6 million, net of direct listing expenses from the issue of 399 million new ordinary shares in the Company in December 2006.

The proceeds will be applied in the coming years in accordance with the proposed applications set out in the Prospectus as follows:

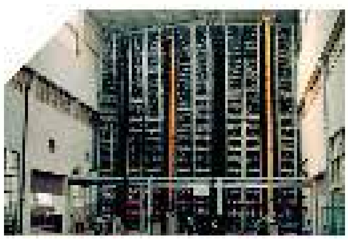
- approximately HK$625.4 million is expected to be applied for the expansion and upgrade of the Group's production facilities;
- approximately HK$132.0 million is expected to be applied for the enhancement of the Group's research and development activities and facilities;
- approximately HK$47.7 million will be used for establishment of new services centres;
- approximately HK$414.6 million will be used for repayment of bank loans;
- The balance in an amount of not more than 10% of the aggregate net proceeds will be used for working capital and general corporate purposes.

As at 31 December 2006, the unused funds raised of approximately RMB1,264.2 million were placed on short-term deposits with licensed banks in Hong Kong. They will be applied in the coming years for their intended uses.

Zhang Jianming
Chief Executive Officer

20 April 2007

Our **Cost Management**



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Jingzhang (**張靜章**), aged 70, 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 36 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 Affair 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, both of whom are executive directors of the Company. He is also a director of Sky Treasure Capital Limited ("Sky Treasure") and Premier Capital Management 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.

Mr. Zhang Jianming (**張劍鳴**), aged 44, 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 28 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 and a director of Sky Treasure and Premier Capital.

Mr. Zhang Jianguo (**張建國**), aged 51, 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 32 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 37, 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 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.

Mr. Guo Mingguang (**郭明光**), aged 41, 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 a director of Sky Treasure and Premier Capital.

Ms. Chen Ningning (**陳寧寧**), aged 44, 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.

NON-EXECUTIVE DIRECTOR

Mr. Hu Guiqing (**胡桂青**), aged 66, 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 61, 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 61, 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 44, 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) from1984to1997, 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.

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.

Professor Helmut Helmar Franz

Professor Franz, aged 57, has over 30 years of experience in the plastic processing machinery industry and joined the Group in December 2005. Professor 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, Professor 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. Professor Franz had been a member of the board of the VDMA 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. Professor Franz, in his capacity as a director of Ningbo Haitian has been in charge of the business strategy and development of the Haitian Group since 2005. The Directors believe that Professor Franz's in-depth knowledge of the international market for plastic injection moulding machines will assist the Board to shape the future strategy and development of the Company.

SENIOR MANAGEMENT

Liu Jianbo (**劉劍波**), aged 39, is a 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 has since then been responsible for the Group's internal quality control audit. He has been appointed as the vice president of quality control of the Group since February, 2004 and as the vice president of customer service of the Group since July, 2004. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang.

Yu Wenxian (**虞文賢**), aged 37, 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.

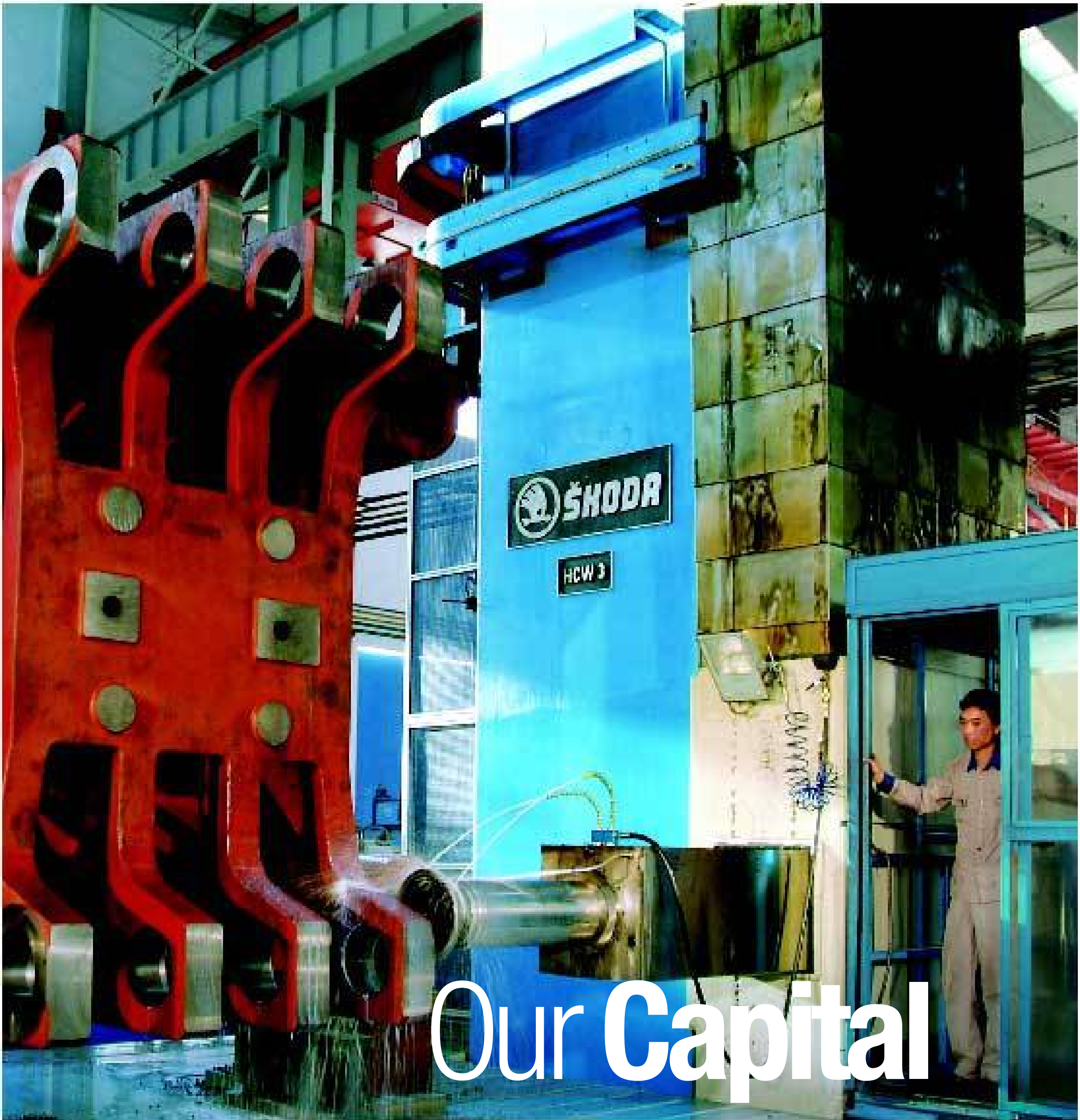
Bei Haibo (**貝海波**), aged 40, is the general manager of Haitian Heavywork and a deputy general manager of Haitian Sales. Mr. Bei joined the Group in January 1983 and has more than 20 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales 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 35, is the general manager of Dagang Trading, 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 Dagang Trading in 2006 and the general manager of Haitian Huayuan in 2004.

Shi Huajun (**施華均**), aged 35, 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.

Mr. Lo Chi Chiu (**盧志超**), aged 33, was appointed as Group Financial Controller 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 in August, 2006, 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.

Chen Yun (**陳雲**), aged 32, was appointed as the Group's finance manager in January 2006. Mr. Chen graduated from Hangzhou University of Electronic Industry with a bachelor's degree in economics in 1994. He is a certified accountant and a registered valuation agent in China. He has over 10 years of auditing, accounting and financing experience and in-depth knowledge of the corporate finance market in China. Prior to joining the Group, Mr. Chen was a partner with a local accounting firm.



Our Capital

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 since the listing of the shares of the Company on the Main Board of the Stock Exchange on 22 December 2006 ("Listing Date"), the Company has complied with the code provisions of the CG Code.

Board of Directors

The board of Directors (the "Board") comprises 6 Executive Directors, 1 Non-executive Director and 3 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.

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.

Each Director (including the Non-executive Director) has a term of office of three years which commenced on 22 December 2006.

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 2006, the Board convened a total of two Board meetings after incorporation of the Company on 13 July 2006, and the individual attendance record of the Directors is tabulated as follows:

	Attendance
Executive Directors	
Mr. Zhang Jingzhang *(Chairman)*	2/2
Mr. Zhang Jianming	2/2
Mr. Zhang Jianguo	2/2
Mr. Zhang Jianfeng	2/2
Mr. Guo Mingguang	2/2
Ms. Chen Ningning	2/2
Non-executive Director	
Mr. Hu Guiqing	2/2
Independent Non-executive Directors	
Mr. Pan Chaoyang	2/2
Mr. Gao Xunxian	2/2
Mr. Dai Xiangbo	2/2

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 from the Listing Date to 31 December 2006.

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 on 5 December 2006 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).

After the listing of the Company's shares on the Stock Exchange on 22 December 2006, there was one meeting held by the Audit committee on 8 April 2007 with an attendance rate of 100%. The Audit Committee reviewed the Group's result for the year ended 31 December 2006.

Remuneration Committee

The Remuneration Committee was established on 5 December 2006, comprising the chief executive officer, Mr. Zhang Jianming (Chairman of the Committee) and Independent Non-executive Directors, namely Mr. Pan Chaoyang and Mr. Gao Xunxian. After the listing of the Company's shares on the Stock Exchange on 22 December 2006, there was one meeting held by the Remuneration Committee on 10 April 2007 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 2006, 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.

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 auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on page 33.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB2,580,000 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 21 days before the meeting and such notice is also published in at least one English newspaper and one Chinese newspaper circulated in Hong Kong, 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 published in the newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

As a channel to further promote effective communication, the Company maintains a website (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

22 December 2006	–	Listing date
10 April 2007	–	Result Announcement of 2006
8 June 2007	–	Annual General Meeting

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

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2006:
1,596,000,000 shares

Market Capitalisation as at 31 December 2006:
HK$5,586 million

Earnings per share for 2006:
HK$0.37

Enquires Contact

Investor Relations Department
Tel : 86574-86182786
Fax: 86574-86182787
E-mail: andy@mail.haitian.com
Add: No. 32, Jiangnan Road Central, Beilun District, Ningbo, Zhejiang Province, China
Postal code: 315821

Website

http://www.haitianinter.com

Report of the Directors

The directors submit their first report together with the audited financial statements for the year ended 31 December 2006.

Group Reorganisation and Listing

The Company was incorporated on 13 July 2006 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 5 December 2006 (the "Group Reorganisation"). Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in note 2 to the financial statements and in the prospectus of the Company dated 11 December 2006 (the "Prospectus").

The Company's shares have been listed on the Main Board of the Stock Exchange since 22 December 2006.

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 9 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 24 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 37.

The directors do not recommend the payment of a final dividend.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 20 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,000,000.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 7 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 19 to the financial statements.

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB2,132.7 million as at 31 December, 2006. 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.

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2006 and for the previous three financial years are set out on page 80. Since the Company was listed on 22 December 2006, the published results are available from 2003 to 2006 only.

Share option scheme

No share option scheme was operated by the Company as at 31 December 2006.

Directors

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

Executive Directors

Mr. Zhang Jingzhang (appointed on 13 July 2006)
Mr. Zhang Jianming (appointed on 13 July 2006)
Mr. Zhang Jianguo (appointed on 13 July 2006)
Mr. Zhang Jianfeng (appointed on 13 July 2006)
Mr. Guo Mingguang (appointed on 13 July 2006)
Ms. Chen Ningning (appointed on 13 July 2006)

Non-executive Director

Mr. Hu Guiqing (appointed on 13 July 2006)

Independent Non-executive Directors

Mr. Pan Chaoyang (appointed on 25 August 2006)
Mr. Gao Xunxian (appointed on 25 August 2006)
Mr. Dai Xiangbo (appointed on 25 August 2006)

In accordance with Article 87(1) of the Company's Bye-laws, Articles of Association, Mr. Zhang Jianguo, and Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Pan Chaoyang 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).

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 Continuing Connected Transactions stated below and note 40 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 17 to 21.

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

As at 31 December 2006, 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	Name of Corporation	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Mr. Zhang Jingzhang	The Company	Corporate (1)	153,694,800	9.63%
Mr. Zhang Jianming	The Company	Corporate (2)	104,258,700	6.53%
Mr. Hu Guiqing	The Company	Corporate (3)	75,530,700	4.73%
Mr. Zhang Jianguo	The Company	Corporate (4)	62,483,400	3.92%
Mr. Zhang Jianfeng	The Company	Corporate (5)	58,653,000	3.68%
Ms. Chen Ningning	The Company	Corporate (6)	32,558,400	2.04%
Mr. Guo Mingguang	The Company	Corporate (7)	19,717,966	1.24%

Notes:

(1) Mr. Zhang Jingzhang is the beneficial owner of 12.84% of the issued share capital of Sky Treasure Capital Limited ("Sky Treasure"), which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jingzhang is indirectly interested in 153,694,800 Shares.

(2) Mr. Zhang Jianming is the beneficial owner of 8.71% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jianming is indirectly interested in 104,258,700 Shares.

(3) Mr. Hu Guiqing is the beneficial owner of 6.31% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Hu Guiqing is indirectly interested in 75,530,700 Shares.

(4) *Mr. Zhang Jianguo is the beneficial owner of 5.22% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jianguo is indirectly interested in 62,483,400 Shares.*

(5) *Mr. Zhang Jianfeng is the beneficial owner of 4.90% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jianfeng is indirectly interested in 58,653,000 Shares.*

(6) *Ms. Chen Ningning is the beneficial owner of 2.72% issued share capital of Sky Treasure, which in turn owns 75% issued Shares of the Company. Accordingly Ms. Chen Ningning is indirectly interested in 32,558,400 Shares.*

(7) *Mr. Guo Mingguang is a beneficiary with 12.93% beneficial interests under a trust which is the beneficial owner of 12.74% of the issued share capital of Sky Treasure which owns 75% of the issued shares in the Company. Accordingly Mr. Guo Mingguang is indirectly interested in 19,717,966 Shares.*

Save as disclosed above, as at 31 December 2006, 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 2006, 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:

Name of Shareholder	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Sky Treasure Capital Limited	Beneficial owner (1)	1,197,000,000 (L)	75.00%
		59,850,000 (S)	3.75%
Premier Capital Management Ltd	Interest in a controlled corporation (2)	1,197,000,000 (L)	75.00%
		59,850,000 (S)	3.75%
BNP Paribas S.A.	Interest in controlled corporations	114,613,000 (L)	7.18%

(L) *denotes a long position*

(S) *denotes a short position* (3)

Notes:

(1) *Sky Treasure Capital Limited ("Sky Treasure") held 1,197,000,000 shares, representing a 75% interest in the issued share capital of the Company as at 31 December 2006.*

(2) *As Premier Capital Management Ltd. ("Premier Capital") controlled more than one-third of the voting power at general meetings of Sky Treasure, Premier Capital is deemed to be interested in 1,197,000,000 shares held by Sky Treasure under the provisions of the SFO as at 31 December 2006.*

(3) *Under an international underwriting agreement dated 16 December 2006 in relation to the conditional placing of shares of the Company as part of the Global Offering (please refer to the details in the Prospectus), Sky Treasure granted to the underwriters under the international underwriting agreement an option to require Sky Treasure to sell up to an aggregate of 59,850,000 shares of the Company. Under the provisions of the SFO, Sky Treasure is treated as having a short position of 59,850,000 shares of the Company.*

Save as disclosed above, as at 31 December 2006, 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.

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

For the year ended 31 December 2006, the directors (except the independent non-executive directors) of the Company were interested in the following businesses which directly or indirectly compete with the business of the Company.

Haitian America do Sul, Industria e Comercio de Maquinas Ltda. (Haitian South American, Industry and Machinery Commerce Limited*) ("Haitian Brazil") and Sea-Sky Plastik Makinalari Ithalat Ihracat Limited Sirketi (Sea Sky Plastic Machines Import Export Limited Liability Company*) ("Haitian Turkey") were companies beneficially owned as to 95% and 100% by 寧波海天股份有限公司 (Ningbo Haitian Group Co., Ltd.*) ("Ningbo Haitian") which is a connected person (as defined under the Listing Rules). Please refer to the Prospectus for details of Ningbo Haitian. For the year ended 31 December 2006, Haitian Brazil and Haitian Turkey were principally engaged in the sales of plastic injection moulding machineries manufactured by the Group in the Brazilian and Turkish markets. As disclosed in the Prospectus, Haitian Brazil and Haitian Turkey will cease engaging in plastic injection moulding machinery related business from 30 June 2007 onward.

ZHAFIR Plastics Machinery GmbH (previously known as IVB GmbH Industrievertretungen) ("Zhafir") was a company beneficially owned as to 60% by Mr. Zhang Jianming and 20% by Mr. Zhang Jianfeng, who are executive directors of the Company and Zhafir was engaged in the research and development of plastic injection moulding machinery.

Save as disclosed above, 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 2006.

Each member of the Haitian Management, as defined in the Prospectus, has confirmed to the Company of his/her compliance with the non-competition undertakings provided to the Company. Please refer to the Prospectus for details of the non-competition undertakings.

Continuing Connected Transactions

Certain related party transactions as disclosed in note 40 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 disclosure had been made by the Company in the Prospectus.

Sales of plastic injection moulding machines

The Group entered into a master agreement with Haitian Brazil and Haitian Turkey, whereby the Group agreed to sell its products to Haitian Brazil and Haitian Turkey at prices based on the terms offered to independent third parties in their respective jurisdictions. Haitian Brazil and Haitian Turkey were subsidiaries of Ningbo Haitian which 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 sales of plastic injection moulding machines to Haitian Brazil and Haitian Turkey amounted to RMB30.4 million and RMB8.3 million respectively.

In respect of the above continuing connected transactions, the Stock Exchange has granted a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements subject to some conditions.

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 master 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 allowed by the Stock Exchange in the relevant waiver.

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.

Auditor

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

Public Float

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, 25.0% of the issued share capital of the Company was held by the public.

On behalf of the Board

Zhang Jianming
Chief Executive Officer

20 April 2007

Report of the Auditor

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the 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 35 to 79, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2006 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, 20 April 2007

Consolidated Balance Sheet

As at 31 December 2006
(Amounts expressed in RMB'000 unless otherwise stated)

	Note	2006	2005
ASSETS			
Non-current assets			
Land use rights	6	**106,734**	152,270
Property, plant and equipment	7	**695,648**	886,080
Intangible assets	8	**–**	5,595
Investments in associates	10	**475**	2,272
Deferred tax assets	11	**10,657**	8,781
		813,514	1,054,998
Current assets			
Inventories	12	**651,649**	589,488
Trade and bills receivables	13	**878,605**	806,159
Prepayments and other receivables	14	**72,232**	183,452
Financial assets at fair value through profit or loss	15	**–**	18,533
Assets held for sale	16	**–**	9,000
Pledged bank deposits	17	**27,177**	8,137
Bank deposits with initial terms of over three months		**–**	3,000
Cash and cash equivalents	18	**1,712,097**	591,499
		3,341,760	2,209,268
Total assets		**4,155,274**	3,264,266
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**160,510**	101
Reserves	20	**2,208,547**	1,449,864
		2,369,057	1,449,965
Minority interest		**1,308**	102,810
Total equity		**2,370,365**	1,552,775
LIABILITIES			
Non-current liabilities			
Bank borrowings	23	**150,000**	–
Current liabilities			
Trade and bills payables	21	**1,101,889**	900,536
Accruals and other payables	22	**429,008**	551,789
Current income tax liabilities		**12,817**	26,315
Bank borrowings	23	**91,195**	232,851
		1,634,909	1,711,491
Total liabilities		**1,784,909**	1,711,491
Total equity and liabilities		**4,155,274**	3,264,266
Net current assets		**1,706,851**	497,777
Total assets less current liabilities		**2,520,365**	1,552,775

Approved by the Board of Directors on 20 April 2007 and signed on behalf of the Board by:

Zhang Jianming	**Chen Ningning**
Chief Executive Officer	*Director*

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

Balance Sheet

As at 31 December 2006
(Amounts expressed in RMB'000 unless otherwise stated)

	Note	2006	2005
ASSETS			
Non-current assets			
Investments in subsidiaries	9(a)	**778,077**	–
Loans to subsidiaries	9(b)	**214,518**	–
		992,595	–
Current assets			
Other receivables	14	**8,844**	–
Cash and cash equivalents	18	**1,317,977**	–
		1,326,821	–
Total assets		**2,319,416**	–
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**160,510**	–
Reserves	20	**2,132,748**	–
Total equity		**2,293,258**	–
LIABILITIES			
Current liabilities			
Due to subsidiaries	9(c)	**10,970**	–
Other payables	22	**15,188**	–
Total liabilities		**26,158**	–
Total equity and liabilities		**2,319,416**	–
Net current assets		**1,300,663**	–
Total assets less current liabilities		**2,293,258**	–

Approved by the Board of Directors on 20 April 2007 and signed on behalf of the Board by:

Zhang Jianming
Chief Executive Officer

Chen Ningning
Director

The accompanying notes are an integral part of this financial statement.

Consolidated Income Statement

For the year ended 31 December 2006
(Amounts expressed in RMB'000 unless otherwise stated)

	Note	2006	2005
Sales	24	**3,175,732**	2,577,589
Cost of sales	25	**(2,282,064)**	(1,868,213)
Gross profit		**893,668**	709,376
Selling and marketing expenses	25	**(285,234)**	(202,733)
General and administrative expenses	25	**(167,426)**	(149,549)
Other income	26	**25,201**	17,755
Other gains/(losses) — net	27	**3,888**	(20,775)
Operating profit		**470,097**	354,074
Finance income	31	**29,017**	3,870
Finance costs	31	**(15,544)**	(6,362)
Finance income/(costs) — net	31	**13,473**	(2,492)
Share of results of an associate	10	**66**	(193)
Profit before income tax		**483,636**	351,389
Income tax expense	32	**(21,863)**	(22,056)
Profit for the year		**461,773**	329,333
Attributable to:			
Equity holders of the Company		**450,867**	306,898
Minority interest		**10,906**	22,435
		461,773	329,333
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic	34	**0.37**	0.26
— Diluted		**N/A**	N/A
Dividends	35(a)	**–**	–

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006
(Amounts expressed in RMB'000 unless otherwise stated)

	Note	Attributable to equity holders of the Company: Share capital (Note 19)	Attributable to equity holders of the Company: Reserves (Note 20)	Minority interest	Total
Balance at 1 January 2005		101	1,165,843	83,396	1,249,340
Profit for the year		–	306,898	22,435	329,333
Capital injection by then equity holders of subsidiaries		–	11	–	11
Contributions from minority shareholders		–	–	7,066	7,066
Dividends paid by group companies to then equity holders	35(b)	–	(30,370)	(10,087)	(40,457)
Currency translation differences		–	7,482	–	7,482
Balance at 31 December 2005		101	1,449,864	102,810	1,552,775
Balance at 1 January 2006		101	1,449,864	102,810	1,552,775
Profit for the year		–	450,867	10,906	461,773
Issue of shares	19	40,127	1,544,906	–	1,585,033
Share issue costs	19	–	(92,711)	–	(92,711)
Capitalisation of share premium	19	120,282	(120,282)	–	–
Contribution of minority interest in subsidiaries by then equity holders	20(b)	–	6,536	(6,536)	–
Disposal of a subsidiary (Note 36 (b))		–	–	(5,334)	(5,334)
Acquisition of minority interest in subsidiaries by then group companies	20(c)	–	(74)	(526)	(600)
Dividends paid by group companies to then equity holders	35(b)	–	(30,370)	(12,747)	(43,117)
Currency translation differences		–	(1,184)	–	(1,184)
Distributions to then equity holders on 30 April 2006	37(c)	–	(999,005)	(87,265)	(1,086,270)
Balance at 31 December 2006		160,510	2,208,547	1,308	2,370,365

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

Consolidated Cash Flow Statement

For the year ended 31 December 2006
(Amounts expressed in RMB'000 unless otherwise stated)

	Note	2006	2005
Cash flows from operating activities:			
Cash generated from operations	36(a)	**622,601**	343,204
Interest paid		**(15,544)**	(6,362)
Income tax paid		**(37,237)**	(20,596)
Net cash generated from operating activities		**569,820**	316,246
Cash flows from investing activities:			
Disposal of interests in an associate		**4,150**	–
Disposal of a subsidiary	36(b)	**692**	–
Acquisition of associates		**–**	(520)
Purchase of property, plant and equipment		**(132,367)**	(195,983)
Proceeds from disposal of assets held for sale		**–**	9,000
Purchase of land use rights		**(46,122)**	(88,180)
Purchases of intangible assets		**(342)**	(1,511)
Decrease of bank deposits with initial terms of over three months		**3,000**	13,633
Receipts from other loans repaid		**10,000**	10,000
Increase in due from related parties — non trade		**(385,192)**	(33,889)
Interest received from other loans		**380**	1,544
Interest received from banks		**4,674**	3,870
Proceeds from disposal of property, plant and equipment		**971**	1,577
Sale of financial assets at fair value through profit or loss, net		**1,439**	9,864
Net cash used in investing activities		**(538,717)**	(270,595)
Cash flows from financing activities:			
Proceeds from issue of shares	19	**1,577,297**	–
Share issue costs	19	**(77,523)**	–
Interest income from over subscription of New Issue		**23,236**	–
Capital injections from then equity holders		**–**	11
Capital injections from minority shareholders		**–**	7,066
Proceeds from bank borrowings		**561,144**	181,174
Repayments of bank borrowings		**(502,800)**	(172,043)
Dividends paid by group companies to then equity holders		**(67,327)**	(61,069)
Increase in due to related parties — non trade		**–**	1,282
Distribution to then equity holders pursuant to the Reorganisation	37(c)	**(424,532)**	–
Net cash generated from/(used in) financing activities		**1,089,495**	(43,579)
Net increase in cash and cash equivalents		**1,120,598**	2,072
Cash and cash equivalents at beginning of year	18	**591,499**	589,427
Cash and cash equivalents at end of year	18	**1,712,097**	591,499

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

Notes to the Consolidated Financial Statements

(Amounts expressed in RMB'000 unless otherwise stated)

1. General Information

Haitian International Holdings Limited (the "Company") was incorporated on 13 July 2006, as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. Pursuant to the Group reorganisation (the "Reorganisation") as set out in Note 2, the Company became the holding company of the companies now comprising the Group.

In the opinion of the directors, the ultimate holding company of the Company is Sky Treasure Capital Limited ("Sky Treasure"), 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 ("SEHK") since 22 December 2006. The Company's its registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111 Cayman Islands.

The Company and its subsidiaries (the "Group") is principally engaged in manufacture and sale of plastic injection moulding machines (the "Plastic Injection Moulding Machines Business"). Details of the principal subsidiaries of the Group are set out in Note 9 to the consolidated financial statements.

These financial statements are presented in Renminbi ("RMB") unless otherwise stated. These financial statements were approved for issue on 20 April 2007.

2. Group Reorganisation and Basis of Presentation

(a) Group reorganisation

(i) Before the formation of the Group, its businesses were carried out by the subsidiaries now comprising the Group as set out in Note 9 and other companies as set out in Note 37(a) (hereinafter referred to as the "Non-transferred Companies"), all of which were controlled by senior management members of the Group (hereinafter collectively referred to as the "Haitian Management").

(ii) For the preparation of the listing of the shares of the Company on SEHK, the following reorganisation was carried out to transfer the Plastic Injection Moulding Machines Business and its related assets and liabilities to Guo Hua Limited ("Guo Hua") and its subsidiaries:

(1) Guo Hua acquired the equity interests of certain subsidiaries now comprising the Group from the Non-transferred Companies. Details of such acquisitions are set out in Note 37(b).

(2) The subsidiaries now comprising the Group have acquired certain properties, plants, equipment and inventories in relation to the Plastic Injection Moulding Machines Business from the Non-transferred Companies.

(3) Effective from 30 April 2006, Haitian South American, Industry and Machinery Commerce Limited ("Haitian Brazil") and Sea Sky Plastic Machines Import Export Limited Liability Company ("Haitian Turkey") plan to cease their operations in the Plastic Injection Moulding Machines Business in 2007; the other Non-transferred Companies ceased their operations in the Plastic Injection Moulding Machines Business and continued to be engaged in the other businesses, including manufacture and sale of numerical controlled machine tool, compressor and trading of other plant and equipment (the "Other Businesses"); and the Group ceased to carry out the Other Businesses.

As a result of the above reorganisation, all the Plastic Injection Moulding Machines Business, except for those carried out by Haitian Brazil and Haitian Turkey, was transferred to Guo Hua and its subsidiaries effective from 30 April 2006.

2. Group Reorganisation and Basis of Presentation (continued)

(b) Formation of the Group

Pursuant to an agreement dated 5 December 2006, the Company acquired all equity interests in Guo Hua from Sky Treasure. In this connection, as consideration, the Company issued and allotted 999,999 shares of HKD0.1 each, credited as fully paid up, to Sky Treasure. Upon completion of the afore-mentioned share swap, the Company became the holding company of the companies now comprising the Group.

(c) Basis of presentation

Application of merger accounting for common control combinations.

These consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

The restructuring of the Group was accounted for with the basis set out above.

The Non-transferred Companies formed an integral part of the businesses of the companies comprising the Group as they were under the control of the Haitian Management and were not managed separately from the Plastic Injection Moulding Machines Business. Accordingly, they were reflected in the financial statements up to 30 April 2006, the effective date when they ceased their operations in the Plastic Injection Moulding Machines Business. Except for the assets acquired by the subsidiaries now comprising the Group as described in Note 2(a) above, assets and liabilities retained by the Non-transferred Companies as at 30 April 2006, totaling approximately RMB1,086,270,000 are reflected in the consolidated financial statements as a distribution made to then equity holders on 30 April 2006 (Note 37(c)).

3. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5 of this section.

(a) New standards and amendments to published standards and interpretations effective in 2006

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial Guarantee Contracts" (effective for annual periods beginning on or after 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on these consolidated financial statements.

- HK(IFRIC)-Int 4 "Determining Whether an Arrangement Contains a Lease" (effective for annual periods beginning on or after 1 January 2006). It requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (ii) the arrangement conveys a right to use the asset. The adoption of this interpretation does not have a significant impact on the Group's financial statements.

- HKAS 21 Amendment "Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 January 2006). This amendment permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation, and therefore any relating exchange difference to be treated as equity in the consolidated financial statements. Previously such loans had to be denominated in the functional currency of one of the parties to the transaction. The adoption of this amendment does not have a significant impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations.

- HKAS 19 Amendment — Employee Benefits;

- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

- HKFRS 1 Amendment — First-time Adoption of International Financial Reporting Standards;

- HK(IFRIC)-Int 5 — Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

- HK(IFRIC)-Int 6 — Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

3. Principal Accounting Policies (continued)

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

The following are the new standards and interpretations to existing standards that have been published and are mandatory for accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7 "Financial instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2007), and HKAS 1 "Amendments to capital disclosures" (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group has assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will adopt HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

- HKFRS 8 "Operating Segment" (effective for accounting periods beginning on or after 1 January 2009) HKFRS 8 supersedes HKAS 14, "Segment Reporting", which requires segments to be identified and reported based on risk and return analysis for external reporting purposes. HKFRS 8 requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 has no significant impact to the segment disclosure of the Group. The Group will apply HKFRS 8 from 1 January 2009.

- HK(IFRIC)-Int 8 "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006). HK (IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 11 "HKFRS 2 — Group and Treasury Share Transfer" (effective for annual periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008 but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006). Management believes that this interpretation should not have significant impact on the Group's accounting policies as the Group has already assessed whether embedded derivatives should be separated using principles consistent with HK(IFRIC)-Int 9.

3. Principal Accounting Policies (continued)

(d) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations.

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies" (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

- HK(IFRIC)-Int 12 "Service Concession Arrangement", (effective for annual accounting periods beginning on or after 1 January 2008). This interpretation sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

3.1 Consolidation

(a) Subsidiaries

Subsidiaries are those 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.

Except for the Reorganisation which is accounted for as a common control combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as 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.

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 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 3.7). The results of subsidiaries are accounted by the company on the basis of dividend received and receivable.

Minority interests represents the interest of outside shareholders in the operating results and net assets of the subsidiaries. The increases in equity interests of certain companies comprising the Group during the year ended 31 December 2006 and 2005 as a result of injections of capital were reflected in the financial statements as contributions from then equity holders.

3. Principal Accounting Policies (continued)

3.1 Consolidation (continued)

(b) 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 by the equity method of accounting and are initially recognised at cost.

The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statements, 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.

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.

The group's share of its associates' post-acquisition profits or losses is recognised in the 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.

In the company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 3.7). The results of associated companies are accounted for by the company on the basis of dividend received and receivable.

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the account 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 presentation currency.

(ii) 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 income statement.

3. Principal Accounting Policies (continued)

3.3 Foreign currency translation (continued)

(ii) Transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) 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:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each 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

(3) 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, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.4 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.

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 income statement during the financial period in which they are incurred.

(Amounts expressed in RMB'000 unless otherwise stated)

3. Principal Accounting Policies (continued)

3.4 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to write off the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 years
Plant and machinery	10 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 3.7).

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 income statement.

3.5 Land use rights

All land in Mainland China is state-owned and no individual land ownership right exists. The group acquired the right to use certain land and the premiums paid for such right are recorded as land use rights, which are amortised over the use terms of 33 to 50 years using the straight-line method.

3.6 Intangible assets-technology know-how

Technology know-how is shown at historical cost. Technology know-how has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technology know-how over their estimated useful lives of 3 to 5 years.

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

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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).

3.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

3. Principal Accounting Policies (continued)

3.8 Financial assets (continued)

(ii) 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 arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 3. 11).

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other gains/(losses) – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.9 Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

3.10 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 raw materials, labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value, generally equivalent to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3. Principal Accounting Policies (continued)

3.12 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.

3.13 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.

3.14 Trade payables

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

3.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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.

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.

3.16 Borrowing costs

Borrowing costs are expensed as incurred.

3.17 Deferred income tax

Deferred income tax is provided in full, 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 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 can be controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Principal Accounting Policies (continued)

3.18 Employee benefits

The group's contributions to the defined contribution retirement schemes are expensed as incurred. The group has no legal or constructive obligations to pay further contributions if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

3.19 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

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 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.

3.20 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 non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight line basis over the expected lives of the related assets.

3.21 Revenue recognition

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.

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.

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

3.22 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.

3. Principal Accounting Policies (continued)

3.23 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.

3.24 Contingent liabilities and contingent assets

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 notes to the consolidated accounts, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

4. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("USD"), EURO and Hong Kong dollars ("HKD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has not used any forward contracts or other means to hedge its foreign currency exposure.

(ii) Cash flow and fair value interest-rate risk

Except for the cash at bank and short-term bank deposits as at 31 December 2006 of approximately RMB1,712,097,000 held at effective interest rates ranging from 1.16% per annum to 3.86% per annum, the Group has no other significant interest-bearing asset.

The Group's interest-rate risk also arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers. Cash are only deposited to high-credit-quality financial institutions.

4. Financial Risk Management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk

The Group maintains sufficient cash and credit lines to meet its liquidity requirements.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including trade and other receivables and financial assets at fair value through profit or loss and assets held for sale; and financial liabilities including trade and other payables, and short-term bank borrowings, approximate their fair values due to their short maturities.

The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current bank borrowings are disclosed in Note 23 in this section.

5. 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 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.

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

The Group determines the estimated useful lives, residual values and 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.

(ii) Estimated 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 indicated that the related assets values 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 income statement.

(Amounts expressed in RMB'000 unless otherwise stated)

5. Critical Accounting Estimates and Judgements (continued)

(iii) Estimated 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 date.

(iv) Estimated write-downs of inventories to net realisable value

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 changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(v) Income taxes

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 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. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

6. Land Use Rights — Group

	2006	2005
Mainland China, held on:		
Land use rights of between 33 to 50 years	**106,734**	152,270
At beginning of year		
Cost	**157,841**	62,288
Accumulated amortisation	**(5,571)**	(4,417)
Net book amount	**152,270**	57,871
Opening net book amount	**152,270**	57,871
Additions	**41,872**	95,553
Amortisation for the year	**(1,475)**	(1,154)
Distributions to then equity holders on 30 April 2006	**(85,933)**	–
Closing net book amount	**106,734**	152,270
At end of year		
Cost	**112,842**	157,841
Accumulated amortisation	**(6,108)**	(5,571)
Net book amount	**106,734**	152,270

(Amounts expressed in RMB'000 unless otherwise stated)

7. Property, Plant and Equipment — Group

	Buildings	Plant and machinery	Vehicles	Office equipment	Construction in progress	Total
At 1 January 2005						
Cost	321,588	482,788	51,752	37,478	116,591	1,010,197
Accumulated depreciation	(66,126)	(156,607)	(14,399)	(11,748)	–	(248,880)
Net book amount	255,462	326,181	37,353	25,730	116,591	761,317
Year ended 31 December 2005						
Opening net book amount	255,462	326,181	37,353	25,730	116,591	761,317
Additions	2,906	77,332	14,872	6,424	99,584	201,118
Depreciation	(17,331)	(43,505)	(8,895)	(4,955)	–	(74,686)
Transfer	99,793	58,458	–	–	(158,251)	–
Disposals	–	(310)	(242)	(1,117)	–	(1,669)
Closing net book amount	340,830	418,156	43,088	26,082	57,924	886,080
At 31 December 2005						
Cost	424,287	617,519	65,579	42,714	57,924	1,208,023
Accumulated depreciation	(83,457)	(199,363)	(22,491)	(16,632)	–	(321,943)
Net book amount	340,830	418,156	43,088	26,082	57,924	886,080
Year ended 31 December 2006						
Opening net book amount	340,830	418,156	43,088	26,082	57,924	886,080
Additions	8,256	21,814	11,766	7,070	70,219	119,125
Depreciation	(14,363)	(44,107)	(9,685)	(6,189)	–	(74,344)
Transfer	56,680	14,603	–	66	(71,349)	–
Disposals	–	(839)	(210)	(2,952)	–	(4,001)
Disposal of a subsidiary	–	(758)	(1,035)	(160)	–	(1,953)
Distribution to then equity holders on 30 April 2006	(76,821)	(115,948)	(7,102)	(4,550)	(24,838)	(229,259)
Closing net book amount	314,582	292,921	36,822	19,367	31,956	695,648
At 31 December 2006						
Cost	389,811	516,915	62,409	35,806	31,956	1,036,897
Accumulated depreciation	(75,229)	(223,994)	(25,587)	(16,439)	–	(341,249)
Net book amount	314,582	292,921	36,822	19,367	31,956	695,648

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

	2006	2005
Cost of sales	**57,770**	57,662
General and administrative expenses	**14,974**	16,785
Selling and marketing expenses	**1,600**	239
	74,344	74,686

(Amounts expressed in RMB'000 unless otherwise stated)

8. Intangible Assets — Technology Know-How — Group

	Technology know-how
Year ended 31 December 2005	
Opening net book amount	7,519
Additions	336
Amortisation	(2,260)
Closing net book amount	5,595
At 31 December 2005	
Cost	10,132
Accumulated amortisation	(4,537)
Net book amount	5,595
Year ended 31 December 2006	
Opening net book amount	5,595
Additions	–
Amortisation	(882)
Distributions to then equity holders on 30 April 2006	(4,713)
Closing net book amount	–
At 31 December 2006	
Cost	–
Accumulated amortisation	–
Net book amount	–

Amortisation expense has been charged to the consolidated income statement as follows:

	2006	2005
General and administrative expenses	**882**	2,260

9. Investments in and Loans to Subsidiaries — Company

(a) Investments in subsidiaries

	2006	2005
Investments, at cost:		
– Unlisted shares	**778,077**	–

(Amounts expressed in RMB'000 unless otherwise stated)

9. Investments in and Loans to Subsidiaries — Company (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries at 31 December 2006:

Company name	Country and date of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Guo Hua	British Virgin Islands ("BVI"), 2 January 2004, limited liability company	USD50,000	100%	–	Investment holding, BVI
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. ("Haitian Guangzhou")	Mainland China, 20 December 1997, wholly foreign owned enterprise	USD2,400,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Ningshing Machinery Co., Ltd. ("Haitian Ningshing")	Mainland China, 12 April 1999, foreign equity joint venture	USD2,500,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Plastic Injection Machinery Group Limited ("Haitian Machinery")	Mainland China, 23 February 2001, wholly foreign owned enterprise	USD15,000,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Tianxin Dagang Machinery Co., Ltd. ("Tianxin Dagang")	Mainland China, 29 August 2002, foreign equity joint venture	USD6,000,000	–	100%	Repair and sale of plastic injection moulding machines, Mainland China
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. ("Daxie Haitian")	Mainland China, 7 March 2003, foreign equity joint venture	USD1,550,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Heavywork Machinery Co., Ltd. ("Haitian Heavywork")	Mainland China, 11 June 2003, foreign equity joint venture	USD15,000,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Shili Machinery Co., Ltd. ("Haitian Shili")	Mainland China, 24 June 2003, foreign equity joint venture	USD12,000,000	–	100%	Manufacture and sale of accessories of plastic injection moulding machines, Mainland China
Haitian Europe S.p.A ("Haitian Europe")	Italy, 1 August 2003, a limited liability company	EURO500,000	–	100%	Sale of plastic injection moulding machines, Italy
Dahai (H.K.) Company Limited ("Dahai HK")	Hong Kong, 4 June 2004, limited liability company	HKD10,000	–	100%	Trading of machinery and machinery accessories, Hong Kong
Ningbo Haitian Huayuan Co., Ltd. ("Haitian Huayuan")	Mainland China, 26 August 2004, foreign equity joint venture	USD8,162,128	–	100%	Manufacture and sale of plastic injection moulding machines to foreign countries, Mainland China

(Amounts expressed in RMB'000 unless otherwise stated)

9. Investments in and Loans to Subsidiaries — Company (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries at 31 December 2006: (continued)

Company name	Country and date of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Ningbo Haitian Machinery Sales Co., Ltd. ("Haitian Sales")	Mainland China, 15 October 2004, limited liability company	RMB18,000,000	–	100%	Sale of plastic injection moulding machines, Mainland China
Wuxi Tianjian Machinery Co., Ltd. ("Wuxi Tianjian")	Mainland China, 14 December 2004, foreign equity joint venture	USD8,793,220	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. ("Haitian Beihua")	Mainland China, 19 January 2005, limited liability company	RMB10,000,000	–	80%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China
Ningbo Bonded Logistic Zone Dagang Haitian International Trading Co., Ltd. ("Dagang Trading")	Mainland China, 28 March 2006, limited liability company	RMB100,000	–	100%	Trading of machinery and machinery accessories, Mainland China
Haitian Huayuan (Hong Kong) Limited ("Huayuan HK")	Hong Kong, 4 December 2006, limited liability company	HKD10,000	–	100%	Trading of machinery and machinery accessories, Hong Kong

(b) Loans to subsidiaries

As at 31 December 2006, loans to subsidiaries amounting to approximately RMB214,518,000 were unsecured, interest free and settlement is neither planned nor likely to occur in the foreseeable future.

(c) Due to subsidiaries

As at 31 December 2006, the amounts were unsecured, interest free and repayable within twelve months.

10. Investments in Associates — Group

	2006	2005
Beginning of the year	**2,272**	10,526
Share of associates' results		
– profit/(loss) before taxation	**66**	(193)
– taxation	**–**	–
Increase in investments	**–**	520
Disposal of an associate	**–**	(8,581)
Distribution to then equity holders on 30 April 2006	**(1,863)**	–
End of the year	**475**	2,272

(Amounts expressed in RMB'000 unless otherwise stated)

11. Deferred Tax Assets — Group

Deferred tax assets of the group are to be recovered within 12 months. Movement on the deferred income tax assets is as follows:

	Provision for impairment of trade and other receivables	Write-down of inventories	Others	Total
At 1 January 2005	3,936	1,287	1,672	6,895
Recognised in the consolidated income statement	1,250	867	(231)	1,886
At 31 December 2005	5,186	2,154	1,441	8,781
Recognised in the consolidated income statement	(479)	2,458	(103)	1,876
At 31 December 2006	4,707	4,612	1,338	10,657

There was no material unprovided deferred income tax assets or liabilities at 31 December 2006.

12. Inventories — Group

	2006	2005
Raw materials	**242,650**	209,966
Work in progress	**119,171**	94,432
Finished goods	**289,828**	285,090
	651,649	589,488

The Group has recognised a loss of approximately RMB8,865,000 for the write-down of its inventories for the year ended 31 December 2006 (2005: RMB14,691,000). These amounts have been included in the cost of sales in the consolidated income statement.

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB2,273,199,000 (2005: RMB1,853,522,000).

13. Trade and Bills Receivables — Group

	2006	2005
Trade and bills receivables		
– third parties	**892,211**	842,872
– related parties (Note 40)	**14,512**	–
	906,723	842,872
Less: provision for impairment	**(28,118)**	(36,713)
Trade and bills receivables-net	**878,605**	806,159

The carrying amounts of trade and bills receivable approximated their fair value.

(Amounts expressed in RMB'000 unless otherwise stated)

13. Trade and Bills Receivables — Group (continued)

Customers are generally granted with credit terms ranging from 0 to 18 months. Ageing analysis of trade and bills receivables is as follows:

	2006	2005
0 to 6 months	**780,743**	714,598
6 months to 1 year	**79,621**	73,395
1 year to 2 years	**26,989**	41,234
Over 2 years	**19,370**	13,645
	906,723	842,872

The Group has reversed impairment of trade receivables of approximately RMB4,105,000 for the year ended 31 December 2006 (2005: provision of RMB12,591,000). The reversal and creation of provision have been included in general and administrative expenses in the consolidated income statement.

At 31 December 2006, the trade and bills receivables were denominated in currencies as follows:

	2006	2005
Renminbi	**599,560**	611,344
United States dollars	**259,149**	172,064
EURO	**43,082**	27,291
Hong Kong dollars	**4,932**	918
Others	**–**	31,255
	906,723	842,872

14. Prepayments and Other Receivables

	Group		Company	
	2006	2005	2006	2005
Prepayments and deposit				
– for raw materials	**13,025**	58,240	**–**	–
– others	**229**	2,394	**–**	–
Value Added Tax recoverable	**34,606**	5,854	**–**	–
Receivables from employees	**3,025**	29,293	**–**	–
Receivables of proceeds from issue of shares	**7,737**	–	**7,737**	–
Other loans	**–**	20,000	**–**	–
Loans to distributors (i)	**2,800**	10,000	**–**	–
Others	**10,810**	18,059	**1,107**	–
Due from related parties – non trade (Note 40)	**–**	39,612	**–**	–
	72,232	183,452	**8,844**	–

(i) Loans granted to distributors are unsecured, payable within one year, and non-interest bearing.

The carrying amounts of prepayments and other receivables approximated their fair value.

(Amounts expressed in RMB'000 unless otherwise stated)

15. Financial Assets at Fair Value Through Profit or Loss — Group

	2006	2005
Equity securities — listed in Mainland China	**–**	18,533

Changes in fair value of financial assets at fair value through profit or loss are recorded in other gains/(losses) — net in the consolidated income statement.

16. Assets Held For Sale — Group

Assets held for sale represents the 25% equity interest in Ningbo Huaneng International Economic and Trading Co., Ltd. ("Huaneng International") held by 寧波海天股份有限公司 (Ningbo Haitian Group Co., Ltd. ("Ningbo Haitian")). This investment was distributed to then equity holders on 30 April 2006 pursuant to the Reorganisation.

17. Pledged Bank Deposits — Group

	2006	2005
Deposits placed in certain banks as collaterals against certain trade finance facilities granted by banks	**27,177**	8,137

The trade finance facilities mainly represent bank guarantees for bills payable to suppliers, letters of credit for import and trading finance granted by the banks to the Group's customers.

(i) The weighted average interest rate per annum on pledged bank deposits was 0.72% at 31 December 2006 (31 December 2005: 1.43%).

(ii) The pledged bank deposits were denominated in currencies as follows:

	2006	2005
Renminbi	**25,276**	8,137
United States dollars	**1,901**	–
	27,177	8,137

18. Cash and Cash Equivalents

	Group		Company	
	2006	2005	**2006**	2005
Cash at bank and in hand	**425,483**	568,906	**51,373**	–
Short-term bank deposits	**1,286,614**	22,593	**1,266,604**	–
	1,712,097	591,499	**1,317,977**	–

(i) The weighted average effective interest rate per annum on cash at bank was 1.16% at 31 December 2006 (31 December 2005: 0.83%). The weighted average effective interest rate per annum on short-term bank deposits was 3.86% at 31 December 2006 (31 December 2005: 1.57%).

(ii) At 31 December 2006, the cash and cash equivalents were denominated in currencies as follows:

	Group		Company	
	2006	2005	**2006**	2005
Renminbi	**289,352**	480,756	**–**	–
United States dollars	**101,413**	91,451	**–**	–
Hong Kong dollars	**1,321,332**	2,272	**1,317,977**	–
EURO	**–**	10,548	**–**	–
Others	**–**	6,472	**–**	–
	1,712,097	591,499	**1,317,977**	–

Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the Mainland China government.

19. Share Capital

	Authorised share capital		
	Number of shares '000	**HKD'000**	**RMB'000**
Upon incorporation of the Company on 13 July 2006 and as at 31 December 2006 (a)	5,000,000	500,000	502,350

	Issued and fully paid up		
	Number of shares '000	**HKD'000**	**RMB'000**
Issued on 13 July 2006 (a)	–	–	–
Increase on 5 December 2006 (b)	1,000	100	101
Issue pursuant to the placing and public offer (c)	399,000	39,900	40,127
Capitalisation of share premium (d)	1,196,000	119,600	120,282
As at 31 December 2006	1,596,000	159,600	160,510

19. Share Capital (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 13 July 2006 (date of incorporation) to 31 December 2006:

(a) Upon incorporation of the Company, its authorised share capital was HKD500,000,000 (approximately RMB502,350,000), divided into 5,000,000,000 shares of HKD0.10 each. On 13 July 2006, one share of HKD0.10 of the Company was allotted and issued nil paid.

(b) As consideration for the acquisition by the Company of the entire issued share capital of Guo Hua, (i) 999,999 Shares were allotted and issued to Sky Treasure credited as fully paid at par and (ii) 1 nil paid Share held by Sky Treasure was credited as fully paid at par on 5 December 2006.

(c) On 22 December 2006, the Company issued 399,000,000 shares of HKD0.10 each through a placing and public offer of the Company's shares in Hong Kong (the "New Issue") at a consideration of HKD3.950 per share, totaling approximately HKD1,576,050,000 (approximately RMB1,585,033,485). The share issue costs were approximately HKD92,186,000 (approximately RMB92,711,000).

(d) Upon completion of the New Issue, a sum of HKD119,600,000 (approximately RMB120,282,000) was capitalised and applied in paying up in full at par 1,196,000,000 shares to the shareholder whose name was on the register of members of the Company on 5 December 2006.

As disclosed in Note 2, the consolidated financial statements have been prepared under the merger accounting method. Accordingly, the share capital of approximately RMB101,000 issued as described in note (b) above is deemed to have been in issue throughout the accounting periods presented in these financial statements.

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves

GROUP

	Share premium	Merger reserve and other reserves (note a)	Statutory reserves (note d)	Translation differences	Retained earnings	Total
At 1 January 2005	–	122,078	284,297	953	758,515	1,165,843
Profit for the year	–	–	–	–	306,898	306,898
Capital injection by then equity holders of subsidiaries	–	11	–	–	–	11
Appropriations	–	–	81,542	–	(81,542)	–
Dividends paid by group companies to then equity holders	–	–	–	–	(30,370)	(30,370)
Currency translation differences	–	–	–	7,482	–	7,482
At 31 December 2005	–	122,089	365,839	8,435	953,501	1,449,864
Profit for the year	–	–	–	–	450,867	450,867
Issue of share pursuant to New Issue (Note 19 (c))	1,544,906	–	–	–	–	1,544,906
Share issue costs	(92,711)	–	–	–	–	(92,711)
Capitalisation of share premium	(120,282)	–	–	–	–	(120,282)
Contribution of minority interest in subsidiaries by then equity holders (Note b)	–	6,536	–	–	–	6,536
Acquisition of minority interest in subsidiaries by then group companies (Note c)	–	(74)	–	–	–	(74)
Appropriations	–	–	40,764	–	(40,764)	–
Dividends paid by group companies to then equity holders	–	–	–	–	(30,370)	(30,370)
Currency translation differences	–	–	–	(1,184)	–	(1,184)
Distributions to then equity holders on 30 April 2006 (Note 37 (c))	–	22,962	(221,022)	(6,639)	(794,306)	(999,005)
At 31 December 2006	1,331,913	151,513	185,581	612	538,928	2,208,547

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves (continued)

GROUP (continued)

(a) Merger reserve and other reserves

The differences between the nominal value of the share capital issued by the Company as described in Note 19(a) and the aggregate nominal values of the share capital/paid-up capital of the subsidiaries comprising the Group and the Non-transferred Companies, where applicable, were recorded as merger reserve. The injection of additional paid-up capital by the equity holders to the respective companies and the acquisition of minority interests in the respective companies by then equity holders, which were combined from the effective date of acquisition, were recorded as additions during the year. The excess of the consideration over carrying amount of the minority interest acquired and the distribution of the paid-up capital of certain Non-transferred Companies to then equity holders of on 30 April 2006 were recorded as a reduction in merger reserve.

(b) In April 2006, the then equity holders of the Company acquired additional 32% interest in Haitian Ningshing from Ningshing Development Co., Ltd..The additional equity interest of this company acquired by the then equity holders was accounted for as an additional contribution into the Group.

(c) In March 2006, Ningbo Haitian acquired additional 10% equity interest in Ningbo Haidun Trading Co., Ltd ("Haidun Trading") (a Non-transferred Company) from Mr. Qian Yaoen with a consideration of approximately RMB600,000.

(d) Statutory reserves

Subsidiaries of the Company incorporated in Mainland China are required to make appropriations to certain statutory reserves namely, statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund from profit for the year after offsetting accumulated losses from prior years and before profit distribution to equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in Mainland China at rates ranging from 2.5% to 10%, or at the discretion of the board of directors of the respective companies.

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses, to increase capital, or for special bonus or collective welfare of employees. They can not be distributed to equity holders of the Company. Movements in the statutory reserves are as follows:

	Statutory reserve fund	Statutory welfare fund	Enterprise expansion fund	Discretionary reserve fund	Total
At 1 January 2005	90,228	35,408	76,898	81,763	284,297
Additions	22,433	11,217	23,608	24,284	81,542
At 31 December 2005	112,661	46,625	100,506	106,047	365,839
Additions	–	–	16,954	23,810	40,764
Distributions to then equity holders on 30 April 2006 (Note 37(c))	(111,551)	(46,069)	(31,701)	(31,701)	(221,022)
At 31 December 2006	1,110	556	85,759	98,156	185,581

(e) Upon the transfer of the Plastic Machines Business to Guo Hua and its subsidiaries effective 30 April 2006, the net assets retained by the Non-transferred Companies as at 30 April 2006 are reflected in the consolidated financial statement as a distribution made to then equity holders (Note 37 (c)).

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves (continued)

GROUP (continued)

(f) Accounting adjustments under common control combination

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheet.

The consolidated balance sheet as at 31 December 2006:

	The Company	The Subsidiaries	Adjustments (Note)	Consolidated
Investment in the subsidiaries	778,077	–	(778,077)	–
Intra-group balances	203,548	(203,548)	–	–
Other assets/(liabilities)	1,311,633	1,058,732	–	2,370,365
Net assets	2,293,258	855,184		2,370,365
Share capital	160,510	733,998	(733,998)	160,510
Share premium	1,331,913	–	–	1,331,913
Contributed surplus	777,977	–	(777,977)	–
Capital reserves	–	(582,385)	733,898	151,513
Translation differences	–	612	–	612
Statutory reserve	–	185,581	–	185,581
Retained earnings	22,858	516,070	–	538,928
Minority interest	–	1,308		1,308
	2,293,258	855,184		2,370,365

The consolidated balance sheet as at 31 December 2005:

	The Company	The Subsidiaries	Adjustments (Note)	Consolidated
Investment in the subsidiaries	101	–	(101)	–
Other assets/(liabilities)	–	1,552,775	–	1,552,775
Net assets	101	1,552,775		1,552,775
Share capital	101	717,082	(717,082)	101
Capital reserves	–	(594,892)	716,981	122,089
Translation differences	–	8,435	–	8,435
Statutory reserve	–	365,839	–	365,839
Retained earnings	–	953,501	–	953,501
Minority interest	–	102,810		102,810
	101	1,552,775		1,552,775

Note: The above adjustment represents an adjustment to eliminate the share capital of the combining entities against the investment cost. The difference of RMB733,898,000 (2005: RMB716,981,000) has been made to the merger reserve in the consolidated financial statements.

No adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves (continued)

COMPANY

	Share premium	Contributed surplus (Note a)	Retained earnings	Total
Issue of share pursuant to New Issue (Note 19 (c))	1,544,906	–	–	1,544,906
Profit for the year	–	–	22,858	22,858
Share issue costs	(92,711)	–	–	(92,711)
Capitalisation of share premium	(120,282)	–	–	(120,282)
Effect of reorganisation	–	777,977	–	777,977
At 31 December 2006	1,331,913	777,977	22,858	2,132,748

(a) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiaries being acquired in connection with the Reorganisation of the Group prior to its listing on the SEHK, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired.

21. Trade and Bills Payables — Group

	2006	2005
Trade payables	**626,183**	465,427
Bills payable	**472,189**	433,090
Trade and bills payables	**1,098,372**	898,517
Due to related parties — trade related (Note 40)	**3,517**	2,019
	1,101,889	900,536

Ageing analysis of trade and bills payables is as follows:

	2006	2005
0 to 6 months	**1,101,771**	893,166
6 months to 1 year	**118**	898
1 year to 2 years	**–**	2,325
Over 2 years	**–**	4,147
	1,101,889	900,536

At 31 December 2006, the trade and bills payables were denominated in currencies as follows:

	2006	2005
Renminbi	**1,047,183**	848,144
United States dollars	**44,510**	32,994
EURO	**5,897**	7,936
Hong Kong dollars	**4,299**	5,136
Others	**–**	6,326
	1,101,889	900,536

The carrying amounts of accounts and bills payable approximate their fair value.

(Amounts expressed in RMB'000 unless otherwise stated)

22. Accruals and Other Payables

	Group		Company	
	2006	2005	**2006**	2005
Bonus and welfare payable	**131,132**	146,573	**–**	–
Sales commission payables	**92,537**	47,084	**–**	–
Customers deposits	**148,526**	155,958	**–**	–
Accrued expenses	**9,439**	3,817	**–**	–
Payable for purchase of property, plant and equipment and land use rights	**2,864**	16,445	**–**	–
Provision for warranty	**7,216**	8,867	**–**	–
Advance from a third party for acquisition of assets held for sale	**–**	9,000	**–**	–
Dividends payable of group companies to then equity holders	**–**	61,035	**–**	–
Considerations payable for acquisition of minority interests (i)	**–**	34,223	**–**	–
Share issue expenses payable	**15,188**	–	**15,188**	–
Other payables	**22,106**	18,888	**–**	–
Due to related parties – non trade (Note 40)	**–**	49,899	**–**	–
	429,008	551,789	**15,188**	–

(i) The considerations payable for acquisition of minority interests represent the amounts payable for the acquisition of 30% equity interest in Haitian Machinery Co., Ltd. ("HMC").

23. Bank Borrowings — Group

	2006	2005
Non-current		
Between 1 to 2 years	**150,000**	–
Current		
Bank borrowings	**6,850**	161,677
Borrowings arising from discounted bills	**84,345**	71,174
	91,195	232,851
Total bank borrowings	**241,195**	232,851
Representing:		
Unsecured	**6,850**	61,677
Secured	**234,345**	171,174
	241,195	232,851

(Amounts expressed in RMB'000 unless otherwise stated)

23. Bank Borrowings — Group (continued)

(a) An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	2006	2005
At fixed rates in RMB	234,345	171,174
At floating rates in RMB	–	50,000
	234,345	221,174
At fixed rates in EURO	6,850	11,677
Total borrowings		
– at fixed rates	241,195	182,851
– at floating rates	–	50,000
	241,195	232,851

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

	2006	2005
RMB	3.36%	3.99%
EURO	5.00%	5.00%

(c) The carrying values and fair values of non-current borrowings are as follows:

	2006	2005
Carrying values	150,000	–
Fair values	145,468	–

The fair values are based on discounted cash flows using a rate based on the borrowings rate at 6.30% as at 31 December 2006, depending on the types and currencies of borrowings.

The carrying amounts of current borrowings approximate their fair values.

(d) As at 31 December 2006, long-term bank borrowings of RMB150 million was guaranteed by a bank (2005: short-term bank borrowings of RMB100 million was guaranteed by a bank).

As at 31 December 2006, short-term bank borrowings of approximately RMB84 million (2005: RMB71 million) was secured by accounts and bills receivables.

24. Sales and Segment Information

	2006	2005
Sales of plastic moulding injection machine and related products	3,134,291	2,535,959
Others	41,441	41,630
	3,175,732	2,577,589

The Group is mainly engaged in the Plastic Injection Moulding Machines Business in Mainland China and more than 90% of its operation and assets are located in Mainland China. Less than 10% of the Group's turnover and contribution to operation is attributable to the Other Businesses or to any single overseas market. Therefore no business segment or geographical segment is presented.

(Amounts expressed in RMB'000 unless otherwise stated)

25. Expenses by Nature

Expenses included in cost of sales, selling and marketing expenses and general and administrative expenses are analysed as following:

	2006	2005
Auditors' remuneration	2,580	289
Depreciation and amortisation	76,701	78,100
Changes in inventories of finished goods and work in progress	29,477	125,216
Raw materials and consumables used	2,053,858	1,501,307
Operating lease for buildings	6,066	3,516
Sales commission	159,204	111,733
(Reversal of)/provision for impairment of trade receivables	(4,105)	12,591
Provision for write-down of inventories	8,865	14,691
Employee benefit expenses (Note 28)	200,349	163,909
Freight charges	23,530	25,244
Utilities	31,700	28,948
Bank charge for grant of letter of credit	8,374	5,649
Others	138,125	149,302
Total cost of sales, selling and marketing expenses and general and administrative expenses	2,734,724	2,220,495

26. Other Income

	2006	2005
Government grants	24,821	16,211
Interest income from loans and receivables	380	1,544
	25,201	17,755

27. Other Gains/(Losses) — Net

	2006	2005
Gain on financial assets at fair value through profit or loss	6,593	110
Exchange losses	(2,460)	(20,634)
Loss on disposal of property, plant and equipment, net	(3,030)	(92)
Loss on disposal of a subsidiary	(1,031)	–
Loss on disposal of an associate	–	(447)
Others	3,816	288
	3,888	(20,775)

28. Employee Benefit Expense

	2006	2005
Wages, salaries and bonus	164,922	138,815
Retirement benefit contributions	11,398	9,670
Staff welfare	24,029	15,424
	200,349	163,909

(Amounts expressed in RMB'000 unless otherwise stated)

29. Retirement Benefit Schemes and Housing Benefits

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement plans for certain of its employees in Mainland China. The Group are required to contribute 11% to 21% of employees' basic monthly salary.

In addition, the Group's employees in Mainland China participate in employee social security plans, including medical, housing and other welfare benefits, organised and administered by government authorities. The Group contributes 8% and 10% of employees' basic monthly on a monthly basis to medical and housing funds respectively.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident 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 Group has no further obligation for post-retirement benefits or housing funds beyond contributions aforementioned.

30. Directors and Senior Management's Emoluments

(a) Directors' emoluments

The emoluments of individual director for the year ended 31 December 2006 and 2005 are set out below:

Name of Director	Fees	Salary	Other benefits	Total
2006				
Executive directors				
– Mr. Zhang Jingzhang	–	700	6	706
– Mr. Zhang Jianming	–	730	13	743
– Mr. Zhang Jianfeng	–	502	13	515
– Mr. Zhang Jianguo	–	450	13	463
– Mr. Guo Mingguang	–	420	13	433
– Ms. Chen Ningning	–	400	13	413
	–	3,202	71	3,273
Non-executive director				
– Mr. Hu Guiqing	–	75	39	114
Independent non-executive directors				
– Mr. Pan Chaoyang	50	–	–	50
– Mr. Gao Xunxian	50	–	–	50
– Mr. Dai Xiangbo	50	–	–	50
	150	–	–	150
	150	3,277	110	3,537
2005				
Executive directors				
– Mr. Zhang Jingzhang	–	700	6	706
– Mr. Zhang Jianming	–	730	13	743
– Mr. Zhang Jianfeng	–	500	13	513
– Mr. Zhang Jianguo	–	450	13	463
– Mr. Guo Mingguang	–	350	13	363
– Ms. Chen Ningning	–	350	13	363
	–	3,080	71	3,151
Non-executive director				
– Mr. Hu Guiqing	–	420	6	426
	–	3,500	77	3,577

No directors of the Company waived any emoluments for the year ended 31 December 2006 (2005: nil).

(Amounts expressed in RMB'000 unless otherwise stated)

30. Directors and Senior Management's Emoluments (continued)

(b) Five highest paid individuals

Except for two individuals (2005: three), the three (2005: two) individuals whose emoluments were the highest in the Group during the year are also Directors of the Company as described in (a) above. The emoluments payable to the remaining individuals for the year ended 31 December 2006 and 2005 are as follows:

	2006	2005
Salary	1,783	967
Compensation for loss of office	–	5,282
	1,783	6,249

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emoluments bands		
Nil – HKD1,000,000 (equivalent to approximately RMB1,004,000)	1	2
HKD1,000,001 (equivalent to approximately RMB1,004,000) – HKD5,000,000 (equivalent to approximately RMB5,022,000)	1	1

31. Finance Income/(Costs) Net

	2006	2005
Interest expense:		
Bank borrowings wholly repayable within five years	15,544	6,362
Finance income:		
Interest income on short-term bank deposits	(5,781)	(3,870)
Interest income from over subscription of New Issue	(23,236)	–
	(29,017)	(3,870)
Finance (income)/costs net	(13,473)	2,492

32. Income Tax Expense

	2006	2005
Current income tax		
– Mainland China current income tax ("EIT")	23,421	23,438
– Hong Kong profits tax	318	153
– Overseas taxation	–	351
Deferred taxation	(1,876)	(1,886)
	21,863	22,056

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

The subsidiaries incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands are exempted from payment of British Virgin Islands income tax.

(Amounts expressed in RMB'000 unless otherwise stated)

32. Income Tax Expense (continued)

The subsidiaries established in Mainland China are subject to EIT at rates ranging from 15% to 33% for the year ended 31 December 2006 and 2005. Except for Haitian Sales, Haitian Beihua, Dagang Trading, other subsidiaries, being incorporated as foreign investment enterprises in Mainland China, have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

The subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 17.5%.

The subsidiary established in Italy is subject to the corporate income tax at rate of 33% and Local Income Tax of 4.25% on the taxable income for the year ended 31 December 2006 and 2005.

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 companies as follows:

	2006	2005
Profit before income tax	**483,636**	351,389
Tax calculated at weighted-average tax rates	**91,643**	79,060
Effect of tax exemptions	**(91,586)**	(78,449)
Expenses not deductible for tax purpose	**21,806**	21,445
Income tax expense	**21,863**	22,056
% of weighted-average tax rates	**18.9%**	22.5%

33. Profit 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 approximately RMB22,858,000.

34. 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 RMB450,867,000 (2005: RMB306,898,000) and on the weighted average number of approximately 1,205,745,205 (2005: 1,197,000,000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 1,197,000,000 shares issued pursuant to the issues of shares and capitalisation issue as stated in Note 19(a) & (b) & (d) were deemed to have been issued since 1 January 2005.

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

35. Dividends

(a) The directors do not recommend payment of a final dividend in respective of the year ended 31 December 2006.

(b) Dividends paid by Group companies to their then equity holders during the years ended 31 December 2006 and 2005 of approximately RMB30,370,000 and RMB30,370,000 represented dividends declared out of the retained earnings of these companies to their then equity holders.

(Amounts expressed in RMB'000 unless otherwise stated)

36. Notes to Consolidated Cash Flow Statements

(a) Cash generated from operations

	2006	2005
Profit before income tax	**483,636**	351,389
Adjustments for:		
– share of results of associates (Note 10)	**(66)**	193
– amortisation of land use rights (Note 6)	**1,475**	1,154
– depreciation of property, plant and equipment (Note 7)	**74,344**	74,686
– amortisation of intangible assets (Note 8)	**882**	2,260
– loss on disposal of property, plant and equipment (Note 27)	**3,030**	92
– loss on disposal of an associate (Note 27)	**–**	447
– loss on disposal of a subsidiary (Note 27)	**1,031**	–
– (reversal of)/provision for impairment of trade receivables (Note 25)	**(4,105)**	12,591
– provision for write-down of inventories (Note 25)	**8,865**	14,691
– interest income from loans and receivables (Note 26)	**(380)**	(1,544)
– finance (income)/costs-net (Note 31)	**(13,473)**	2,492
– gain on financial assets at fair value through profit or loss (Note 27)	**(6,593)**	(110)
	548,646	458,341
Changes in working capital:		
– increase in pledged bank deposit	**(19,040)**	(2,485)
– increase in trade and other receivables	**(368,855)**	(63,610)
– increase in inventories	**(180,730)**	(97,581)
– increase in trade and bills payable and accruals and other payables	**642,580**	48,539
Cash generated from operations	**622,601**	343,204

(Amounts expressed in RMB'000 unless otherwise stated)

36. Notes to Consolidated Cash Flow Statements (continued)

(b) Disposal of interest of a subsidiary

	2006	2005
Net assets disposed of:		
Fixed assets	**1,953**	–
Cash and cash equivalents	**4,083**	–
Trade and other receivables	**5,334**	–
Inventories	**7,934**	–
Other current assets	**962**	–
Total assets	**20,266**	–
Trade payables	**4,786**	–
Other current liabilities	**4,340**	–
Total liabilities	**9,126**	–
Net assets	**11,140**	–
Less: net assets attributable to minority interest	**(5,334)**	–
Net assets attributable to the equity holder of the Company	**5,806**	–
Loss on disposal of interest in a subsidiary (Note 27)	**(1,031)**	–
Satisfied by:		
Cash consideration	**4,775**	–

An analysis of the net cash inflow in respect of the disposal of subsidiary is as follows:

Cash consideration	**4,775**	–
Cash and cash equivalent disposed of	**(4,083)**	–
	692	–

The subsidiary disposed of during the year made no significant contribution to the Group's cash flow, sales or profit attributable to the equity holders of the Company for the year ended 31 December 2006.

(Amounts expressed in RMB'000 unless otherwise stated)

37. Details of the Non-transferred Companies

(a) Non-transferred Companies

Company name	Equity interests controlled by the Haitian Management since foundation up to 30 April 2006 (the effective date of completion of the business reorganisation)
Long Harvest Investments Limited	100%
Lei Er Company Limited	100%
Hugh Power Limited	100%
Anson Asia Ltd.	100%
Ningbo Haitian	91.87%
HMC	94.31%
Ningbo Haizhu Machinery Co., Ltd.	95.12%
Haidun Trading	82.68%
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision")	96.99%
Ningbo STF Hydraulic Transmissions Co., Ltd.	68.90%
Ningbo Haitian Compressor Co., Ltd. ("Haitian Compressor")	64.31%
Haitian Brazil	87.28%
Haitian Turkey	91.87%

(b) Details of equity interests of the subsidiaries acquired from Non-transferred Companies are as follows:

Equity interest acquired	Time of Acquired in
70% of Haitian Machinery	April 2006
30% of Haitian Heavy Work	April 2006
30% of Haitian Huayuan	April 2006
60% of Tianxin Dagang	April 2006
70% of Haitian Shili	April 2006
90% of Haitian Sales	April 2006
80% of Haitian Beihua	March 2006
100% of Dahai HK	February 2006
98% of Haitian Europe	February 2006
68% of Haitian Ningshing	April 2006
75% of Daxie Haitian	April 2006
30% of Wuxi Tianjian	April 2006
100% of Haitian Guangzhou	April 2006
100% of certain intermediate investment holding companies (namely China Chance Limited, Develop Kind Limited, East Victory Ltd. and Kaman Limited)	April 2006

(Amounts expressed in RMB'000 unless otherwise stated)

37. Details of the Non-transferred Companies (continued)

(c) Effect on distribution to then equity holders on 30 April 2006

On 30 April 2006, the assets and liabilities of the Non-transferred Companies was accounted for as a distribution to then equity holders. The cash outflow in respect of such distribution is approximately RMB424,532,000. An analysis of the assets and liabilities and the cash outflow of the distribution is as follows:

Non-current assets	
Land use rights	85,933
Property, plant and equipment	229,259
Intangible assets	4,713
Interests in an associate	1,863
	321,768
Current assets	
Inventories	101,771
Trade and bills receivables	225,206
Prepayments and other receivables	570,992
Financial assets at fair value through profit or loss	23,687
Assets held for sale	9,000
Cash and cash equivalents	424,532
	1,355,188
Current liabilities	
Trade and bills payables	333,120
Accruals and other payables	207,222
Taxation payable	344
Bank borrowings	50,000
	590,686
Net assets distributed	1,086,270
Cash and cash equivalent distributed	424,532

38. Commitments

(a) Capital commitments

	2006	2005
Contracted but not provided for:		
Acquisition of property, plant and equipment	**90,953**	41,709

(b) Operating lease commitments

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

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

	2006	2005
Not later than 1 year	**2,756**	3,550
Later than 1 year and not later than 5 years	**4,149**	1,354
Later than 5 years	**84**	–
	6,989	4,904

(Amounts expressed in RMB'000 unless otherwise stated)

39. Contingent Liabilities

As at 31 December 2006, contingent liabilities not provided for in the consolidated financial statements was as follows:

	2006	2005
Guarantee given to the banks in connection with facilities granted to the customers	**300,636**	213,486

40. 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.

德馬格海天塑料機械(寧波)有限公司 (Demag Haitian Plastics Machinery Co., Ltd. ("Demag Plastics")) and 寧波住精液壓工業有限公司 (Ningbo SPP Hydraulics Co., Ltd. ("SPP Hydraulics")) are associates of the companies owned by the equity holders of the Company and are considered to be related parties of the Group. Directors of the Company and their associates and the Non-transferred Companies are also considered to be related parties of the Group.

(a) Transactions with related parties:

The following transactions were carried out with related parties:

Continuing

	2006	2005
(i) Sales of goods to:		
Haitian Turkey	**8,252**	–
Haitian Brazil	**30,384**	–
	38,636	–
(ii) Lease of property from:		
Ningbo Haitian	**295**	–
(iii) Remuneration of directors and senior management:		
– fees and salaries	**4,239**	3,816
– other benefits	**167**	110
	4,406	3,926

(Amounts expressed in RMB'000 unless otherwise stated)

40. Related Party Transactions (continued)

(a) Transactions with related parties: (continued)

Discontinued

	2006	2005
(i) Sales of goods to:		
Demag Plastics	–	14,826
SPP Hydraulics	98	532
Haitian Compressor	34	–
Haitian Precision	299	–
	431	15,358
(ii) Lease of property and plant to:		
Demag Plastics	–	1,233
SPP Hydraulics	48	144
	48	1,377
(iii) Purchase of goods or services from:		
Demag Plastics	–	20
SPP Hydraulics	2,221	4,198
Haitian Compressor	264	–
	2,485	4,218
(iv) Purchase of equipment from:		
Haitian Compressor	1,044	–

(v) During the year ended 31 December 2006, the equity holders of the Company made advances of approximately RMB62,263,000 to the Company's subsidiaries. The advances were non-interest bearing and had been repaid as at 31 December 2006.

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2006 and 2005:

	2006	2005
(i) Due from related parties		
Non-trade:		
From directors and their associates		
– Mr. Zhang Jingzhang	–	14,726
– Mr. Zhang Jianming	–	24,846
– Mr. Zhang Jianfeng	–	40
	–	39,612
Trade related		
– Haitian Brazil	14,512	–
	14,512	39,612

Maximum balance outstanding for amounts due from related parties for the year ended 31 December 2006 and 2005 were as follows:

	2006	2005
– From directors and their associates		
– Mr. Zhang Jingzhang	14,726	14,726
– Mr. Zhang Jianming	24,846	24,846
– Mr. Zhang Jianfeng	161	40
– From related companies		
– Haitian Brazil	25,373	–
– Haitian Turkey	18,883	–

(Amounts expressed in RMB'000 unless otherwise stated)

40. Related Party Transactions (continued)

(b) Balances with related parties: (continued)

	2006	2005
(ii) Due to related parties		
Non-trade related		
– Mr. Zhang Jianming	–	2,488
– Mr. Qian Yaoen	–	2,488
– Due to equity holders of the Company	–	44,923
	–	49,899
Trade related		
– Ningbo SPP	–	2,019
– Ningbo Haitian	152	–
– Haitian Turkey	3,365	–
	3,517	51,918

(iii) Ageing analysis of balances with related parties, which are trade related, is as follows:

	2006	2005
Due from related parties		
– 0 to 6 months	14,512	–
Due to related parties		
– 0 to 6 months	3,517	2,019

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

41. Events after the Balance Sheet Date

Change of Mainland China enterprise income tax law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.

Financial Summary

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

	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Results				
Revenue	**3,175,732**	2,577,589	2,594,074	2,006,663
Profit before taxation	**483,636**	351,389	312,631	340,842
Taxation	**(21,863)**	(22,056)	(22,420)	(10,214)
Minority interests	**(10,906)**	(22,435)	(27,936)	(27,070)
Profit attributable to shareholders	**450,867**	306,898	262,275	303,558
Assets				
Non-current assets	**813,514**	1,054,998	864,128	648,914
Current assets	**3,341,760**	2,209,268	2,043,035	1,551,179
Total assets	**4,155,274**	3,264,266	2,907,163	2,200,093
Liabilities				
Non-current liabilities	**(150,000)**	–	(100,000)	–
Current liabilities	**(1,634,909)**	(1,711,491)	(1,557,823)	(1,206,584)
Total liabilities	**(1,784,909)**	(1,711,491)	(1,657,823)	(1,206,584)
Total equity	**2,370,365**	1,552,775	1,249,340	993,509
Minority interests	**(1,308)**	(102,810)	(83,396)	(62,541)
Capital and reserves attributable to the Company's equity holders	**2,369,057**	1,449,965	1,165,944	930,968

Notes:

1. *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.*

2. *The results of the Group for the years ended 31 December 2003 and 2004 and the balance sheets of the Group as at 31 December 2003 and 2004 have been prepared using the merger accounting and are extracted from the Company's prospectus dated 11 December 2006.*

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