

# 2012 Annual Report





A Member of Haitian International



**A** advanced technology   **D** dependable machinery   **V** value engineered   **A** accessible support   **N** new vision   **T** team spirit   **A** around the globe   **G** growth driven   **E** excellent price-performance ratio



A Member of Haitian International

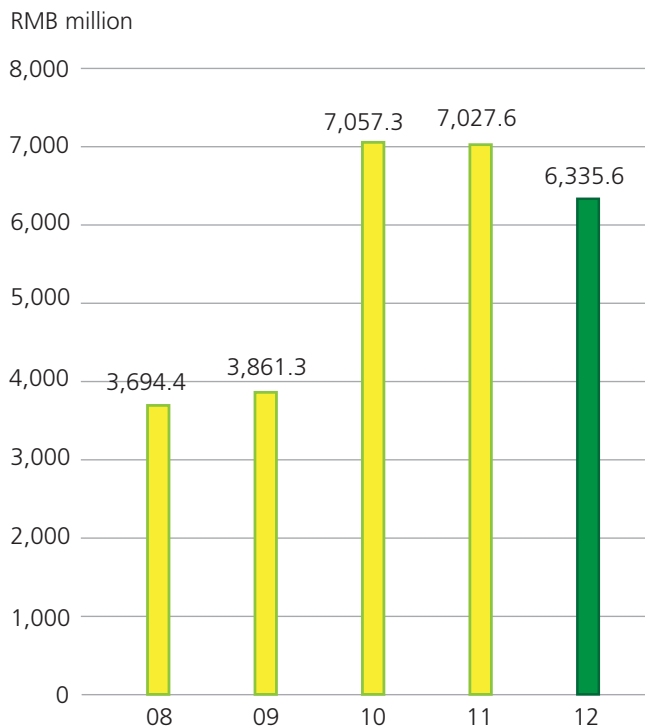


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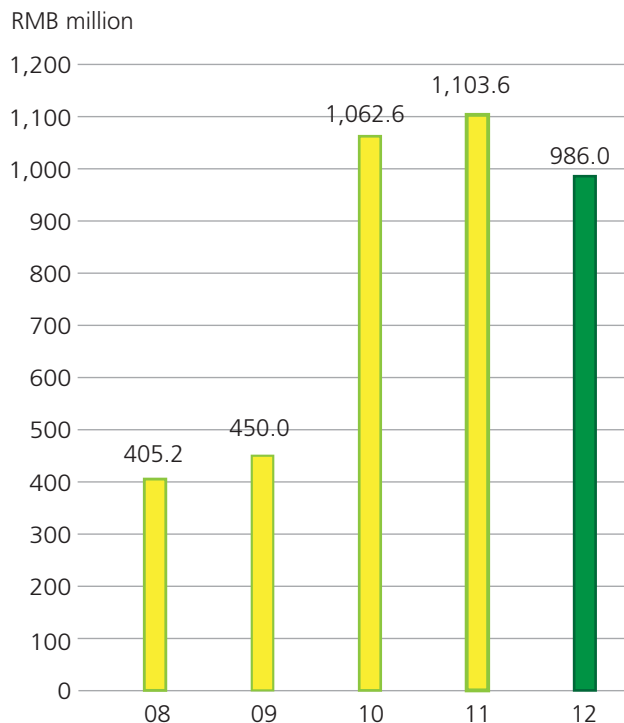
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# Financial Highlights

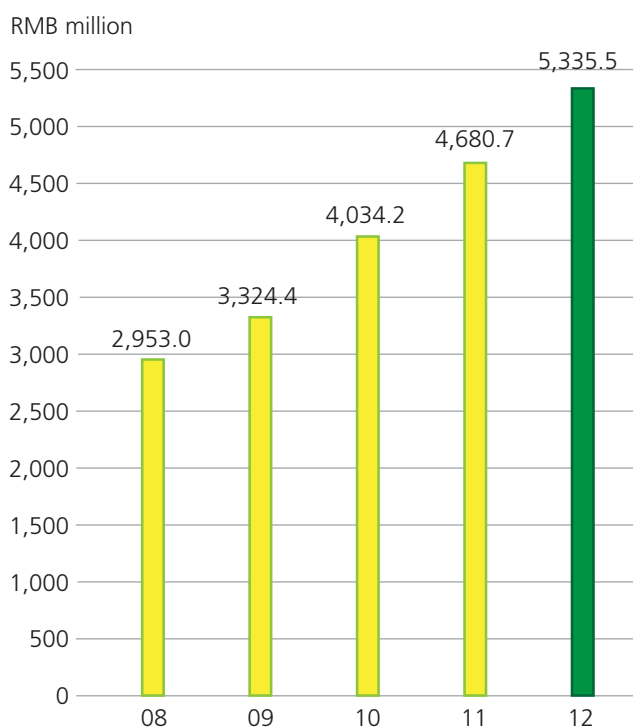
## Revenue



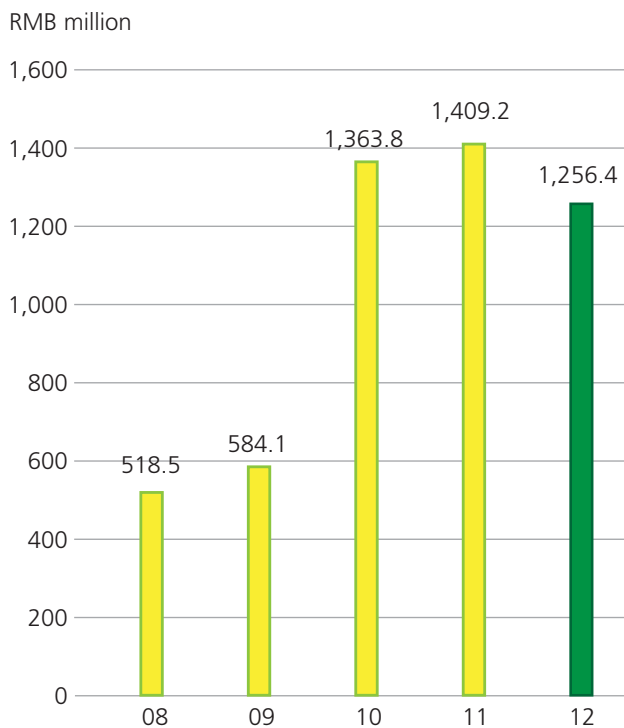
## Profit attributable to the equity holders of the Company



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



## EBITDA



# Company Profile and Corporate Information

## Executive Directors

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

## Non-Executive Directors

Mr. Guo Mingguang  
Mr. Liu Jianbo

## Independent Non-Executive Directors

Mr. Gao Xunxian  
Mr. Lou Baijun  
Dr. Steven Chow  
Mr. Jin Hailiang

## Company Secretary

Mr. SUEN Wai Yu

## Registered Office

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

## Auditor

PricewaterhouseCoopers  
*Certified Public Accountants*

## Principal Place of Business

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

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

## Principal Bankers

Agricultural Bank of China  
Bank of China  
Ping An Bank  
Industrial and Commercial Bank of China  
Industrial Bank Co. Limited  
Shanghai Pudong Development Bank Co., Ltd.

# CHAIRMAN'S STATEMENTS



Dear Shareholders,

On behalf of Haitian International Holdings Limited, (“Haitian” or the “Company”), with its subsidiaries (together, the “Group”), I am pleased to present the Group’s annual results for the year ended 31 December 2012.

## Business Review

The year 2012 was a challenging year for the machine manufacturing industry due to the unresolved sovereign debt crisis in Europe, uncertainties surrounding the United States fiscal cliff and the moderating pace of the economic growth in the PRC, have resulted in lackluster market environment. These, along with the state leader or the legislative elections in certain major global economies, added more uncertainties to the global economic outlook. The uncertainty in the global economy and the shrinking overseas demand have shakened the investment confidence of not only overseas customers but also export-driven domestic customers. At the same time, China also experienced a notable slowdown in growth as a result of monetary policy tightening measures implemented since the mid of 2011. With the challenging environment in the machine manufacturing industry and following an exceptional high demand of plastic injection moulding machines in 2010 and 1st half of 2011, most plastic injection moulding machine manufacturers recorded dramatic drops in revenue and some of our domestic industry peers were downsizing their scales or even suspended production. Such adverse market conditions inevitably hampered our sales performance in 2012. With the full launch of our Generation 2 plastic injection moulding machines, staying focused on our strategies to speed up product innovation cycles, and enhancing both the domestic and the export sales network, we alleviate the adverse impacts of the macro-environment to our business and reported a mild drop of revenue by 9.8% to RMB6,335.6 million for the year ended 31 December 2012 (the “Reported Period”) compared to 2011, continuing to maintain the leading position in our industry.

During the Reported Period, we noted a pick-up in our sales from the trough of October 2011 but at a slow pace. In the second half of 2012, the market conditions were still tough but became more stable and we recorded a revenue of RMB3,156.6 million for the second half of 2012 which represented a negligible drop of 0.71% compared to the first half of 2012. Under the sluggish market conditions, improving profitability and generating healthy operating cashflow have been important targets for our business. We are committed to our core strategy of technological evolution and would focus on developing new and resource-efficient machineries under the current difficult environment and not turning to low margin products with less profits at this stage. Such commitment led our efforts in increasing the sales mix in new and innovative products with higher margin, raising our operational efficiency through introduction of Lean Manufacturing Concepts, and decrease in steel related component costs, which let us achieve a good progress in improving the gross profit margin to 30.5% (1H 2012: 29.8%) and net profit margin to 15.9%(1H 2012: 15.3%) in the second half of 2012. We recorded a net profit of RMB500.4 million for the second half of 2012 which represented a mild increase of 3.0% compared to the first half of 2012. Overall, our net profit of RMB986.0 million during the Reported Period only recorded a drop of 10.7% when compared to 2011 which was our Group’s record highest profit year. With committed efforts in working capital management and some observed relaxation of the tightening monetary measures in China, we reported an operating cash inflow excluding change of restricted cash of RMB1,232.6 million, representing an increase of 204.3% during the Reported Period when compared to the same period in 2011.

## Chairman's Statements

The Board of Directors has declared a final dividend of HK\$0.15 per share for the year ended 31 December 2012, bringing the dividend for 2012 to HK\$0.27 per share.

### Domestic and export sales

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

<i>(RMB million)</i>	2012	%	2011	%	2012 vs 2011
Domestic Sales	4,189.7	66.1%	4,854.2	69.1%	(13.7)%
Export Sales	1,990.0	31.4%	1,992.6	28.4%	(0.1)%
Parts (both domestic and export)	155.9	2.5%	180.8	2.5%	(13.8)%
<b>Total</b>	<b>6,335.6</b>	<b>100.0%</b>	<b>7,027.6</b>	<b>100.0%</b>	<b>(9.8)%</b>

The persistent impact of the Chinese tightening measures implemented since 2011 and slowdown of growth in the Chinese economy as a result of both sluggish domestic consumption and external demand from export, all together adversely affected the confidence of our customers in China. This led to a slowdown in PIMM demand in China and affected our domestic sales in 2012. In the mid of 2012, we observed gradual relaxation of credit tightening policy in China including the reduction of reserve ratio and interest rate by PBOC. These measures helped to stabilize the domestic economy and prevent it from further weakening. Benefiting from a diversified customer portfolio, especially for large corporate customers which generally have strong financial position and carefully-planned CAPEX schedule, our domestic sales was less impacted by the tightening measures than other industrial peers. Our full-year domestic sales recorded a drop by 13.7% from RMB4,854.2 million in 2011 to RMB4,189.7 million in 2012.

The European sovereign debt crisis and the United States economy entering a softer growth phase together continued to pose challenges to the export markets. In view of our relatively low global market share in countries excluding China, we still have rooms to minimise the adverse impact of these challenges through committed strategies in expanding export sales including developing new markets, operating overseas service centers and assembly facilities and enhancing the pre-sale and after-sales services. Our export sales remained stable during the Reported Period and recorded a negligible drop of 0.1% from RMB1,992.6 million in 2011 to RMB1,990.0 million in 2012. This minor drop was a result from appreciation of RMB against US Dollars in 2012. The sales mix of export sales to our total revenue increased from 28.4% in 2011 to 31.4% in 2012.

### Small and medium-to-large tonnage sales

The Group's sales by small and medium-to-large tonnage PIMMs are summarized in the following table:

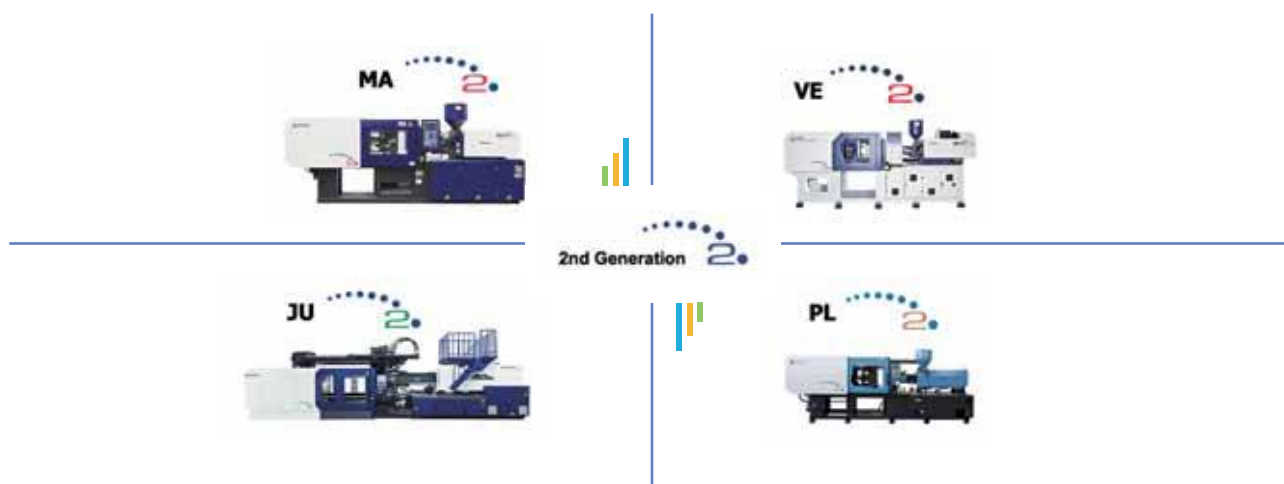
<i>(RMB million)</i>	2012	%	2011	%	2012 vs 2011
Small tonnage	3,747.0	59.1%	4,346.6	61.9%	(13.8)%
Medium-to-large tonnage sales	2,432.7	38.4%	2,500.2	35.6%	(2.7)%
Parts	155.9	2.5%	180.8	2.5%	(13.8)%
<b>Total</b>	<b>6,335.6</b>	<b>100.0%</b>	<b>7,027.6</b>	<b>100.0%</b>	<b>(9.8)%</b>

## Chairman's Statements

The medium-to-large tonnage PIMMs are usually employed by medium-to-large-size enterprises which generally have stronger financial position and carefully planned CAPEX. Accordingly, the sales of medium-to-large machines is generally less sensitive to a sluggish market environment. Our sales of medium-to-large tonnage PIMMs recorded a mild drop of 2.7% compared to the same period in 2011. In contrast, small tonnage PIMMs are generally more sensitive to macroeconomic changes. The growth in sales of all-electric PIMMs which are usually small tonnage PIMM has partly compensated the drop of sales in small tonnage hydraulic PIMMs. As a result, the sales of small tonnage PIMMs recorded a drop of 13.8% compared to the same period in 2011.

During the Reported Period, the average selling price of our PIMMs increased from RMB253,000 in 2011 to RMB279,000. The increase of average selling price reflected the increase in the sales mix to medium-to-large tonnage PIMMs and the higher-value-added PIMMs. Despite the tough operating environment, a number of our technological advanced products still performed well in 2012. Sales of the Venus Series (All-electric PIMMs), Jupiter series (Two platen PIMMs) and IA series (Multi-colour PIMMs) increased to RMB348.6 million, RMB273.8 million and RMB186.6 million, representing growth of 14.2%, 10.8% and 42.8% respectively when compared to 2011. Their solid sales performance evidenced the importance of the product innovation, setting the platform for our future growth in technological advanced PIMMs.

Innovation is one of the keys to our success. Our strong capacity for product innovation continues to bring us greater differentiation and extends our leading position in the PIMM market. In the second half of 2012, we start launching "Generation 2" of existing product lines including Mars II, Venus II and Jupiter II. "Generation 2" provides improvements in performance and ergonomics that are based to a large extent on continuous customer feedbacks. This means the Generation 2 is even more customer oriented than all series before. With several patented new features in the Generation 2 such as optimized injection, new mechanical clamping systems and new software for enhanced applications, the Generation 2 offers higher precision, reliability, speed and price-performance ratio to our customers. The market response for the launch of Generation 2 is encouraging and the sales mix of Generation 2 in December 2012 accounted for 36% of our total sales in that month and is expected to further grow in 2013. We expect the launch of Generation 2 can further enhance our competitiveness in product and cost position.



## Outlook

There are signs that the market slowdown had stabilized towards the end of 2012. With firmer labour market conditions, improving domestic demand and expectation in supportive government policy for different industries in China, we noted that the China's manufacturing PMI has been in expansionary territory with 50 above for four straight months starting from November 2012. After the election of the state leaders or legislative elections in certain major global economies including China, US and Japan, the new leaders are expected to set out the future blue-prints for their countries' developments and ease away policy uncertainties and boost the consumer and investment sentiment. Following the conclusion of the National People's Congress and Chinese People's Political Consultation Conference in March this year, the Chinese government is likely to launch a series of economic stimulus policies to



## Chairman's Statements

maintain the economic growth of China in the second half of 2013. Therefore, we believe that the PIMMs market in China is likely to recover gradually albeit on a slow pace in 2013 and remain optimistic about the prospect of the industry in the long run. The demand of PIMMs (especially in large tonnage and all electric PIMMs) will continue to be driven by an on-going industrialisation, rising personal income levels, spurring plastics product output and consumption and increasing applications of plastic material in different areas. We will increase our future resources to develop new products to capture these growing opportunities in large tonnage and all electric PIMMs. By leveraging on our core strengths including our prestigious branding, unmatched product and service quality, R&D capabilities, efficient production scale and strong financial position, we believe we will continue to be one of a few winners under this headwind and hold a cautiously optimistic view of a satisfactory growth of our business for the year 2013.

We commit ourselves to achieving sustainable business growth in the long run. We will continue to prepare ourselves to capture business opportunities once market picks up with the following measures:

- To speed up the product innovation cycle and develop machines by breaking down market demand into micro-segments with increased details and analysis so that more sophisticated PIMM can be launched for different industries and customers.
- To raise operational efficiency by introduction of Lean Manufacturing concept to our Group and raise the product quality and customer services by starting Quality Assurance Campaign. Through these measures, we can enhance our competitiveness in cost position, quality and services.
- To further enhance our three brand strategy, namely Haitian, Zhafir and Tianjian, with dedicated R&D and sales teams to provide the technology "to the point", at the price and technology level required to efficiently manufacture the respective plastics parts at our customers place.
- To enhance our sales mix with higher margin product and to address the increasing demand of technological advanced PIMMs, our small PIMM will continue to move towards higher precision and all-electric driven and large PIMM will move towards two-platen and compact design.
- To strengthen and enhance our sales network including the increase of the number of service centres for pre-sales and after-sales support, assigning dedicated teams to serve and follow up multi-national corporation key accounts and regularly meet up with customers and distributors to collect latest market development information so as to response to the market changes effectively and efficiently.

We believe that through the above-mentioned measures, Haitian will be able to lay a solid foundation for growth in 2013 and bring satisfactory returns to our shareholders.

## Appreciation

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

**Mr. Zhang Jingzhang**

*Chairman*

11 April 2013

# CEO'S REPORT



## Highlights

	2012 RMB' million	2011 RMB' million	Increase/ (decrease) %
Sales	6,335.6	7,027.6	(9.8)
Gross profit	1,907.3	2,088.1	(8.7)
Profit attributable to equity holders of the Company	986.0	1,103.6	(10.7)
Basic Earnings per share (expressed in RMB per share)	0.62	0.69	(10.7)
Dividend per share (expressed in HK\$ per share)			
Proposed final	0.15	0.135	11.1
Full year (including interim)	0.27	0.295	(8.5)

- Stable level of business despite the tough environment and recorded sales of RMB6,335.6 million, representing a drop of 9.8% in revenue compared to 2011's sales
- Slightly improvement in gross profit margin to 30.1% (2011: 29.7%)
- Maintained stable net profit margin of 15.6% (2011: 15.7%) despite the drop of revenue
- Profit attributable to equity holders of the Company amounted to RMB986.0 million represented a drop of 10.7% compared to 2011 which was the highest profit level in our Group's history
- The Board proposed an final dividend of HK15.0 cents per share
- Continued improvement in operating cashflow and the net cash position increased from RMB1,775.4 million as of 31 December 2011 to RMB2,261.5 million as of 31 December 2012

## CEO's Report



## Financial Review

### Sales

Due to the adverse macroeconomic factors including the uncertainty of Eurozone's sovereign debt crisis, slow recovery of US economy and slow down of the China economic growth, we recorded a revenue of RMB6,335.6 million during the Reported Period, representing a decrease of 9.8% compared to 2011. The decrease was mainly attributable to the decrease in domestic sales by 13.7% to RMB4,189.7 million during the Reported Period compared to 2011. The export sales only recorded a negligible decrease by 0.1% to RMB1,990.0 million during the Reported Period compared to 2011 through our committed strategy of strengthening export sales including developing new markets and enhancing the pre-sales and after-sales services.



## CEO's Report

### Gross Profit

During the Reported Period, we recorded gross profit of approximately RMB1,907.3 million, representing a decrease of 8.7% compared to 2011.

Although our revenue decreased by 9.8% during the Reported Period, our manufacturing plants still operated in the optimal utilization through adopting a stretch production plan comprising working overtime and outsourcing certain production processes during the exceptional high level of sales activities in 2010 and 2011. Accompanied with an enhanced sales mix of new and technological advance machines with higher margin, higher operational efficiency and the decrease in cost of steel related components, our gross margin improved from 29.7% in 2011 to 30.1% in 2012.

### Selling and administrative expenses

During the Reported Period, the selling and administrative expenses decreased by 3.4% from RMB859.7 million in 2011 to RMB830.2 million in 2012, primarily due to the decrease in sales commissions expenses and transportation charges resulting from lower level of sales in 2012. However such decreases were partly offset by i) increase in marketing expenses in developing export markets and enhancing the pre-sale and after sales services and ii) increase in research and development expenses with continuing effort for the next generation products and other R&D projects.

### Other income

Other income mainly consists of government subsidy and it decreased by 45.4% from RMB79.9 million in 2011 to RMB43.6 million in 2012.

### Finance income – net

Finance income, net increased by 81.7% from RMB33.8 million in 2011 to RMB61.4 million in 2012 mainly as a result of the increase net cash balances and increase in effort in treasury management.

### Income tax expense

Income tax expense decreased by 11.3% from RMB234.7 million in 2011 to RMB208.1 million in 2012. Our effective tax rate maintained at a similar level of 17.4% in 2012 (2011: 17.5%).

### Net profit

In view of the above, net profit attributable to equity holders decreased approximately 10.7% from RMB1,103.6 million in 2011 to RMB986.0 million in 2012.

### Capital Expenditure

In 2012, our capital expenditure consisted of additions of property, plant and equipment and land use rights which amounted to RMB258.0 million (2011: RMB150.4 million).

### Liquidity and Financial Resources

The gearing ratio is defined as total borrowings divided by shareholders' equity. As at 31 December 2012, our Group was in a strong financial position with a net cash position amounting to RMB2,261.5 million (2011: RMB1,775.4 million). Accordingly, no gearing ratio is presented.

### Restricted Deposits

As at 31 December 2012, the bank deposits of RMB79.1 million (2011: RMB638.6 million) of our Group were restricted.

### Charges on Group Assets

As at 31 December 2012, our Group had no pledged of assets.

## CEO's Report

### Foreign Exchange Risk Management

During the Reported Period, our Group exported approximately 32.2% of its products to international markets. Such sales were denominated in US dollars or other foreign currencies, while our Group's purchases denominated in US dollars or other foreign currencies accounted for less than 10.0% of our total purchases. Our Group used certain forward contracts means to reduce its foreign currency exposure. Our management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts.

During the Reported Period, our Group borrowed a US-dollar denominated bank loan amounted to RMB358.2 million to hedge the exchange risk of US-dollar denominated receivables arising from export sales.

### Financial guarantees

As at 31 December 2012, our Group provided guarantee to banks in connection with facilities granted to the customers with an amount of RMB861.6 million (2011: RMB901.2 million).

### Employees

As at 31 December 2012, our Group had a total workforce of approximately 4,800 employees. Most of our employees were located in China. We offered our staff with competitive remuneration schemes. In addition, discretionary bonuses will be paid to staff based on individual and our performance. We are committed to nurturing a learning culture in our organization. Total staff costs for 2012 amounted to RMB491.2 million, representing an decrease of 3.2% compared with RMB507.3 million in 2011.

### Proposed Final Dividend

The Board had resolved to recommend the payment of a final dividend of HK\$0.15 per share for the financial year ended 31 December 2012 which is expected to be paid on or around 11 June 2013 to our shareholders whose names appear on the register of members at the close of business on 27 May 2013, subject to final approval at the Annual General Meeting of the Company.

## Closure of Register of Members

### (a) Entitlement to Attend and Vote at the AGM

The registers of members of the Company to attend the AGM will be closed from 14 May 2013 to 21 May 2013 (both days inclusive). All properly completed shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712 –16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 13 May 2013, for registration.

### (b) Entitlement to the Proposed Final Dividend

The registers of members of the Company for entitlement of dividend will be closed from 28 May 2013 to 31 May 2013 (both days inclusive). All properly completed shares transfer forms accompanied by the relevant share certificates must be lodged with the Registrar of Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712 –16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 27 May 2013, for registration.

**Zhang Jianming**  
Chief Executive Officer

11 April 2013

# DIRECTORS AND SENIOR MANAGEMENT



## Directors and Senior Management

### Executive Directors



**Mr. Zhang Jingzhang (張靜章)**, aged 76, 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 45 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) (“Ningbo Haitian”) from 1970 to 1994. He was named an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People’s Government, and was also awarded the title of an “Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo” (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affairs and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was named as an economist by the Ningbo Municipal People’s Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) and was also elected as a deputy to the People’s Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the chairman of the China Plastic Machine Industry Association (中國塑料機械協會).

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

## Directors and Senior Management



**Mr. Zhang Jianming (張劍鳴)**, aged 50, 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 35 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. Currently, he is the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang was also elected a deputy to the People's Congress of Beilun District (北侖區人大代表) in 2012. Mr. Zhang Jianming is the elder son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are Directors of the Company, and he is also a director of Sky Treasure and Premier Capital.



**Prof. Helmut Helmar Franz**, aged 63, is an executive Director and the Chief Strategic Officer of the Group. He joined the Group in September 2007 and has over 40 years of experience in the plastic processing machinery industry. Prof. Franz obtained a degree in engineering specialising in plastic machinery and processes and joined Plastmaschinenwerk Schwerin in the former German Democratic Republic in 1972. At Plastmaschinenwerk, Prof. Franz worked as a senior executive in research and development and marketing. In 1985, he joined WWW Import-Export in Berlin, Germany where he served as the managing director for WWW Import-Export's sales and services in Iraq, Egypt and Russia. In 1991, he joined Demag Ergotech (previously known as Mannesmann Demag Kunststofftechnik) ("Demag"), initially as the managing director for Demag's sales and services branch in Moscow, Russia. From 1995 until 1999, he served as the managing director for Demag's manufacturing plant for small machines in Wiehe, Germany. He was then promoted to Demag's chairman in 1999 and held the office until 2005. Prof. Franz had been a member of the board of the VDMA (the German Engineering Federation) association of German plastics machinery manufacturers for many years. He served as the chairman of the board of the VDMA from July 2003 until April 2005. Since December 2005, Prof. Franz has been the sole managing director of Zhafir Plastics Machinery GmbH, a German limited liability company which is engaged in the research and development of plastic injection moulding machineries. The Group acquired a 91% equity interest in Zhafir Plastics Machinery GmbH in August 2007 and Prof. Franz is interested in the remaining 9% equity interest in Zhafir Plastics Machinery GmbH.



## Directors and Senior Management



**Mr. Zhang Jianguo (張建國)**, aged 57, is an executive Director and the senior vice president of research and development of the Group. Mr. Zhang joined the Group in January 1974 and has more than 35 years of experience in the plastic processing machinery industry. He obtained a diploma in electrical and mechanical engineering from Zhejiang Radio TV University (浙江省廣播電視大學) in 1987. Mr. Zhang joined the Group in January 1974 initially working in the quality control division. He was subsequently promoted to the head of quality control in 1996. He has been appointed as the senior vice president of research and development of the Group since 1999. He has contributed to 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 43, 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 25 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 younger son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are Directors of the Company, and he is also a director of Sky Treasure and Premier Capital.



**Ms. Chen Ningning (陳寧寧)**, aged 50, 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.

## Directors and Senior Management

### Non-Executive Directors



**Mr. Guo Mingguang (郭明光)**, aged 46, is a non-executive Director. Mr. Guo joined the Group in January 1983 and has more than 25 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 was re-designated from an executive Director to a non-executive Director on 1 June 2012. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang, the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Liu Jianbo, all of whom are Directors of the Company and he is also a director of Sky Treasure and Premier Capital.



**Mr. Liu Jianbo (劉劍波)**, aged 44, is a non-executive Director. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu was re-designated from an executive Director to a non-executive Director on 1 June 2012. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Guo Mingguang, all of whom are Directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

### Independent Non-Executive Directors

**Mr. Gao Xunxian (高訓賢)**, aged 66, 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).

## Directors and Senior Management

**Dr. Steven Chow (周志文)**, aged 68, joined the Group in September 2007 as an independent non-executive Director. He is a licensed investment advisor and has over 30 years of experience in banking and investment. He received his Bachelor of Science Degree from Bishop's University and his Master's Degree in Business Administration and PhD degree (in Economics) from Boston University. Dr. Chow is a senior representative for a European bank as well as a managing director of its local company providing wealth management services for high net worth clients in Asia. Dr. Chow served as independent non-executive director of CNT Group Ltd. during the last three years, which shares are listed on the Main Board of the Stock Exchange. He has been a member of the Chinese People's Political Consultative Commission, Ningbo since 1989.

**Mr. Lou Baijun (樓百均)**, aged 49, joined the Group in March 2012 as an independent non-executive Director. He is currently the Head of Modern Logistics School of Zhejiang Wanli University. Mr. Lou is a member of the Chinese Institute of Certified Public Accountants since 1996. Mr. Lou was appointed deputy director and deputy professor of Faculty of Financial Management of Jiangxi University of Finance and Economics between 1985 and 2001 and commenced teaching at Zhejiang Wanli University since 2001. Mr. Lou obtained a master degree in management and engineering from Wuhan University of Technology in 2006. Mr. Lou has been an independent non-executive director of Ningbo Veken Elite Group Co., Ltd. (stock code: 600152) since 19 June 2008 and was an independent non-executive director of HIT. Shouchuang Technology Co., Ltd. (stock code: 600857) between 24 June 2005 and 24 March 2012, the shares of which are both listed on the Shanghai Stock Exchange.

**Mr. Jin Hailiang (金海良)**, aged 59, joined the Group in March 2013 as an independent non-executive Director. He is currently the Chairman and General Manager of Ningbo Xinlong Real Estate Company Limited. Mr. Jin is also a councilor of the Ningbo Real Estate Association, the President of Ningbo Beilun Real Estate Association, a committee member of the Beilun Committee of Ningbo City of the Chinese People's Political Consultative Conference. Mr. Jin was appointed to a number of roles at Housing Management Bureau of Zhenhai and Chaiqiao Counties Municipal Government including deputy director and deputy director of statistics office between 1971 and 1985. Mr. Jin was appointed as director and party-chief of Housing Management Bureau of Beilun Development Zone since 1985 and assumed the role of director and party-chief of Beilun Construction Quality Supervision Station in 1997. He was appointed to his current position of the Chairman and General Manager of Ningbo Xinlong Real Estate Company Limited since 1999. Mr. Jin obtained a diploma in real estate management from Zhejiang University of Technology in 1994.

## Senior Management

**Mr. Yu Wenxian (虞文賢)**, aged 43, is the 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 had been serving as the executive assistant to the chief executive officer of the Group between 2004 and 2010.

**Mr. Bei Haibo (貝海波)**, aged 46, is the general manager of Haitian Heavywork business department. Mr. Bei joined the Group in January 1983 and has more than 25 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.

**Mr. Chen Weiqun (陳蔚群)**, aged 41, is 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 responsible for the Group's international sales since 2004. He was also appointed as the general manager of Haitian Huayuan in 2004.

**Mr. Shi Huajun (施華均)**, aged 41, is the general manager of the internal control and investor relation department of the Group. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 10 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

## Directors and Senior Management

**Mr. Suen Waiyu (孫懷宇)**, aged 35, is the Company Secretary of the Company and joined the Group in November 2010.

Mr. Suen graduated from the University of Hong Kong with a bachelor degree in laws in 2000 and he is a solicitor admitted to practice laws in Hong Kong. Prior to joining the Group, Mr. Suen was previously working in an international law firm advising companies on corporate transactions, capital market transactions and listing companies compliance related work.

**Mr. Lo Chi Chiu (盧志超)**, aged 39, is the Group's Chief Financial Officer and joined the Group in August 2006. Mr. Lo graduated from the University of Hong Kong with a bachelor's degree in business administration. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he has obtained over 15 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.

# Investor Information

## Listing Information

Listing: Hong Kong Stock Exchange  
Stock code: 1882

## Key Dates

26 March 2013	—	Result Announcement of 2012
14 – 21 May 2013	—	Closure of register of members (Annual General Meeting)
21 May 2013	—	Annual General Meeting
28 – 31 May 2013	—	Closure of register of members (entitlement to proposed final dividend)
about 11 June 2013	—	Paid date of proposed final dividend

## Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2012:  
1,596,000,000 shares

Market Capitalisation as at 31 December 2012:  
HK\$14,763 million

Earnings per share for 2012: RMB0.62

Dividend per share for 2012

Interim dividend	HK12.0 cents
Proposed final dividend	HK15.0 cents

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Total HK27.0 cents

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## Hong Kong Share Registrar Transfer Office

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

## Enquires Contact

Investor Relations Department  
Tel (China): 86-574-86182786  
Tel (Hong Kong): 852-24282999  
Fax: 86-574-86182787  
E-mail: andy@mail.haitian.com  
Address: No. 32, Jiangnan Road Central,  
Beilun District, Ningbo,  
Zhejiang Province, China  
Postal code: 315821

## Website

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

# CORPORATE GOVERNANCE REPORT



# Corporate Governance Report

Haitian International Holdings Limited (the “Company”) recognises the importance of good corporate governance to its healthy growth and has therefore devoted much efforts into formulating the best corporate governance practices that agree with its business needs. The Company has applied the principles set out in the Corporate Governance Code (“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”) by adopting the relevant code provisions. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. The directors of the Company (“Directors”) consider that the Company complied with all the applicable code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules which were effective until 31 March 2012 and those in the CG Code in existing Appendix 14 of the Listing Rules which became effective from 1 April 2012 for the nine months ended 31 December 2012.

## Board of Directors

The Board of Directors (the “Board”) comprises 6 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors.

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

### *Executive Directors*

Mr. Zhang Jingzhang (*Chairman*)  
Mr. Zhang Jianming (*Chief Executive Officer*)  
Prof. Helmut Helmar Franz  
Mr. Zhang Jianguo  
Mr. Zhang Jianfeng  
Ms. Chen Ningning

### *Non-executive Directors*

Mr. Guo Mingguang (re-designated from Executive Director to Non-executive Director on 1 June 2012)  
Mr. Liu Jianbo (re-designated from Executive Director to Non-executive Director on 1 June 2012)  
Mr. Hu Guiqing (resigned on 28 December 2012)

### *Independent Non-executive Directors*

Mr. Gao Xunxian  
Mr. Lou Baijun  
Dr. Steven Chow  
Mr. Jin Hailiang (appointed on 28 March 2013)  
Mr. Dai Guowah (appointed on 30 March 2012)\*  
Mr. Pan Chaoyang (resigned on 1 June 2012)  
Mr. Dai Xiangbo (resigned on 30 March 2012)

\* *Mr. Dai Guowah resigned as an independent non-executive director on 28 March 2013.*

# Corporate Governance Report

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, especially the Independent Non-Executive Directors, is also responsible to decide on acquisitions or disposals where there is conflict of interests for any Director(s). 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 Board on strategic development of the Group, 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 confirmations of independence from all existing Independent Non-executive Directors and considers them independent, in accordance with the Rule 3.13 of the Listing Rules. All Directors have a term of office of three years and are required to retire and, being eligible, can offer themselves for re-election in accordance with the articles of association of the Company.

## 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 the Board will be convened if the situation requires so. For the year ended 31 December 2012, the Board convened a total of six Board meetings and the individual attendance record of the Directors is tabulated as follows:

### Attendance

#### Executive Directors

Mr. Zhang Jingzhang ( <i>Chairman</i> )	6/6
Mr. Zhang Jianming ( <i>Chief Executive Officer</i> )	6/6
Professor Helmut Helmar Franz	6/6
Mr. Zhang Jianguo	6/6
Mr. Zhang Jianfeng	6/6
Ms. Chen Ningning	6/6

#### Non-executive Directors

Mr. Guo Mingguang	6/6
Mr. Liu Jianbo	6/6
Mr. Hu Guiqing <sup>(1)</sup>	1/5

#### Independent Non-executive Directors<sup>(2)</sup>

Mr. Gao Xunxian	6/6
Mr. Lou Baijun <sup>(3)</sup>	4/4
Dr. Steven Chow	5/6
Mr. Pan Chaoyang <sup>(4)</sup>	1/2
Mr. Dai Guowah <sup>(3)</sup>	4/4
Mr. Dai Xiangbo <sup>(5)</sup>	0/1

Notes:

<sup>(1)</sup> Mr. Hu Guiqing resigned on 28 December 2012 and there were five board meetings held before his resignation.

<sup>(2)</sup> Mr. Jin Hailiang was appointed on 28 March 2013 and therefore was not shown.

<sup>(3)</sup> Mr. Dai Guowah and Mr. Lou Baijun were appointed as independent non-executive directors on 30 March 2012 and both attended all four meetings of directors held in 2012 after their respective appointment. Mr. Dai Guowah had later resigned as independent non-executive director on 28 March 2013.

<sup>(4)</sup> Mr. Pan Chaoyang resigned as independent non-executive director on 1 June 2012, before which only two board meetings were held.

<sup>(5)</sup> Mr. Dai Xiangbo resigned as independent non-executive director on 30 March 2012, before which only one board meeting was held.



# Corporate Governance Report

## 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 (not including Mr. Jin Hailiang who was appointed on 28 March 2013) complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

## Relationship of the Directors

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

## Nomination of Directors

The Company had not set up a Nomination Committee for the year ended 31 December 2011. In view of the new requirements of CG Code which became effective on 1 April 2012, the Board had set up its Nomination Committee on 30 March 2012 to, among others, review the structure, size and composition of the Board and make recommendations to the Board on the appointment of Directors. The composition of the Nomination Committee and the attendance of the one meeting of the Nomination Committee during year 2012 are set out below:

### Attendance

Mr. Zhang Jingzhang (Chairman of Committee)	1/1
Mr. Dai Guowah*	1/1
Mr. Gao Xunxian	1/1

\* Mr. Dai Guowah resigned as an independent non-executive director on 28 March 2013 and Mr. Jin Hailiang was appointed an independent non-executive director and a member of the Nomination Committee on same date. Accordingly, no attendance is shown for Mr. Jin Hailiang.

The Nomination Committee had reviewed the structure, size and composition of the Board and assessed the background and qualifications of new Directors appointed to the Board in 2012.

## Audit Committee

The Company has set up an audit committee in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company.

The Audit Committee has reviewed the Group's condensed consolidated financial information for the year ended 31 December 2012, including the accounting principles adopted by the Group, with the Company's management. The audit committee, together with the management and the external auditors, has reviewed constantly the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and reviewed the financial results of the Group.

The composition of the Audit Committee and the attendance of the four meetings of the Audit Committee during year 2012 are set out below:

### Attendance

From 1 January 2012 to 29 March 2012

Mr. Dai Xiangbo (Chairman of Committee)*	1/1
Mr. Pan Chaoyang	1/1
Mr. Gao Xunxian	1/1

\* Mr. Dai Xiangbo resigned as an independent non-executive director and the Chairman of Audit Committee on 30 March 2012.

From 30 March 2012 to 31 December 2012

Mr. Lou Baijun (Chairman of Committee)*	3/3
Mr. Gao Xunxian	3/3
Mr. Dai Guowah*	3/3
Mr. Pan Chaoyang*	N/A

\* Mr. Lou Baijun and Mr. Dai Guowah were appointed as independent non-executive directors and the Chairman and a member of Audit Committee respectively on 30 March 2012. Mr. Dai Guowah later resigned as an independent non-executive director on 28 March 2013 and Mr. Jin Hailiang was appointed an independent non-executive director and a member of the Audit Committee on the same date. Mr. Pan Chaoyang also resigned as an independent non-executive director and a member of the Audit Committee on 1 June 2012.

## Corporate Governance Report

The Audit Committee met four times during year 2012. During the meetings, the Audit Committee considered the annual results of the Group for the year ended 31 December 2011 and the interim results of the Group for the six months ended 30 June 2012 as well as reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review.

### Remuneration Committee

The Remuneration Committee is responsible to review the policy for remuneration of the Directors and other senior management of the Group and to make recommendations to the Board on the remuneration packages of each Director and senior management. 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.

The composition of the Remuneration Committee and the attendance of the one meeting of the Remuneration Committee during year 2012 are set out below:

#### Attendance

*From 1 January 2012 to 29 March 2012*

Mr. Zhang Jianming ( <i>Chairman of Committee</i> )*	1/1
Mr. Pan Chaoyang	1/1
Mr. Gao Xunxian	1/1

\* *In view of the new requirements of the CG Code which became effective on 1 April 2012, Mr. Zhang Jianming resigned as Chairman of the Remuneration Committee on 30 March 2012.*

*From 30 March 2012 to 31 December 2012*

Mr. Dai Guowah ( <i>Chairman of Committee</i> ) <sup>(1)</sup>	N/A
Mr. Zhang Jianming	N/A
Mr. Pan Chaoyang <sup>(2)</sup>	N/A
Mr. Gao Xunxian	N/A

<sup>(1)</sup> *Mr. Dai Guowah was appointed as an independent non-executive director and the Chairman of the Remuneration Committee on 30 March 2012. He later resigned as an independent non-executive director and the Chairman of the Remuneration Committee on 28 March 2013 and Mr. Jin Hailiang was appointed as an independent non-executive director and the Chairman of the Remuneration Committee on the same date.*

<sup>(2)</sup> *Mr. Pan Chaoyang resigned as an independent non-executive director and a member of the Remuneration Committee on 1 June 2012.*

The Remuneration Committee had concluded that the packages of the Directors and senior management are in line with market standards for companies in the industry which the Group belongs to.

### Training and Support for Directors

The Company recognizes the importance of keeping the Directors updated with latest information of duties and obligations of a director of a company which shares are listed on the Stock Exchange of Hong Kong Limited and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. The Company would also provide regular updates in relation to the latest developments regarding Listing Rules and other applicable regulations.

## Corporate Governance Report

During the period from 1 April 2012 to 31 December 2012, the Directors had participated in the following types of continuous professional development:

	<b>Type of continuous professional development</b>
<b>Executive Directors</b>	
Mr. Zhang Jingzhang	A, B
Mr. Zhang Jianming	A, B
Prof. Helmut Helmar Franz	A, B
Mr. Zhang Jianfeng	A, B
Mr. Zhang Jianguo	A, B
Ms. Chen Ningning	A, B
<b>Non-executive Directors</b>	
Mr. Guo Mingguang	A, B
Mr. Liu Jianbo	A, B
Mr. Hu Guiqing (resigned on 28 December 2012)	B
<b>Independent Non-executive Directors*</b>	
Mr. Gao Xunxian	A, B
Mr. Lou Baijun	A, B
Dr. Steven Chow	B
Mr. Dai Guowah (resigned on 28 March 2013)	A, B
Mr. Pan Chaoyang (resigned on 1 June 2012)	B
Mr. Dai Xiangbo (resigned on 30 March 2012)	N/A
A:	<i>attending seminars and/or in-house trainings relating to duties of directors of listed companies</i>
B:	<i>reading guidance notes and updates relating to regulatory requirements for listed companies and obligations of their directors</i>
*	<i>Mr. Jin Hailiang was appointed as an independent non-executive director on 28 March 2013 and therefore was not shown in this table.</i>

## Internal Control and Corporate Governance

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control and corporate governance. In 2012, the Board has conducted a review with the management of the effectiveness of the system of internal control and corporate governance of the Company and its subsidiaries and considered that the internal control system and corporate governance measures are effective.

## Directors' and Auditor's Acknowledgement

The Board acknowledges its responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board, which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 37 and 38.

## Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB2,999,000 for audit services.

# Corporate Governance Report

## Investor Relations and Shareholders' Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 business days before the meeting and will also be made available on the Stock Exchange's website. The Directors will answer questions on the Company's business at the meeting. External auditors will also attend the annual general meeting. All votings at the annual general meeting will be conducted by poll and poll results will be posted on the website of the Stock Exchange on the business day following the annual general meeting. As a channel to further promote effective communication, the Company maintains a website ([www.haitianinter.com](http://www.haitianinter.com)) to disseminate the Company's announcements and other relevant financial and non-financial information electronically on a timely basis.

The annual general meeting of year 2012 was held on 16 May 2012 and the attendance record of the Directors at the meeting is set out below:

### Executive Directors

Mr. Zhang Jinzhang ( <i>Chairman</i> )	–
Mr. Zhang Jianming ( <i>Chief Executive Officer</i> )	–
Prof. Helmut Helmar Franz	–
Mr. Zhang Jianguo	Attended
Mr. Zhang Jianfeng	–
Ms. Chen Ningning	–

### Non-executive Directors

Mr. Guo Mingguang	–
Mr. Liu Jianbo	–
Mr. Hu Guiqing (resigned on 28 December 2012)	–

### Independent Non-executive Directors

Mr. Gao Xunxian	Attended
Mr. Lou Baijun	Attended
Dr. Steven Chow	–
Mr. Jin Hailiang (appointed on 28 March 2013)	N/A
Mr. Dai Guowah (appointed on 30 March 2012)*	Attended
Mr. Pan Chaoyang (resigned on 1 June 2012)	Attended
Mr. Dai Xiangbo (resigned on 30 March 2012)	N/A

\* *Mr. Dai Guowah resigned as an independent non-executive director on 28 March 2013.*

## Corporate Governance Report

### Shareholders' Rights

#### How shareholders can convene an extraordinary general meeting

Any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to make a written requisition to the Board or the Company Secretary to convene an extraordinary general meeting pursuant to article 58 of the Company's articles of association. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the shareholder(s) who make the requisition may convene the extraordinary general meeting.

#### Procedures by which enquiries regarding business or operation of the Company can be made

Shareholders can contact the Investor Relations Department for enquiries in relation to the business or other operations of the Company. The contact information of the Investor Relations Department is set out in the "Investor Information" on page 19 of this report. Shareholders are also encouraged to attend the annual general meeting of the Company to express their view and make enquiries on the business or operation operations of the Company.

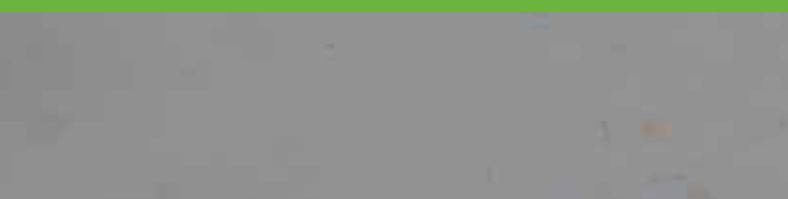
#### Procedures for putting forward proposals at general meeting

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands governing shareholder's rights to put forward proposals at an annual general meeting. Shareholders who wish to put forward proposals may however follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.



2012 annual result analysts' meeting

# REPORT OF THE DIRECTORS



## Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2012.

## Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 8(a) to the financial statements. An 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 42. The directors declared an interim dividend of HK12.0 cents per share, totalling RMB156,736,000 which was paid on 7 September 2012. The directors recommended the payment of a final dividend of HK15.0 cents per share, totalling approximately RMB193,433,000.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 18 to the financial statements.

## Donations

Charitable and other donations made by the Group during the year amounted to RMB660,000.

## Property, Plant and Equipment

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

## Share Capital

Details of the movements in share capital of the Company are set out in note 17 to the financial statements.

## Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB2,107.7 million as at 31 December 2012. 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 2012 and for the previous four financial years are set out on page 104.

# Report of the Directors

## Share Option Scheme

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

### (i) Purpose

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

### (ii) Qualifying Participants

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

### (iii) Maximum Number of Shares

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

As at 31 December 2012, the number of shares available for issue under the Scheme is 159,600,000 shares representing 10% of the issued share capital of the Company and no share options were granted and remained outstanding.

### (iv) Limit for Each Participant

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

### (v) Option Period

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

### (vi) Payment on Application and Acceptance

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



## Report of the Directors

### (vii) Exercise Price

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

### (viii) Remaining Life of the Scheme

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

## Directors

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

#### *Executive Directors*

Mr. Zhang Jingzhang (*Chairman*)

Mr. Zhang Jianming (*Chief Executive Officer*)

Prof. Helmut Helmar Franz

Mr. Zhang Jianguo

Mr. Zhang Jianfeng

Ms. Chen Ningning

#### *Non-executive Directors*

Mr. Guo Mingguang (re-designated from executive director to non-executive director on 1 June 2012)

Mr. Liu Jianbo (re-designated from executive director to non-executive director on 1 June 2012)

Mr. Hu Guiqing (resigned on 28 December 2012)

#### *Independent Non-executive Directors*

Mr. Gao Xunxian

Mr. Lou Baijun (appointed on 30 March 2012)

Dr. Steven Chow

Mr. Jin Hailiang (appointed on 28 March 2013)

Mr. Dai Guowah (appointed on 30 March 2012)\*

Mr. Pan Chaoyang (resigned on 1 June 2012)

Mr. Dai Xiangbo (resigned on 30 March 2012)

\* Mr. Dai Guowah resigned as an independent non-executive director on 28 March 2013.

In accordance with Article 87(1) and Article 86(3) of the Company's Articles of Association, Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Guo Mingguang, Ms. Chen Ningning and Mr. Jin Hailiang 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 a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

## Report of the Directors

### 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 except as disclosed under Connected Transactions stated below and note 37 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 12 to 18.

### Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2012, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

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

Name of Director	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest <sup>(1)</sup>	1,036,853,370 <sup>(2)</sup>	64.97% <sup>(2)</sup>
Mr. Zhang Jianming	Corporate Interest <sup>(1)</sup>	1,036,853,370 <sup>(2)</sup>	64.97% <sup>(2)</sup>
Prof. Helmut Helmar Franz	Personal Interest	206,000	0.01%
Mr. Liu Jianbo	Personal Interest	100,000	0.01%

Note:

(1) Mr. Zhang Jingzhang and Mr. Zhang Jianming are deemed under the SFO to be interested in 1,036,853,370 shares of the Company held by Sky Treasure Capital Limited.

(2) Sky Treasure Capital Limited entered into a placing agreement to sell 84,279,000 shares in the Company on 24 January 2013 and after such sales, it held 952,574,370 shares in the Company, representing approximately 59.7% of the issued share capital of the Company and the deemed interests of Mr. Zhang Jingzhang and Mr. Zhang Jianming were reduced accordingly. Please refer to the Company's announcement dated 24 January 2013 for details of the aforesaid sales of shares.

## Report of the Directors

### Long Position in Shares and Underlying Shares of Associated Corporations of the Company

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

*Notes:*

- (1) As at 31 December 2012, Sky Treasure is the holder of 64.97% of the issued share capital of the Company and Zhafir is a non-wholly owned subsidiary of the Company and both are associated corporations under the SFO.
- (2) Such Directors are deemed under the SFO to be interested in shares of Sky Treasure which are held by their wholly-owned investment holding companies.
- (3) Mr. Zhang Jingzhang and Mr. Zhang Jianming are separately entitled to exercise or control the exercise of one third or more voting power in the general meetings of Cambridge Management Consultants (PTC) Ltd. and Premier Capital Management (PTC) Ltd. Premier Capital Management (PTC) Ltd. is the trustee of the Haitian Employee Discretionary Equity Trust which is interested in 36.04% equity interests in Sky Treasure while Cambridge Management Consultants (PTC) Ltd. is the trustee of the Haitian Employee Fixed Equity Trust and the Haitian Employee Fixed Equity Trust II which collectively are interested in 18.77% equity interests in Sky Treasure. Accordingly, they are deemed under SFO to be interested in such shares in Sky Treasure.
- (4) Such Directors are beneficiaries under a trust which is interested in 14.17% shares of Sky Treasure.

Save as disclosed above, as at 31 December 2012, 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.

## Report of the Directors

### Interests and Short Positions of Shareholders

As at 31 December 2012, 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	1,036,853,370 (L) <sup>(2)</sup>	64.97% <sup>(2)</sup>
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation <sup>(1)</sup>	1,036,853,370 (L) <sup>(2)</sup>	64.97% <sup>(2)</sup>

(L) denotes a long position

Note:

- (1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 1,036,853,370 shares held by Sky Treasure Capital Limited as at 31 December 2012.
- (2) Sky Treasure Capital Limited entered into a placing agreement to sell 84,279,000 shares in the Company on 24 January 2013 and after such sales, it held 952,574,370 shares in the Company, representing approximately 59.7% of the issued share capital of the Company and the deemed interests of Mr. Zhang Jingzhang and Mr. Zhang Jianming were reduced accordingly. Please refer to the Company's announcement dated 24 January 2013 for details of the aforesaid sales of shares.

Save as disclosed above, as at 31 December 2012, 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. Save as disclosed under "Connected Transactions" and "Continuing Connected Transactions" below, 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 these major suppliers or customers at all times.

## Report of the Directors

### Competing Business

None of the directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2012.

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

### Connected Transactions

On 16 November 2012, the Group entered into property acquisition agreements with Haitian America do Sul Comercio de Maquinas Ltda, which were associates of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, all Directors of the Company, pursuant to which the Group acquired properties and related assets in Brazil for after-sales services for an aggregate consideration of approximately HK\$23.7 million (RMB20.8 million). The acquisition enables us to maintain a stable presence for emerging market in Brazil and Latin America in more cost efficient manner.

The nature and reasons for the above connected transaction had previously been disclosed in the Company's announcement dated 16 November 2012.

On 30 November 2012, the Group entered into machinery equipment purchase agreements with Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision"), an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, all Directors of the Company, pursuant to which the Group purchased certain CNC turning machines and machining centres ("CNC Machines") manufactured by Haitian Precision for an aggregate consideration of RMB82,500,000. The CNC Machines purchased are used for processing of parts and components for the manufacture of plastic injection moulding machines by the Group.

The nature and reasons for the above connected transaction had previously been disclosed in the Company's announcement dated 30 November 2012.

### Continuing Connected Transactions

Certain related party transactions as disclosed in note 37 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant information had been disclosed in the Company's announcement dated 22 November 2011.

#### Purchase of Servo Systems and Components

On 28 October 2011, the Group entered into the Purchase Framework Agreement with Ningbo Haitian Drive Systems Co., Ltd. (formerly known as Ningbo Haitian Electric Machinery Co., Ltd.) ("HDS") relating to the purchase of servo systems, linear motion guides, ball screws and hydraulic motors for a term of three years commencing from the 1 January 2012 and ending on 31 December 2014, whereby the Group agreed to purchase these systems and components from HDS and its related companies at the price no less favourable than the terms at which HDS offers to independent third parties for the same or similar products. HDS was an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore are connected persons by virtue of Rule 14A.11(4) of the Listing Rules.

## Report of the Directors

During the year, the Group's purchase of these systems and components from HDS and its related companies amounted to RMB476.8 million.

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his conclusions in respect of the continuing connected transactions disclosed by the Group in page 100 of the annual report in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

## 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

The Company has not redeemed any of its listed shares during the Reported Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the Reported Period.

## Auditor

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

## Public Float

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, 40.3% of the issued share capital of the Company was held by the public.

On behalf of the Board  
**Zhang Jianming**  
*Chief Executive Officer*

11 April 2013

# Independent Auditor's Report



羅兵咸永道

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

We have audited the consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 103, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

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*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*



羅兵咸永道

**TO THE SHAREHOLDERS OF  
HAITIAN INTERNATIONAL HOLDINGS LIMITED (Continued)**

*(incorporated in Cayman Islands with limited liability)*

**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 2012, 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, 11 April 2013



# Consolidated Balance Sheet

As at 31 December 2012  
(Amounts expressed in RMB)

	Note	2012 RMB'000	2011 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	5	242,623	248,024
Property, plant and equipment	6	1,568,770	1,430,281
Intangible assets	7	—	1,401
Investment in an associate	9	6,315	4,435
Deferred income tax assets	23	34,552	30,384
Other receivables	12	20,361	21,364
		<b>1,872,621</b>	<b>1,735,889</b>
<b>Current assets</b>			
Inventories	10	1,417,376	1,451,713
Trade and bills receivables	11	2,048,193	2,052,707
Prepayments, deposits and other receivables	12	240,034	263,757
Available-for-sale financial assets	13	180,000	—
Derivative financial instruments	14	6,297	—
Financial assets at fair value through profit or loss	15	78,000	—
Restricted bank deposits	16	79,053	638,622
Cash and cash equivalents	16	2,610,551	1,741,067
		<b>6,659,504</b>	<b>6,147,866</b>
<b>Total assets</b>		<b>8,532,125</b>	<b>7,883,755</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	17	160,510	160,510
Share premium	18	1,331,913	1,331,913
Other reserves	18	529,228	436,191
Retained earnings			
— Proposed final dividend	34	193,433	175,083
— Others		3,120,384	2,576,978
<b>Total equity</b>		<b>5,335,468</b>	<b>4,680,675</b>

## Consolidated Balance Sheet (Continued)

As at 31 December 2012  
(Amounts expressed in RMB)

	Note	2012 RMB'000	2011 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income	22	12,644	12,871
Deferred income tax liabilities	23	96,157	94,365
		<b>108,801</b>	107,236
<b>Current liabilities</b>			
Trade and bills payables	19	1,481,115	1,266,423
Accruals and other payables	20	1,105,301	1,150,129
Current income tax liabilities		73,292	74,991
Bank borrowings	21	428,148	604,301
		<b>3,087,856</b>	3,095,844
<b>Total liabilities</b>		<b>3,196,657</b>	3,203,080
<b>Total equity and liabilities</b>		<b>8,532,125</b>	7,883,755
<b>Net current assets</b>		<b>3,571,648</b>	3,052,022
<b>Total assets less current liabilities</b>		<b>5,444,269</b>	4,787,911

The accompanying notes on pages 46 to 103 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 11 April 2013 and were signed on its behalf by:

**Zhang Jianming**  
Director

**Chen Ningning**  
Director

# Balance Sheet

As at 31 December 2012  
(Amounts expressed in RMB)

	Note	2012 RMB'000	2011 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	8(a)	778,077	778,077
Due from subsidiaries	8(b)	876,009	875,847
		<b>1,654,086</b>	1,653,924
<b>Current assets</b>			
Due from subsidiaries	8(c)	1,356,203	630,404
Cash and cash equivalents	16	58	88
		<b>1,356,261</b>	630,492
<b>Total assets</b>		<b>3,010,347</b>	2,284,416
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Ordinary shares	17	160,510	160,510
Share premium	18	1,331,913	1,331,913
Other reserves	18	314,789	314,789
Retained earnings			
— Proposed final dividend	34	193,433	175,083
— Others		267,613	(109,424)
<b>Total equity</b>		<b>2,268,258</b>	1,872,871
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Due to subsidiaries	8(c)	741,352	410,810
Other payables		737	735
<b>Total liabilities</b>		<b>742,089</b>	411,545
<b>Total equity and liabilities</b>		<b>3,010,347</b>	2,284,416
<b>Net current assets</b>		<b>614,172</b>	218,947
<b>Total assets less current liabilities</b>		<b>2,268,258</b>	1,872,871

The accompanying notes on pages 46 to 103 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 11 April 2013 and were signed on its behalf by:

**Zhang Jianming**  
Director

**Chen Ningning**  
Director

# Consolidated Income Statement

For the year ended 31 December 2012  
(Amounts expressed in RMB)

	Note	2012 RMB'000	2011 RMB'000
Revenue	24	6,335,642	7,027,607
Cost of sales	25	(4,428,321)	(4,939,552)
<b>Gross profit</b>		<b>1,907,321</b>	<b>2,088,055</b>
Selling and marketing expenses	25	(527,876)	(556,206)
General and administrative expenses	25	(302,280)	(303,523)
Other income	26	43,600	79,858
Other gains/(losses) — net	27	9,515	(5,522)
<b>Operating profit</b>		<b>1,130,280</b>	<b>1,302,662</b>
Finance income	30	73,819	38,177
Finance costs	30	(12,375)	(4,396)
Finance income — net	30	61,444	33,781
Share of profit of an associate	9	2,370	1,850
<b>Profit before income tax</b>		<b>1,194,094</b>	<b>1,338,293</b>
Income tax expense	31	(208,068)	(234,665)
<b>Profit for the year</b>		<b>986,026</b>	<b>1,103,628</b>
<b>Attributable to:</b>			
Equity holders of the Company		986,026	1,103,628
<b>Earnings per share for profit attributable to equity holders of the Company during the year</b> (expressed in RMB per share)			
— basic	33	0.62	0.69
<b>Dividends</b>	34	<b>350,169</b>	<b>384,636</b>

The accompanying notes on pages 46 to 103 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012  
(Amounts expressed in RMB)

	2012 RMB'000	2011 RMB'000
<b>Profit for the year</b>	<b>986,026</b>	1,103,628
<b>Other comprehensive income:</b>		
Currency translation differences	586	(5,450)
<b>Total comprehensive income for the year</b>	<b>986,612</b>	1,098,178
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	986,612	1,098,178

The accompanying notes on pages 46 to 103 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Amounts expressed in RMB)

	Note	Attributable to owners of the Company				Total	Total equity
		Share capital	Share premium	Other reserves	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2011</b>		160,510	1,331,913	413,892	2,127,898	4,034,213	4,034,213
<b>Comprehensive income</b>							
Profit for the year		–	–	–	1,103,628	1,103,628	1,103,628
<b>Other comprehensive income</b>							
Currency translation differences		–	–	(5,450)	–	(5,450)	(5,450)
<b>Total comprehensive income for the year ended 31 December 2011</b>		–	–	(5,450)	1,103,628	1,098,178	1,098,178
<b>Transactions with owners</b>							
Dividend paid							
– 2010 final		–	–	–	(242,163)	(242,163)	(242,163)
– 2011 interim	34	–	–	–	(209,553)	(209,553)	(209,553)
Appropriations		–	–	27,749	(27,749)	–	–
<b>Total transactions with owners</b>		–	–	27,749	(479,465)	(451,716)	(451,716)
<b>Balance at 31 December 2011</b>		160,510	1,331,913	436,191	2,752,061	4,680,675	4,680,675
<b>Balance at 1 January 2012</b>		160,510	1,331,913	436,191	2,752,061	4,680,675	4,680,675
<b>Comprehensive income</b>							
Profit for the year		–	–	–	986,026	986,026	986,026
<b>Other comprehensive income</b>							
Currency translation differences		–	–	586	–	586	586
<b>Total comprehensive income for the year ended 31 December 2012</b>		–	–	586	986,026	986,612	986,612
<b>Transactions with owners</b>							
Dividend paid							
– 2011 final	34	–	–	–	(175,083)	(175,083)	(175,083)
– 2012 interim	34	–	–	–	(156,736)	(156,736)	(156,736)
Appropriations		–	–	92,451	(92,451)	–	–
<b>Total transactions with owners</b>		–	–	92,451	(424,270)	(331,819)	(331,819)
<b>Balance at 31 December 2012</b>		160,510	1,331,913	529,228	3,313,817	5,335,468	5,335,468

The accompanying notes on pages 46 to 103 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flow

For the year ended 31 December 2012

(Amounts expressed in RMB)

	Note	2012 RMB'000	2011 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	35(a)	1,994,544	581,675
Interest paid		(20,861)	(4,931)
Income tax paid		(181,546)	(170,457)
Net cash generated from operating activities		1,792,137	406,287
<b>Cash flows from investing activities</b>			
Acquisition of a subsidiary, net of cash acquired	35(b)	—	(149,825)
Purchase of property, plant and equipment		(266,367)	(148,989)
Entrusted loans granted to distributors		—	(228,493)
Entrusted loans repayments from distributors		40,000	188,493
Interest received from banks		64,646	34,695
Interest received from other loans		1,630	8,479
Dividends received from an associate	9	490	489
Proceeds from disposal of a subsidiary, net of cash disposal	35(c)	—	86,966
Proceeds from disposal of property, plant and equipment	35(d)	2,920	4,580
Purchase of financial assets at fair value through profit or loss		(78,000)	—
Purchase of available-for-sale financial assets		(1,354,900)	—
Proceeds from disposal of available-for-sale financial assets		1,174,900	—
Net cash used in investing activities		(414,681)	(203,605)
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		447,070	493,960
Repayments of bank borrowings		(623,223)	(234,719)
Payment of restricted bank deposits		—	(285,888)
Dividends paid to the Company's equity holders		(331,819)	(451,716)
Net cash used in financing activities		(507,972)	(478,363)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>869,484</b>	<b>(275,681)</b>
Cash and cash equivalents at beginning of year		1,741,067	2,016,748
<b>Cash and cash equivalents at end of year</b>	16	<b>2,610,551</b>	1,741,067

The accompanying notes on pages 46 to 103 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

## 1. General Information

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

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

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

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

These consolidated financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated. They have been approved for issue by the Company’s Board of Directors on 11 April 2013.

## 2. Summary of Significant Accounting Policies

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

### 2.1 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at their fair value through profit or loss, which are carried at fair value. Certain items in the financial statements were reclassified in order to align current year presentation.

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



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.1 Basis of preparation (Continued)

##### Changes in accounting policy and disclosures

##### (a) New and amended standards adopted by the Group

The following amended standard is mandatory for the first time for the financial year beginning 1 January 2012.

Amendment to HKFRS 7 “Disclosures — Transfers of financial assets” is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The adoption of this amendment does not have significant impact on Group’s financial statements.

##### (b) New standards, amendments and interpretations mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant/significant to the Group (although they may affect the accounting for future transactions and events)

		Effective for annual periods beginning on or after
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012

##### (c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKFRSs 10, 11 and 12 (Amendment)	Transition guidance	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (Revised 2011)	Associates and joint ventures	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

### 2.1 Basis of preparation (Continued)

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

- (c) **New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted (Continued)**

Apart from the above, the HKICPA has issued the annual improvements project (2011) which addresses several issues in the 2009-2011 reporting cycle, and includes changes to the following standards. The Group has not applied the following revised HKFRSs published in the annual improvements project.

		Effective for annual periods beginning on or after
HKAS 1	Presentation of financial statements	1 January 2013
HKAS 16	Property, plant and equipment	1 January 2013
HKAS 32	Financial instruments: Presentation	1 January 2013
HKAS 34	Interim financial reporting	1 January 2013

The Group has assessed HKFRS 10's full impact and concluded there is no significant impact on the consolidated financial statements. The Group intends to adopt HKFRS 10 in the accounting period beginning on 1 January 2013.

The Group is in the process of making assessment of the impact of other new or revised HKFRSs upon initial adoption.

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.2 Subsidiaries (Continued)

##### 2.2.1 Consolidation (Continued)

###### (a) Business combinations

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

###### (b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.2 Subsidiaries (Continued)

##### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

#### 2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in reserves is reclassified to profit or loss where appropriate.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

### 2.4 Segment reporting

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

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

#### (c) Group companies

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

### 2.5 Foreign currency translation (Continued)

#### (d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.6 Property, plant and equipment

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.6 Property, plant and equipment (Continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

#### 2.7 Land use rights

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

#### 2.8 Intangible asset

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

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

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

##### (b) Research and development

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

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

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

#### 2.10 Financial assets

##### 2.10.1 Classification

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

(a) **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 also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivables', 'other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (notes 2.15 and 2.16).

(c) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.



# Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

### 2.10 Financial assets (Continued)

#### 2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value and recorded in other comprehensive income and income statement, respectively. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

### 2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 2.12 Impairment of financial assets

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

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.12 Impairment of financial assets (Continued)

##### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

#### 2.13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The gain or loss is recognised in the income statement within 'other gains/(losses) — net'.

#### 2.14 Inventories

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

#### 2.15 Trade and other receivables

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

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

#### 2.16 Cash and cash equivalents

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

#### 2.17 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.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.18 Trade payables

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

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

#### 2.19 Borrowings

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

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

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

#### 2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.21 Current and deferred income tax

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

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

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

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

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

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

#### 2.22 Employee benefits

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.23 Provisions

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

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

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

#### 2.24 Government grants

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

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

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

#### 2.25 Revenue recognition

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

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

(a) **Sale of goods**

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

(b) **Interest income**

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### 2.26 Operating leases

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

#### 2.27 Dividend distribution

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

#### 2.28 Contingent liabilities

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

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

### 3. Financial Risk Management

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, fair value and cash flow interest rate risk, credit risk and liquidity risk. Its risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

##### (a) Foreign exchange risk

The Group mainly operates in Mainland China. The functional currency of the Company and most of its subsidiaries is RMB. Most of the Group's transactions, assets and liabilities are denominated in RMB, United States dollars ("USD"), Euro, Brazilian Real, Hong Kong dollars ("HKD") and Japanese Yen ("JPY"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, such as trade receivables, cash and cash equivalents, trade payables and borrowings.

As at 31 December 2012, if RMB had strengthened/weakened by 0.1% (2011: 4.8%) against the USD and HKD with all other variables held constant, profit before income tax would have been approximately RMB145 thousand (2011: RMB8,877 thousand) higher/lower mainly as a result of foreign exchange difference on translation of USD and HKD denominated trade receivables, cash and cash equivalents, trade payables and bank borrowings. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) Foreign exchange risk (Continued)

As at 31 December 2012, if RMB had weakened/strengthened by 1.9% (2011: strengthened/weakened by 7.3%) against the Euro with all other variables held constant, profit before income tax would have been approximately RMB3,722 thousand higher/lower (2011: RMB16,144 thousand lower/higher) mainly as a result of foreign exchange difference on translation of Euro denominated trade receivables, cash and cash equivalents and trade payables. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

As at 31 December 2012, if RMB had strengthened/weakened by 9.9% (2011: 0.2%) against the JPY with all other variables held constant, profit before income tax would have been approximately RMB6,910 thousand (2011: RMB156 thousand) higher/lower mainly as a result of foreign exchange difference on translation of JPY denominated trade payables and bank borrowings. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

##### (b) Fair value and cash flow interest rate risk

The Group's interest rate risk arises from bank deposits, loans to a distributor, loans to employees and borrowings. Bank deposits, loans to a distributor and loans to employees at fixed rates expose the Group to fair value interest rate risk.

Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2012, if interest rates on USD — denominated borrowings had been 0.29 percentage-point lower/higher (2011: 0.35 percentage-point higher/lower) with all other variables held constant, profit before income tax would have been RMB844 thousand higher/lower (2011: RMB460 thousand lower/higher), mainly as a result of lower/higher interest expense on floating rate borrowings.

As at 31 December 2012, if interest rates on JPY — denominated borrowings had been 0.07 percentage-point (2011: 0.01 percentage-point) lower/higher with all other variables held constant, profit before income tax would have been RMB50 thousand (2011: RMB79 thousand) higher/lower, mainly as a result of lower/higher interest expense on floating rate borrowings.

##### (c) Credit risk

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Credit risk (Continued)

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2012, most of the restricted bank deposits and cash and cash equivalents are placed with the major financial institutions in Mainland China.

The Group enters into the financial products contracts with relatively higher interest rates with certain financial institutions. These are reflected as available-for-sale financial assets and financial assets at fair value through profit or loss on the balance sheet. As at 31 December 2012, most of the financial products are bought from the major financial institutions in Mainland China and management has exercised due care when making investment decision with focus only on low risk financial products.

##### (d) Liquidity risk

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

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

	2012 Within 1 year RMB'000	2011 Within 1 year RMB'000
Group		
Borrowings (i)	432,585	610,676
Trade and other payables	2,585,944	2,416,089
Financial guarantee contracts	861,577	901,203
	<b>3,880,106</b>	<b>3,927,968</b>
Company		
Due to subsidiaries and other payables	742,089	411,545

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 December 2012 and 2011, without taking into account any subsequent changes in the amount of borrowings. Floating interest rates are based on current interest rate as at 31 December 2012 and 2011.



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management (Continued)

#### 3.2 Capital risk management

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

As at 31 December 2011 and 2012, the Group was in a net cash position (total borrowings were less than the total of restricted bank deposits and cash and cash equivalents).

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Total borrowings (Note 21)	428,148	604,301
Total equity	5,335,468	4,680,675
Gearing ratio	8%	13%

The decrease in the gearing ratio resulted primarily from decrease in borrowings for financing working capital.

#### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 3. Financial Risk Management (Continued)

#### 3.3 Fair value estimation (Continued)

The table below presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Assets</b>				
Financial assets at fair value				
through profit or loss	—	78,000	—	78,000
Derivative financial instruments	—	6,297	—	6,297
Available-for-sale financial assets	—	180,000	—	180,000
<b>Total assets</b>	—	264,297	—	264,297

No assets and liabilities that are measured at fair value at 31 December 2011.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfers of financial assets among level 1, level 2 and level 3 fair value hierarchy classifications.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 4. Critical Accounting Estimates and Judgements

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

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

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

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives and residual values may differ from estimated useful lives and residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

During the year, the management of the Group has reviewed and revised the residual values of certain categories of property, plant and equipment. The change in accounting estimates on the residual values of certain categories of property, plant and equipment has increased the depreciation charge by RMB15,086 thousand for the year ended 31 December 2012 and will have approximately the same impact for each subsequent financial year.

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### (c) Impairment of receivables

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

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

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

#### (e) Current income tax and deferred income tax

The Group is subject to income tax in the jurisdictions where the Group has operations other than the Cayman Islands and the British Virgin Islands. 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 current income tax and deferred tax provisions in the period in which such determination is made.

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 5. Land Use Rights — Group

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

	2012 RMB'000	2011 RMB'000
At beginning of year		
Cost	271,489	254,185
Accumulated amortisation	(23,465)	(17,482)
Net book amount	248,024	236,703
Opening net book amount	248,024	236,703
Exchange differences	45	(1,096)
Acquisition of a subsidiary	—	46,965
Disposal of a subsidiary	—	(28,083)
Amortisation	(5,446)	(6,465)
Closing net book amount	242,623	248,024
At end of year		
Cost	271,535	271,489
Accumulated amortisation	(28,912)	(23,465)
Net book amount	242,623	248,024

The Group's land use rights are all located in Mainland China except for the one amounting to RMB6,821 thousand which is located in Vietnam. As at 31 December 2012, the remaining use periods of the land use rights range from 21 to 47 years (2011: 22 to 48 years).

Amortisation is charged to the consolidated income statement as follows:

	2012 RMB'000	2011 RMB'000
Cost of sales	127	—
General and administrative expenses	5,319	6,465
	5,446	6,465

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>At 1 January 2011</b>						
Cost	777,341	852,416	122,126	50,187	185,374	1,987,444
Accumulated depreciation	(157,679)	(375,380)	(76,312)	(28,336)	—	(637,707)
Net book amount	619,662	477,036	45,814	21,851	185,374	1,349,737
<b>Year ended 31 December 2011</b>						
Opening net book amount	619,662	477,036	45,814	21,851	185,374	1,349,737
Exchange differences	(6,001)	(59)	(93)	(1,057)	—	(7,210)
Acquisition of a subsidiary	87,586	3,828	—	11,446	—	102,860
Additions	8,445	54,840	9,896	12,713	64,498	150,392
Transfers	73,289	29,293	1,266	5,300	(109,148)	—
Disposal of a subsidiary	—	—	—	(66)	(63,796)	(63,862)
Disposals	—	(39)	(1,424)	(113)	(3,968)	(5,544)
Depreciation	(26,199)	(48,533)	(13,609)	(7,751)	—	(96,092)
Closing net book amount	756,782	516,366	41,850	42,323	72,960	1,430,281
<b>At 31 December 2011</b>						
Cost	939,850	939,907	119,180	77,893	72,960	2,149,790
Accumulated depreciation	(183,068)	(423,541)	(77,330)	(35,570)	—	(719,509)
Net book amount	756,782	516,366	41,850	42,323	72,960	1,430,281
<b>Year ended 31 December 2012</b>						
Opening net book amount	756,782	516,366	41,850	42,323	72,960	1,430,281
Exchange differences	591	(191)	(147)	92	—	345
Additions	33,455	39,548	16,081	627	168,263	257,974
Transfers	15,727	15,460	—	—	(31,187)	—
Disposals	—	(205)	(472)	(1,714)	(584)	(2,975)
Depreciation	(32,093)	(62,282)	(14,227)	(8,253)	—	(116,855)
Closing net book amount	774,462	508,696	43,085	33,075	209,452	1,568,770
<b>At 31 December 2012</b>						
Cost	989,906	993,373	131,170	72,231	209,452	2,396,132
Accumulated depreciation	(215,444)	(484,677)	(88,085)	(39,156)	—	(827,362)
Net book amount	774,462	508,696	43,085	33,075	209,452	1,568,770

\* Freehold land is located in Germany. It is stated at cost of RMB3,874 thousand (2011: RMB3,802 thousand) and is not subject to depreciation.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

Depreciation is charged to the consolidated income statement as follows:

	2012 RMB'000	2011 RMB'000
Cost of sales	82,335	67,243
General and administrative expenses	29,323	24,471
Selling and marketing expenses	5,197	4,378
	<b>116,855</b>	<b>96,092</b>

### 7. Intangible Assets — Group

Intangible assets consist of technology know-how.

	2012 RMB'000	2011 RMB'000
At beginning of year		
Cost	10,501	10,501
Accumulated amortisation	(9,100)	(7,000)
Net book amount	1,401	3,501
Opening net book amount	1,401	3,501
Amortisation	(1,401)	(2,100)
Closing net book amount	—	1,401
At end of year		
Cost	10,501	10,501
Accumulated amortisation	(10,501)	(9,100)
Net book amount	—	1,401

Amortisation has been included in general and administrative expenses.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### (a) Investments in subsidiaries

	2012 RMB'000	2011 RMB'000
Investments, at cost:		
— Unlisted shares	778,077	778,077

The following are the principal subsidiaries, which are unlisted, at 31 December 2012:

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Guo Hua Limited	British Virgin Islands ("BVI"), limited liability company	USD50,000	100%	—	Investment holding, BVI
Guo Hua Enterprises Group Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and related accessories, Hong Kong
Haitian Europe GmbH	Germany, limited liability company	EURO25,000	—	100%	Sale of plastic injection moulding machines, Germany
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD779,999	—	100%	Trading of machinery and related accessories, Hong Kong
Haitian Huayuan Middle East Makina Dis Ticaret Limited Sirketi	Turkey, limited liability company	LIRA500,000	—	100%	Sale of plastic injection moulding machines, Turkey
Haitian Huayuan South America Com. De MAQS.Ltd.	Brazil, limited liability company	REAL5,360,000	—	100%	Sale of plastic injection moulding machines, Brazil
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. (海天塑料機械(廣州)有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Huayuan (Vietnam) Machinery Co., Ltd.	Vietnam, limited liability company	VND22,800,000,000	—	100%	Manufacture, processing and maintaining all kinds of plastic injection moulding machines, Vietnam
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. ("Daxie Haitian") (寧波大榭開發區海天機械有限公司)	Mainland China, foreign equity joint venture	USD1,550,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Ningbo Haitian Beihua Science and Technology Co., Ltd. ("Haitian Beihua") (寧波海天北化科技有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Huayuan Co., Ltd. ("Haitian Huayuan") (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD51,000,000	—	100%	Manufacture and sale of plastic injection moulding machines to foreign countries, Mainland China
Ningbo Haitian Logistic Co., Ltd. (寧波海天物流有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Haitian Plastic Machinery Group Limited("Haitian Plastic Machinery") (海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD188,460,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Zhafir Plastics Machinery Co., Ltd. ("Ningbo Zhafir") (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD30,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") (無錫海天機械有限公司)	Mainland China, foreign equity joint venture	USD25,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Zhafir Plastics Machinery GmbH ("Zhafir Plastics")	Germany, limited liability company	DM100,000	—	91%	Research and development, manufacture, sale of plastic injection moulding machines, Germany
Zhafir Plastics Machinery India Private limited	India, limited liability company	INR 99,990	—	91%	Manufacture, processing and maintaining all kinds of plastic injection moulding machines, India

The English names of certain subsidiaries are translations made by the Group's management from their Chinese names as they do not have official English names.

In 2012, Ningbo Export Processing Zone Haitian Precision Machinery Co., Ltd. ("Ningbo EPZ Haitian Precision") was merged into Haitian Huayuan and was dissolved as at 31 December 2012.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

Due from subsidiaries represent equity funding by the Company to the subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured, non-interest bearing and not expected to be repaid within 12 month from respective balance sheet dates, and denominated in the following currencies:

	2012 RMB'000	2011 RMB'000
HKD	872,658	872,497
USD	3,351	3,350
	<b>876,009</b>	<b>875,847</b>

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

These balances are unsecured, non-interest bearing and have no fixed repayment terms.

Due to subsidiaries are all denominated in HKD and due from subsidiaries are denominated in the following currencies:

	2012 RMB'000	2011 RMB'000
HKD	1,324,679	598,886
Euro	30,878	30,872
USD	646	646
	<b>1,356,203</b>	<b>630,404</b>

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 9. Investment in an Associate — Group

	2012 RMB'000	2011 RMB'000
Beginning of the year	4,435	3,074
Dividend received	(490)	(489)
Share of profit	2,370	1,850
End of the year	6,315	4,435

Investment in an associate at 31 December 2012 includes goodwill of RMB186 thousand (2011: RMB186 thousand).

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

	2012 RMB'000	2011 RMB'000
Assets	7,615	4,862
Liabilities	1,486	613
Revenue	8,528	6,177
Profit for the year	2,370	1,850

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

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable indirect equity interest to the Company	Principal activities and place of operation
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang") (杭州科強智能控制系統有限公司)	Mainland China, limited liability company	RMB2,080,000	49%	Manufacture and sale of intelligence control system in Mainland China

The English name of the associate is a translation made by the management of the Group from its Chinese name as it does not have an official English name.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 10. Inventories — Group

	2012 RMB'000	2011 RMB'000
Raw materials	637,050	774,298
Work-in-progress	197,173	151,715
Finished goods	583,153	525,700
	<b>1,417,376</b>	<b>1,451,713</b>

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB4,401,315 thousand (2011: RMB4,928,963 thousand).

In 2012, the Group recorded reversal of write-down of inventories of approximately RMB1,231 thousand (2011: RMB7,748 thousand). This amount has been included in cost of sales.

As at 31 December 2011, a batch of finished goods with a cost of RMB1,231 thousand was considered as obsolete (2010: RMB7,748 thousand). A provision of RMB1,231 thousand was made as at 31 December 2011 (2010: RMB7,748 thousand). The Group reversed in 2012 RMB1,231 thousand of this inventory write-down due to subsequent sale of all these products (2011: RMB7,748 thousand).

### 11. Trade and Bills Receivables — Group

	2012 RMB'000	2011 RMB'000
Trade and bills receivables	2,080,545	2,092,337
Less: provision for impairment	(32,352)	(39,630)
	<b>2,048,193</b>	<b>2,052,707</b>

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

As at 31 December 2012, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivables (2011: None).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

	2012 RMB'000	2011 RMB'000
Up to 6 months	1,704,326	1,786,105
6 months to 1 year	225,368	177,208
1 year to 2 years	110,828	101,812
Over 2 years	40,023	27,212
	<b>2,080,545</b>	<b>2,092,337</b>

As at 31 December 2012, trade receivables of RMB29,610 thousand (2011: RMB13,994 thousand) were past due but considered not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
Up to 6 months	2,763	2,613
6 months to 1 year	4,277	3,201
1 year to 2 years	5,631	2,634
Over 2 years	16,939	5,546
	<b>29,610</b>	<b>13,994</b>

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

As at 31 December 2012, trade receivables of approximately RMB82,081 thousand (2011: RMB78,717 thousand) were impaired, and a related provision of RMB32,352 thousand (2011: RMB39,630 thousand) was provided. The individually impaired receivables relate to different customers. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2012 RMB'000	2011 RMB'000
Up to 2 years	58,997	57,051
Over 2 years	23,084	21,666
	<b>82,081</b>	<b>78,717</b>

Trade and bills receivables are denominated in the following currencies:

	2012 RMB'000	2011 RMB'000
RMB	1,526,781	1,583,073
USD	388,708	354,178
Brazilian Real	75,368	89,961
Euro	64,186	56,722
Vietnam Dong ("VND")	21,879	6,919
Others	3,623	1,484
	<b>2,080,545</b>	<b>2,092,337</b>

Movements of the provision for impairment of trade receivables are as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	39,630	29,051
(Reversal of)/provision for impairment of trade receivables	(7,195)	10,581
Written off as uncollectible	(83)	(2)
At 31 December	<b>32,352</b>	<b>39,630</b>

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

	2012 RMB'000	2011 RMB'000
Entrusted loan to a distributor (i)	—	40,000
Advances to customers (ii)	21,757	5,628
Prepayments and deposits		
— for purchases of raw materials	146,050	174,547
— others	6,280	10,218
Value Added Tax recoverable	33,166	11,690
Prepaid current income tax	6,980	—
Loans to employees (iii)	30,660	32,206
Interest receivables	9,327	1,784
Due from related parties (Note 37(b))	939	6,808
Others	5,236	2,240
	<b>260,395</b>	<b>285,121</b>
Less non-current portion: loans to employees	<b>(20,361)</b>	<b>(21,364)</b>
Current portion	<b>240,034</b>	<b>263,757</b>

Note:

- (i) Entrusted loan to a distributor is unsecured, repayable within one year with an interest rate of 9% per annum. This balance was collected in year 2012.
- (ii) Advances to customers are secured by guarantees provided by the relevant distributors who introduced the customers.
- (iii) Loans to employees are for their housing and car purchasing and are due within six years and bear interest at rates ranging from 0% to 3.4% (2011: from 0% to 3.4%) per annum as at 31 December 2012.

The fair values of current portion of other receivables approximate their carrying amounts. The fair values of non-current portion of other receivables are as follows:

	2012 RMB'000	2011 RMB'000
Loans to employees	20,361	21,364

The fair values of loans to employees are based on cash flows discounted using a rate based on the borrowings rate of 3.4% (2011: 3.4%).

As of 31 December 2012, other receivables were neither past due nor impaired.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 13. Available-for-sale Financial Assets

	2012 RMB'000	2011 RMB'000
At 1 January	—	—
Additions	1,354,900	—
Disposals	(1,174,900)	—
At 31 December	180,000	—

Available-for-sale financial assets are RMB denominated financial products with floating interests ranging from 3.6% to 5% per annum and with maturity dates between 48 days and 337 days. None of these assets is either past due or impaired.

The fair values of available-for-sale financial assets approximate their carrying amounts.

### 14. Derivative Financial Instruments

	2012 RMB'000	2011 RMB'000
Forward foreign exchange contracts — held-for-trading	6,297	—

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2012 were USD56,500 thousand.

### 15. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial products with relatively higher interests entered into with banks. The fair values of these financial products approximate their carrying amounts.



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 16. Restricted Bank Deposits and Cash and Cash Equivalents

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Restricted bank deposits	79,053	638,622	—	—
Cash at bank and in hand	1,831,792	1,232,047	58	88
Short-term bank deposits	778,759	509,020	—	—
Cash and cash equivalents	2,610,551	1,741,067	58	88
	2,689,604	2,379,689	58	88

Restricted bank deposits are short-term bank deposits that could not be drawn until they mature, some of which are related to the banking facilities granted by banks to certain customers and the finance facilities granted by banks for issuing letters of credit.

The maximum exposure to credit risk at the reporting period end approximates the carrying value of the restricted bank deposits and cash and cash equivalents.

As at 31 December 2012, the weighted average effective interest rate on restricted bank deposits and cash and cash equivalents of the Group is 1.2% (2011: 1.8%) per annum.

The restricted bank deposits have maturities of 12 months at inception (2011: 12 months). The short-term bank deposits have maturities ranging from 7 days to 12 months at inception (2011: ranging from 7 days to 12 months).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 16. Restricted Bank Deposits and Cash and Cash Equivalents (Continued)

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
RMB	2,458,248	1,993,525	—	—
USD	148,649	305,572	1	—
Euro	48,612	58,138	—	1
Brazilian Real	14,709	14,131	—	—
VND	10,686	3,410	—	—
HKD	3,377	2,754	57	87
Others	5,323	2,159	—	—
	<b>2,689,604</b>	<b>2,379,689</b>	<b>58</b>	<b>88</b>

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

### 17. Share Capital

	Authorised share capital		
	Number of shares '000	Amount HKD'000      RMB'000	
As at 31 December 2011 and 2012 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350
	Issued and fully paid		
	Number of shares '000	Amount HKD'000      RMB'000	
As at 31 December 2011 and 2012 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 18. Reserves

#### Group

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 <i>(note i)</i>	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
<b>At 1 January 2011</b>	1,331,913	152,573	270,446	(9,127)	2,127,898	3,873,703
Profit for the year	—	—	—	—	1,103,628	1,103,628
Appropriations	—	—	27,749	—	(27,749)	—
Dividend paid						
— 2010 final	—	—	—	—	(242,163)	(242,163)
— 2011 interim <i>(Note 34)</i>	—	—	—	—	(209,553)	(209,553)
Currency translation differences	—	—	—	(5,450)	—	(5,450)
<b>At 31 December 2011</b>	1,331,913	152,573	298,195	(14,577)	2,752,061	4,520,165
Profit for the year	—	—	—	—	986,026	986,026
Appropriations	—	—	92,451	—	(92,451)	—
Dividend paid						
— 2011 final <i>(Note 34)</i>	—	—	—	—	(175,083)	(175,083)
— 2012 interim <i>(Note 34)</i>	—	—	—	—	(156,736)	(156,736)
Currency translation differences	—	—	—	586	—	586
<b>At 31 December 2012</b>	1,331,913	152,573	390,646	(13,991)	3,313,817	5,174,958

#### (i) Statutory reserves

Subsidiaries in Mainland China are required to transfer certain percentages of their after-tax profit after offsetting accumulated losses from prior years to statutory reserves, namely statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund, before the corresponding subsidiaries can distribute any dividend to their equity holders. The percentage to be appropriated to statutory reserve fund is determined according to the relevant regulations in Mainland China at the rate of 10% of net profit. The subsidiaries may cease appropriation when the statutory reserve funds reach 50% of the subsidiaries' registered capital. The percentages to be appropriated to other funds are at the discretion of the Board of Directors of the respective subsidiaries.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 18. Reserves (Continued)

#### Group (Continued)

##### (i) Statutory reserves (Continued)

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses or to increase capital of the respective subsidiaries, and cannot be distributed to equity holders of the subsidiaries. The balances of the statutory reserves after increasing capital shall remain at least 25% of the original registered capital of the respective subsidiaries. Movements in the statutory reserves are as follows:

	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Enterprise expansion fund RMB'000	Discretionary reserve fund RMB'000	Total RMB'000
At 1 January 2011	29,132	556	142,602	98,156	270,446
Additions	3,306	—	24,443	—	27,749
At 31 December 2011	32,438	556	167,045	98,156	298,195
Additions	—	—	92,451	—	92,451
At 31 December 2012	32,438	556	259,496	98,156	390,646

#### Company

	Share premium RMB'000	Contributed surplus RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2011	1,331,913	314,789	277,643	1,924,345
Profit for the year	—	—	239,732	239,732
Dividend paid				
— 2010 final	—	—	(242,163)	(242,163)
— 2011 interim (Note 34)	—	—	(209,553)	(209,553)
At 31 December 2011	1,331,913	314,789	65,659	1,712,361
Profit for the year	—	—	727,206	727,206
Dividend paid				
— 2011 final (Note 34)	—	—	(175,083)	(175,083)
— 2012 interim (Note 34)	—	—	(156,736)	(156,736)
At 31 December 2012	1,331,913	314,789	461,046	2,107,748

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 19. Trade and Bills Payables — Group

	2012 RMB'000	2011 RMB'000
Trade payables	789,695	801,785
Bills payable	480,240	433,180
Trade and bills payables	1,269,935	1,234,965
Due to related parties ( <i>Note 37(b)</i> )	211,180	31,458
	<b>1,481,115</b>	<b>1,266,423</b>

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

	2012 RMB'000	2011 RMB'000
Up to 6 months	1,479,669	1,265,351
6 months to 1 year	865	255
1 year to 2 years	267	—
Over 2 years	314	817
	<b>1,481,115</b>	<b>1,266,423</b>

Trade and bills payables are denominated in the following currencies:

	2012 RMB'000	2011 RMB'000
RMB	1,433,084	1,223,968
HKD	20,442	68
Euro	7,386	27,184
USD	2,649	10,529
JPY	63	3,758
Others	17,491	916
	<b>1,481,115</b>	<b>1,266,423</b>

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 20. Accruals and Other Payables — Group

	2012 RMB'000	2011 RMB'000
Welfare payables	28,739	83,246
Salaries, wages and bonus payables	60,617	61,952
Sales commission and expenses payables	450,356	418,538
Customers deposits	468,157	514,413
Payable for purchase of property, plant and equipment	9,613	18,006
Accrued operating expenses	7,972	12,580
Value Added Tax payables	46,431	17,136
Deferred income — current portion (Note 22)	472	463
Other payables	32,944	23,795
	<b>1,105,301</b>	<b>1,150,129</b>

The fair values of accruals and other payables approximate their carrying amounts.

### 21. Bank Borrowings — Group

	2012 RMB'000	2011 RMB'000
At floating rate in USD	358,226	134,209
At floating rate in JPY	69,922	77,632
At floating rate in HKD	—	392,460
	<b>428,148</b>	<b>604,301</b>

Bank borrowings are unsecured liabilities.

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

	2012	2011
USD	2.0%	2.1%
HKD	2.0%	2.2%
JPY	1.7%	1.4%

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 22. Deferred Income — Group

	2012 RMB'000	2011 RMB'000
Deferred government grants	13,116	13,334
Less: Current portion included in current liabilities (Note 20)	(472)	(463)
	<b>12,644</b>	12,871

Movements are as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	13,334	54,023
Granted during the year	254	1,274
Amortised as income (Note 26)	(472)	(13,691)
Disposal of a subsidiary	—	(28,272)
At 31 December	<b>13,116</b>	13,334

### 23. Deferred Income Tax — Group

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

	2012 RMB'000	2011 RMB'000
Deferred income tax assets to be recovered within 12 months	34,552	30,384
Deferred income tax liabilities to be settled after more than 12 months	78,039	85,496
Deferred income tax liabilities to be settled within 12 months	18,118	8,869
	<b>96,157</b>	94,365

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

The movements in deferred income tax assets are as follows:

	Provisions and accruals RMB'000	Unrealised profit on inventories RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2011</b>	22,873	11,484	141	34,498
Recognised in the consolidated income statement	(1,596)	(2,377)	(141)	(4,114)
<b>At 31 December 2011</b>	21,277	9,107	—	30,384
Recognised in the consolidated income statement	2,421	1,747	—	4,168
<b>At 31 December 2012</b>	23,698	10,854	—	34,552

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB44,714 thousand (2011: RMB41,668 thousand) in respect of losses amounting to RMB186,688 thousand (2011: RMB161,518 thousand) that can be carried forward against future taxable income. Cumulative tax losses of RMB186,688 thousand (2011: RMB139,998 thousand) can be carried forward indefinitely; while none of cumulative tax losses (2011: RMB21,520 thousand) will expire within five years.

The movements in deferred income tax liabilities during the year are as follows:

	Withholding tax RMB'000	Temporary differences in respect of receivables RMB'000	Total RMB'000
<b>At 1 January 2011</b>	51,400	5,509	56,909
Recognised in the consolidated income statement	44,447	1,673	46,120
Transferred to tax payable	(7,700)	—	(7,700)
Exchange differences	—	(964)	(964)
<b>At 31 December 2011</b>	88,147	6,218	94,365
Recognised in the consolidated income statement	45,296	(5,927)	39,369
Transferred to tax payable	(37,286)	—	(37,286)
Exchange differences	—	(291)	(291)
<b>At 31 December 2012</b>	96,157	—	96,157



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

Withholding tax is levied on dividends to be declared to foreign investors from the foreign investment enterprises established in Mainland China in respect of earnings earned after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, which is a company incorporated in Hong Kong and the beneficial owner of these subsidiaries, and accordingly the applicable withholding tax rate is 5%.

The Group provide for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totaled RMB1,541,660 thousand at 31 December 2012 (2011: RMB1,315,633 thousand). As at 31 December 2012, deferred income tax liabilities of RMB77,083 thousand (2011: RMB65,782 thousand) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

### 24. Sales and Segment Information

	2012 RMB'000	2011 RMB'000
Sales of plastic injection moulding machines and related products	6,335,642	7,027,607

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and senior management. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources. Based on these internal reports, the executive committee has determined that no segment information is presented as substantially all of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines, and over 90% of the Group's productions and operating assets are located in Mainland China, which is considered as one segment with similar risks and returns.

The Group is domiciled in Mainland China. Analysis of its sales to external customers in different countries, based on the customers' locations is as follows:

	2012 RMB'000	2011 RMB'000
Mainland China	4,295,769	4,989,601
Hong Kong and overseas countries	2,039,873	2,038,006
	6,335,642	7,027,607

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

	2012 RMB'000	2011 RMB'000
Total non-current assets other than financial assets and deferred income tax assets		
— Mainland China	1,695,789	1,578,494
— Hong Kong and overseas countries	121,919	105,647
Deferred income tax assets	34,552	30,384
Other receivables	20,361	21,364
	<b>1,872,621</b>	<b>1,735,889</b>

### 25. Expenses by Nature

	2012 RMB'000	2011 RMB'000
Depreciation and amortisation (Notes 5, 6 and 7)	123,702	104,657
Raw materials and consumables used	4,054,199	4,611,953
Changes in inventories of finished goods and work in progress	(99,714)	(77,521)
Operating lease for buildings	3,909	4,629
Sales commission and after-sales service expenses	339,831	394,231
(Reversal of)/provision for impairment of trade receivables (Note 11)	(7,195)	10,581
Reversal of write-down of inventories (Note 10)	(1,231)	(7,748)
Employment costs (Note 28)	491,210	507,343
Freight charges	44,005	44,451
Utilities	69,055	59,500
Travelling expenses	22,050	19,988
Auditor's remuneration	2,999	2,999
Others	215,657	124,218
Total cost of sales, selling and marketing expenses and general and administrative expenses	<b>5,258,477</b>	<b>5,799,281</b>

### 26. Other Income

	2012 RMB'000	2011 RMB'000
Government grants (i)	43,128	66,167
Amortisation of deferred income (Note 22)	472	13,691
	<b>43,600</b>	<b>79,858</b>

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 27. Other Gains/(Losses) — Net

	2012 RMB'000	2011 RMB'000
Net foreign exchange gains/(losses)	4,914	(31,154)
Losses on disposals of property, plant and equipment, net	(55)	(964)
Gain on disposal of a subsidiary	—	23,293
Others	4,656	3,303
	<b>9,515</b>	<b>(5,522)</b>

### 28. Employment Costs

	2012 RMB'000	2011 RMB'000
Salaries, wages and bonus	398,233	401,233
Pension cost — defined contribution plans ( <i>note i</i> )	20,159	16,721
Other benefits ( <i>note ii</i> )	72,818	89,389
	<b>491,210</b>	<b>507,343</b>

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

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

The Group has arranged for its Hong Kong and overseas employees to join local pension schemes in respective countries' jurisdictions. The monthly contributions made by the Group for its employees in each country are not material. The Group has no further obligations for post-retirement benefits beyond the monthly contributions.

#### (ii) Other benefits

In addition, the Group's employees in Mainland China participate in state-sponsored employee social security plans, including medical, housing and other welfare benefits. The Group contributes 8% to 11% of employees' basic salaries to the medical plan and 8% to 10% of employees' basic salaries to the housing plan.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### (a) Directors' emoluments

The emoluments of individual director are set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Pension cost RMB'000	Other benefits RMB'000	Total RMB'000
<b>2012</b>					
Executive directors					
— Mr. Zhang Jingzhang	—	700	—	18	718
— Mr. Zhang Jianming (CEO)	—	730	8	24	762
— Mr. Zhang Jianfeng	—	500	8	24	532
— Mr. Zhang Jianguo	—	450	8	24	482
— Ms. Chen Ningning	—	400	8	24	432
— Professor Helmut Helmar Franz	—	680	—	—	680
	—	3,460	32	114	3,606
Non-executive director					
— Mr. Hu Guiqing	—	50	—	—	50
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
	—	50	—	—	50
Independent non-executive directors					
— Mr. Pan Chaoyang	25	—	—	—	25
— Mr. Gao Xunxian	80	—	—	—	80
— Mr. Dai Guowah	60	—	—	—	60
— Mr. Dai Xiangbo	16	—	—	—	16
— Mr. Lou Baijun	60	—	—	—	60
— Dr. Steven Chow	81	—	—	—	81
	322	—	—	—	322
	322	3,510	32	114	3,978

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

Name of Director	Fees RMB'000	Salaries RMB'000	Pension cost RMB'000	Other benefits RMB'000	Total RMB'000
2011					
Executive directors					
— Mr. Zhang Jingzhang	—	700	—	13	713
— Mr. Zhang Jianming (CEO)	—	730	8	21	759
— Mr. Zhang Jianfeng	—	500	8	21	529
— Mr. Zhang Jianguo	—	450	8	21	479
— Mr. Guo Mingguang	—	420	8	21	449
— Ms. Chen Ningning	—	400	8	21	429
— Mr. Liu Jianbo	—	400	8	21	429
— Professor Helmut Helmar Franz	—	680	—	—	680
	—	4,280	48	139	4,467
Non-executive director					
— Mr. Hu Guiqing	—	50	—	—	50
Independent non-executive directors					
— Mr. Pan Chaoyang	64	—	—	—	64
— Mr. Gao Xunxian	64	—	—	—	64
— Mr. Dai Xiangbo	64	—	—	—	64
— Dr. Steven Chow	87	—	—	—	87
	279	—	—	—	279
	279	4,330	48	139	4,796

Mr. Guo Mingguang and Mr. Liu Jianbo have been re-designated from executive directors of the Company to non-executive directors of the Company with effect from 1 June 2012.

Mr. Dai Xiangbo has tendered his resignation as independent non-executive director of the Company with effect from 30 March 2012.

Mr. Dai Guowah and Mr. Lou Baijun have been appointed as independent non-executive directors of the Company with effect from 30 March 2012.

Mr. Hu Guiqing has tendered his resignation as non-executive director of the Company with effect from 28 December 2012.

Mr. Pan Chaoyang has tendered his resignation as independent non-executive director of the Company with effect from 1 June 2012.

Mr. Guo Mingguang and Mr. Liu Jianbo have waived their emoluments during the year ended 31 December 2012 (2011: None). None of other directors waived any emoluments during the year ended 31 December 2012 (2011: None).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included two (2011: included one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2011: four) individuals during the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries	2,487	2,557
Pension cost	—	—
Other benefits	512	688
	<b>2,999</b>	<b>3,245</b>

The emoluments fall within the following bands:

	Number of individuals	
	2012	2011
Nil — HKD1,000,000 (equivalent to approximately RMB811,000)	2	4
HKD1,000,001 (equivalent to approximately RMB811,000) — HKD1,500,000 (equivalent to approximately RMB1,216,000)	3	1
HKD1,500,001 (equivalent to approximately RMB1,216,000) — HKD2,000,000 (equivalent to approximately RMB1,622,000)	—	—

- (c) During the year ended 31 December 2012, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 30. Finance Income/Costs

	2012 RMB'000	2011 RMB'000
Finance costs:		
Interest expense	(18,539)	(6,769)
Net foreign exchange gains on borrowings	6,164	2,373
	(12,375)	(4,396)
Finance income:		
Interest income on restricted bank deposits and cash and cash equivalents	68,202	29,698
Interest income on financial products	3,987	—
Interest income on loans to a distributor	1,630	8,479
	73,819	38,177
Finance income, net	61,444	33,781

### 31. Income Tax Expense

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

	2012 RMB'000	2011 RMB'000
Current income tax		
— Mainland China enterprise income tax	172,105	182,817
— Overseas income tax	762	1,614
Deferred taxation ( <i>Note 23</i> )	35,201	50,234
	208,068	234,665

Ningbo Zhafir was entitled to two-year exemption from income tax followed by three-year of 50% tax reduction. Year 2012 is the third year to enjoy 50% tax reduction. Hence, Ningbo Zhafir applied a reduced income tax rate of 12.5% for the year 2012 (2011: 12%).

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 31. Income Tax Expense (Continued)

Haitian Plastic Machinery and Haitian Huayuan qualified as High and New Technology Enterprises (“HNTTE”) in 2011 while Wuxi Haitian qualified as HNTTE in 2012. These entities were entitled to apply a reduced income tax rate of 15% for three years commencing from the first year when these entities were granted HNTTE status. They are required to re-apply for preferential tax treatment after the current preferential tax periods expire.

The other major operating subsidiaries in Mainland China are subject to enterprise income tax rate of 25% for the year 2012 (2011: 25%).

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2012 (2011: 16.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year 2012 at the applicable rates of taxation prevailing in the countries in which the Group operates.

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

	2012 RMB'000	2011 RMB'000
Profit before income tax, after excluding share of profit of an associate	1,191,724	1,336,443
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	282,129	312,130
Expenses not deductible for tax purpose	1,353	1,332
Tax losses for which no deferred income tax assets were recognised	3,046	10,350
Effect of tax concession	(123,756)	(133,594)
Effect of withholding tax at 5% on certain unremitted profits of subsidiaries in Mainland China	45,296	44,447
Income tax expense	208,068	234,665
The weighted average applicable tax rate	17.5%	17.6%

Share of income tax expense of an associate for the year ended 31 December 2012 amounting to RMB422 thousand (2011: RMB9 thousand) was included in the consolidated income statement in the share of profit of an associate.

For the year ended 31 December 2012, there was no tax charge relating to components of other comprehensive income (2011: Nil).



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 32. Profit Attributable to 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 RMB727,206 thousand (2011: RMB239,732 thousand).

### 33. 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 RMB986,026 thousand (2011: RMB1,103,628 thousand) and on the weighted average number of 1,596,000 thousand (2011: 1,596,000 thousand) ordinary shares in issue during the year.

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

### 34 Dividends

	2012 RMB'000	2011 RMB'000
Interim dividend paid of HK12.0 cents (2011: HK16.0 cents) per ordinary share	156,736	209,553
Proposed final dividend of HK15.0 cents (2011: HK13.5 cents) per ordinary share	193,433	175,083
	350,169	384,636

The Company's Board of Directors has recommended payment of a final dividend of HK15.0 cents per share for the year ended 31 December 2012 (2011: HK13.5 cents per share), which is subject to the approval by the Company's shareholders at the upcoming Annual General Meeting. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings in the year ending 31 December 2013.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Notes to the Consolidated Statement of Cash Flows

#### (a) Cash generated from operations

	2012 RMB'000	2011 RMB'000
Profit before income tax	1,194,094	1,338,293
Adjustments for:		
— share of profit of an associate (Note 9)	(2,370)	(1,850)
— amortisation of land use rights (Note 5)	5,446	6,465
— depreciation of property, plant and equipment (Note 6)	116,855	96,092
— amortisation of intangible assets (Note 7)	1,401	2,100
— amortisation of deferred income (Note 22)	(472)	(13,691)
— losses on disposal of property, plant and equipment (Note 27)	55	964
— gain on disposal of a subsidiary (Note 27)	—	(23,293)
— (reversal of)/provision for impairment of trade receivables (Note 25)	(7,195)	10,581
— reversal of write-down of inventories (Note 25)	(1,231)	(7,748)
— Fair value gains on derivative financial instruments (Note 14)	(6,297)	—
— finance income — net (Note 30)	(61,444)	(33,781)
Changes in working capital:		
— decrease in restricted bank deposits	559,569	1,220
— decrease/(increase) in trade and other receivables	10,958	(387,993)
— decrease/(increase) in inventories	35,568	(180,735)
— increase/(decrease) in trade and bills payables	214,692	(422,179)
— (decrease)/increase in accruals and other payables	(65,085)	197,230
Cash generated from operations	1,994,544	581,675

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) In the consolidated statement of cash flows, acquisition of a subsidiary, net of cash acquired comprises:

	2012 RMB'000	2011 RMB'000
Consideration paid for acquisition of a subsidiary (i)	—	(185,150)
Cash and cash equivalents of the subsidiary	—	35,325
Acquisition of a subsidiary, net of cash acquired	—	(149,825)
<i>(i) Net assets of the subsidiary upon acquisition represent:</i>		
Property, plant and equipment	—	(102,860)
Land use rights	—	(46,965)
Cash and cash equivalents	—	(35,325)
	—	(185,150)

(c) In the consolidated statement of cash flows, proceeds from disposal of a subsidiary, net of cash disposal comprise:

	2012 RMB'000	2011 RMB'000
Book amount of the subsidiary's net assets (i)	—	84,507
Gain on disposal of a subsidiary (Note 27)	—	23,293
Cash and cash equivalents of the subsidiary	—	(20,834)
Proceeds from disposal of a subsidiary, net of cash disposal	—	86,966
<i>(i) Net assets of the subsidiary upon disposal represent:</i>		
Property, plant and equipment	—	63,862
Land use rights	—	28,083
Cash and cash equivalents	—	20,834
Deferred income	—	(28,272)
	—	84,507

The net assets of acquired and disposed subsidiaries mainly represent the property, plant and equipment and land use rights. The acquisition and disposal have insignificant contributions to the Group's profit.

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 35. Notes to the Consolidated Statement of Cash Flows (Continued)

(d) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2012 RMB'000	2011 RMB'000
Net book amount (Note 6)	2,975	5,544
Losses on disposal of property, plant and equipment (Note 27)	(55)	(964)
Proceeds from disposal of property, plant and equipment	2,920	4,580

### 36. Commitments

(a) Capital commitments

	2012 RMB'000	2011 RMB'000
Acquisition of property, plant and equipment — Contracted but not provided for	105,712	68,423

(b) Operating lease commitments

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

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

	2012 RMB'000	2011 RMB'000
Not later than 1 year	14,882	958
Later than 1 year and not later than 5 years	—	287
	14,882	1,245

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 37. Related Party Transactions

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

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 64.97% of the Company's shares as at 31 December 2012. The Company's directors regard Sky Treasure Capital Limited as being the ultimate holding company.

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

Company name	Relationships
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") (寧波海天精工機械有限公司)	Controlled by directors of the Group
Ningbo Anson CNC Technique Co., Ltd. ("Ningbo Anson") (寧波安信數控技術有限公司)	Controlled by directors of the Group
Hangzhou Keqiang Intelligence Control System Co., Ltd. (“Hangzhou Keqiang”) (杭州科強智能控制系統有限公司)	Associate of the Group
Ningbo Haitian Property Co., Ltd. ("Haitian Property") (寧波海天置業有限公司)	Controlled by directors of the Group
Ningbo STF Hydraulic Transmissions Co., Ltd. ("Ningbo STF") (寧波斯達弗液壓傳動有限公司)	Controlled by directors of the Group
Ningbo Haitian Drive Systems Co., Ltd. ("HDS") (海天驅動有限公司)	Controlled by directors of the Group
Ningbo Haitian Co., Ltd. ("Ningbo Haitian") (寧波海天股份有限公司)	Controlled by directors of the Group
Anson Asia (Hong Kong) Limited ("Anson Asia") (安信亞洲(香港)有限公司)	Controlled by directors of the Group
Haitian America do Sul Comercio de Maquinas Ltda.	Controlled by directors of the Group

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 37. Related Party Transactions (Continued)

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

The following material transactions were carried out with related parties:

	2012 RMB'000	2011 RMB'000
(i) Sales of goods to:		
HDS	1,687	—
Ningbo STF	—	636
(ii) Purchases of goods from:		
Ningbo Anson	462,997	544,355
Hangzhou Keqiang	18,569	10,759
Ningbo STF	76,343	4,742
HDS	13,786	—
	<b>571,695</b>	<b>559,856</b>
(iii) Purchase of equipment from:		
Haitian Precision	45,307	36,297
(iv) Purchase of properties and assets from:		
Haitian America do Sul Comercio de Maquinas Ltda.	20,792	—
(v) Acquisition of a subsidiary from:		
Ningbo Haitian	—	129,605
Anson Asia	—	55,545
	—	185,150
(vi) Disposal of a subsidiary to:		
Haitian Precision	—	107,800

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 37. Related Party Transactions (Continued)

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

The Group had the following significant balances with its related parties as at 31 December 2012 and 2011:

	2012 RMB'000	2011 RMB'000
Due from related parties		
Trade related		
— Ningbo STF	—	24
Non-trade related		
— Haitian Precision	—	6,127
— Mr. Zhang Jianming	615	376
— Mr. Zhang Jianfeng	211	207
— Haitian Property	113	98
	<b>939</b>	<b>6,808</b>
Due to related parties		
Trade related		
— Ningbo Anson	170,788	25,279
— Ningbo STF	28,930	5,450
— Hangzhou Keqiang	4,407	729
— HDS	7,055	—
	<b>211,180</b>	<b>31,458</b>
Non-trade related		
— Haitian America do sul Comercio de Maquinas Ltda.	16,756	—

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

## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 37. Related Party Transactions (Continued)

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

Maximum balances outstanding for amounts due from/to related parties for the year ended 31 December 2012 and 2011 were as follows:

	2012 RMB'000	2011 RMB'000
Due from related parties		
Trade related		
— Ningbo STF	24	1,775
— HDS	1,687	—
	1,711	1,775
Non-trade related		
— Haitian Precision	6,127	16,037
— Mr. Zhang Jianming	895	572
— Mr. Zhang Jianfeng	311	380
— Haitian Property	113	98
	7,446	17,087
Due to related parties		
Trade related		
— Ningbo Anson	179,428	110,929
— Ningbo STF	35,811	5,450
— Hangzhou Keqiang	4,407	3,424
— HDS	10,237	—
	229,883	119,803
Non-trade related		
— Haitian Precision	823	9,814
— Anson Asia	—	52,902
— Haitian America do Sul Comercio de Maquinas Ltda.	20,792	—
	21,615	62,716



## Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

### 37. Related Party Transactions (Continued)

**(c) Key management compensation:**

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

	2012 RMB'000	2011 RMB'000
Salaries and bonus	6,772	7,767
Pension costs	64	80
Other benefits	222	224
	<b>7,058</b>	<b>8,071</b>

**(d) Related party commitments:**

Related party commitments which are contracted but not recognised in the consolidated balance sheet as at balance sheet date are as follows:

	2012 RMB'000	2011 RMB'000
Capital commitment		
— Haitian Precision	57,762	1,270
Other commitment		
— Haitian America do Sul Comercio de Maquinas Ltda.	—	860

# Financial Summary

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

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
<b>Results</b>					
Revenue	6,335,642	7,027,607	7,057,328	3,861,341	3,694,370
Profit before income tax	1,194,094	1,338,293	1,293,064	512,990	442,028
Income tax expenses	(208,068)	(234,665)	(230,505)	(62,964)	(36,781)
Profit attributable to shareholders	986,026	1,103,628	1,062,559	450,026	405,247
<b>Assets</b>					
Non-current assets	1,872,621	1,735,889	1,627,513	1,340,576	1,426,925
Current assets	6,659,504	6,147,866	5,559,754	4,405,667	3,135,138
Total assets	8,532,125	7,883,755	7,187,267	5,746,243	4,562,063
<b>Liabilities</b>					
Non-current liabilities	(108,801)	(107,236)	(98,801)	(27,870)	(22,369)
Current liabilities	(3,087,856)	(3,095,844)	(3,054,253)	(2,393,986)	(1,586,692)
Total liabilities	(3,196,657)	(3,203,080)	(3,153,054)	(2,421,856)	(1,609,061)
Total equity	5,335,468	4,680,675	4,034,213	3,324,387	2,953,002
Capital and reserves attributable to equity holders of the Company	5,335,468	4,680,675	4,034,213	3,324,387	2,953,002



Haitian International Holdings Limited  
(Incorporated in the Cayman Islands with limited liability) Stock Code: 1882

