

## FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with the Company's combined audited financial information as at and for the years ended 31 December, 2003, 2004 and 2005 and the six months ended 30 June, 2006, and, in each case, the notes thereto, which are included in the Accountants' Report set out in Appendix I to this prospectus and prepared in accordance with HKFRS.*

### OVERVIEW

According to the China Plastic Machine Industry Association, in 2005, the Group was the largest producer of plastic injection moulding machines by production volume in the world, accounting for approximately 17% of the world's total production volume, and the fifth largest in terms of revenue in the world. The Group was also the largest producer of plastic injection moulding machines in China in terms of sales and production volume in each of 2003, 2004 and 2005. In 2003, 2004 and 2005, the Group produced approximately 11,700, 14,200 and 14,600 units, respectively, of plastic injection moulding machines, which accounted for approximately 22.9%, 23.1% and 28.1% of the total production volume of plastic injection moulding machines in China. In addition, the Group has approximately 60% of the market share for medium-to-large plastic injection moulding machines in China. The Directors believe that the Group has established its leading position in China's plastic injection moulding machinery industry based on its track record of continuously meeting or exceeding the needs of its end-user customers through its quality products, customer-oriented services and commitment to research and development and innovation.

The Group primarily designs, develops, manufactures, sells and supports plastic injection moulding machines and related parts which are used by its end-user customers across many industries, such as automotive, construction materials, healthcare, logistics, packaging, IT, household appliances, electronics and other consumer products, to produce plastic products and parts. The Group's end-user customers include some of the world's and China's leading brands such as Guangzhou Honda (廣州本田), Dongfeng Peugeot Citroën (神龍汽車), Haier (海爾), TCL, Hisense (海信), Wuliangye (五糧液), BYD (比亞迪) and Hayao Pharmaceutical (哈藥). The Group also provides value-added services such as factory planning, product training, system integration and product maintenance and repair to its end-user customers. Since commencing its production of plastic injection moulding machines, the Group has grown its customer base and expanded its product portfolio. The Group operates its business primarily in China and selected markets overseas, and markets its product lines predominantly under the brand name "Haitian", which is regarded as one of the leading brands in China's plastic processing machinery industry and a well-known brand in the global plastic processing machinery industry according to Freedonia. Under the "Haitian" brand, there is a sub-brand "Tianjian". The products marketed under the "Tianjian" sub-brand are certain hydraulic plastic injection moulding machines with clamping forces ranging from 86 metric tons to 1,000 metric tons.

### BASIS OF PRESENTATION

The financial information in the Accountants' Report set out in Appendix I to this prospectus presents the combined results, cash flows and financial position of the companies comprising the Group as if the group structure had been in existence throughout the Track Record Period, and as if the plastic injection moulding machinery business was transferred to the Group as of the earliest period presented.

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The financial statements of the Non-transferred Companies (including the Other Businesses retained by the Non-transferred Companies after the Reorganisation) have been included in the Accountants' Report set out in Appendix I to this prospectus throughout the Track Record Period as they formed an integral part of the businesses of the companies comprising the Group. They were under the control of the Haitian Management through its shareholding in Ningbo Haitian and the entrustment by the Employee Group of the voting power of its shareholding in Ningbo Haitian to Haitian Management, and were not managed separately from the plastic injection moulding machinery business.

Upon completion of the Reorganisation as described in the paragraph headed "Reorganisation" under the section headed "History and Development" in this prospectus, on 30 April, 2006, the Non-transferred Companies retained the Other Businesses and, other than Haitian Brazil and Haitian Turkey, ceased their operations in the plastic injection moulding machinery business. Taking into consideration the following factors, the assets and liabilities retained by the Non-transferred Companies as at 30 April, 2006, approximately RMB1,677.0 million and RMB590.7 million, respectively, were excluded from the subsidiaries now comprising the Group and accounted for as a distribution to equity holders of those companies:

- After 30 April, 2006, the Non-transferred Companies were not included in the Group and the Other Businesses were retained by the Non-transferred Companies;
- The Non-transferred Companies, other than Haitian Brazil and Haitian Turkey, ceased their operations in the plastic injection moulding machinery business on or before 30 April, 2006. In the case of Haitian Brazil and Haitian Turkey, each of them is expected to cease their operations in such business on or before 30 June, 2007; and
- All of the plastic injection moulding machinery related operating assets and liabilities of the Non-transferred Companies including properties, plants, equipment and inventories, have been transferred to the Group.

A summary of the financial statements of the Non-transferred Companies is set forth in the paragraph headed "Financial Information of the Non-transferred Companies" in this section.

A summary of the financial statements of the Other Businesses has not been included in this prospectus for the following reasons:

- The Non-transferred Companies were engaged in the plastic injection moulding machinery business and the Other Businesses at the same time during the Track Record Period. Due to the compatibility of the machinery, fixed assets and certain inventories used in the manufacture of their respective products and the production, sales and administrative staff employed in the operation of their respective businesses, the operations and cash flows of the Other Businesses cannot be clearly distinguished operationally and for financial reporting purpose from the plastic injection moulding machinery business conducted by the Group; and
- During the Track Record Period, the Other Businesses accounted for less than 5% of the Group's total revenue in each year/period and were not considered to be a major line of business of the Group.

## **FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP**

The Group's sales and its ability to continue to generate profits are affected by a number of factors, many of which may not be within the Group's control. A list of these factors is set out below:

- Level of demand for plastic injection moulding machinery in China and increasingly significant international market;
- The Group's ability to adjust product mix and produce plastic injection moulding machines with higher margins;
- The Group's ability to manage and control manufacturing costs including the cost of raw materials, components and parts, labour cost and utility cost; and
- The Group's effectiveness in competing with foreign and local competitors on the basis of product quality, design, pricing and pre-sales and after-sales services.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT**

The Group's financial statements have been prepared in accordance with HKFRS. The Group's principal accounting policies are set forth in Note 3 of Section II of the Accountants' Report set out in Appendix I to this prospectus. HKFRS requires that the Group adopts accounting policies and makes estimates that it believes are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's results and financial position. The Group believes that the most complex and sensitive judgments, because of their significance to its financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from the Group's estimates. Critical accounting estimates and judgement are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. The critical accounting estimates and judgement adopted by the Group are described below.

### **Useful lives of property, plant and equipment**

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### **Estimated impairment of property, plant and equipment and land use rights**

The Group assesses annually whether property, plant and equipment and land use rights have any indication of impairment, in accordance with the accounting policy stated in note 3(h) to the Accountants' Report set out in Appendix I to this prospectus. The recoverable

amounts of property, plant and equipment have been determined based on value-in-use calculations, while that of land use rights has been determined with reference to independent valuations. These calculations and valuations require the use of judgement and estimates.

**Estimated impairment of receivables**

The Group records impairment of receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

**Estimated write-downs of inventories to net realisable value**

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and write-downs of inventories in the years in which such estimate has been changed.

**FINANCIAL HIGHLIGHTS****Sales**

Sales represent gross revenue generated from the sale of the Group's products, net of sales related taxes. The Group's sales are affected by the volume of total products sold and the product sales mix because its product lines have different selling prices. The Group's sales are mainly derived from the sale of plastic injection moulding machines and related parts. During the Track Record Period, the Group's sales also included revenue from the sale of the products of the Other Businesses, namely of screw-air compressors, CNC machines and machining centres, and hydraulic motors and related parts and components for industrial machinery, which accounted for 0.1%, 0.8%, 1.6% and 2.6% of the Group's sales in 2003, 2004, 2005 and the six months ended 30 June, 2006, respectively. As part of the Reorganisation, such businesses were retained by the Non-transferred Companies and after 30 April, 2006, the date of the completion of the Reorganisation, will no longer be part of the Group's business.

In addition, during the Track Record Period, the Group's sales also included revenue from the sale of plastic injection moulding machines through two Non-transferred Companies, namely Haitian Brazil and Haitian Turkey. As part of the Group's overseas strategy to engage third-party sales agents and distributors to sell and service its products, Haitian Brazil and Haitian Turkey were excluded from the Group as part of the Reorganisation. The Group is currently in the process of establishing relationships with third-party sales agents and distributors to sell its products to end-user customers and regions currently serviced by Haitian Brazil and Haitian Turkey. During this transitional period, the Group has entered into an agreement with each of Haitian Brazil and Haitian Turkey to continue to act as its sales and provide after-sales and technical support services for these customers and regions. Each of Haitian Brazil and Haitian Turkey is expected to cease to engage in the plastic injection

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moulding machinery business on 30 June, 2007, including any such business on behalf of the Group. For 2003, 2004, 2005 and the six months ended 30 June, 2006, sales through Haitian Brazil and Haitian Turkey in aggregate accounted for 1.2%, 1.4%, 2.7% and 1.5% of the Group sales, respectively.

The Group sells a majority of its plastic injection moulding machinery products in China which accounted for 81.2%, 73.0% and 65.4% of its sales in 2003, 2004 and 2005, respectively. In recent years, the Group has expanded its sales overseas as its brand becomes more established in existing overseas markets and as it continues to penetrate new markets. As a result of its overseas expansion efforts, the Group's international sales of plastic injection moulding machines increased from RMB343.9 million in 2003 to RMB783.5 million in 2005, representing a CAGR of 50.9%. As a percentage of sales, international sales of plastic injection moulding machines increased from 17.1% in 2003 to 30.4% in 2005. For the six months ended 30 June, 2006, international sales of plastic injection moulding machines continued to increase by 21.3% as compared to the same period in 2005. As a percentage of sales, international sales of plastic injection moulding machines decreased from 32.9% for the six months ended 30 June, 2005 to 31.8% for the six months ended 30 June, 2006. This decrease resulted from domestic sales of plastic injection moulding machines experiencing a higher rate of growth of 28.3% over the same period as result of the recovery in demand for these machines in China beginning in the fourth quarter of 2005. The Directors expect international sales of plastic injection moulding machines to continue to be a significant revenue driver for the Group as the Group expands its market shares in existing markets, access new markets overseas and shift its focus towards higher margin products, which account for a higher proportion of its international sales.

The following table sets forth the Group's domestic and international sales of plastic injection moulding machines for the periods indicated:

	Year ended 31 December,						Six months ended 30 June,			
	2003		2004		2005		2005		2006	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>		<i>(unaudited)</i>		<i>(unaudited)</i>		<i>(unaudited)</i>		<i>(unaudited)</i>	
Plastic Injection Moulding Machines										
Domestic sales	1,628,854	81.2	1,892,785	73.0	1,684,675	65.4	782,262	62.7	1,003,604	64.1
International sales <sup>(1)</sup>	343,860	17.1	624,000	24.1	783,487	30.4	410,162	32.9	497,715	31.8
Other products <sup>(2)</sup>	33,949	1.7	77,289	2.9	109,427	4.2	54,526	4.4	65,329	4.1
<b>Total</b>	<u>2,006,663</u>	<u>100.0</u>	<u>2,594,074</u>	<u>100.0</u>	<u>2,577,589</u>	<u>100.0</u>	<u>1,246,950</u>	<u>100.0</u>	<u>1,566,648</u>	<u>100.0</u>

**Notes:**

- (1) Include sales generated by Haitian Brazil and Haitian Turkey which after 30 April, 2006, the date of the completion of the Reorganisation, were not included as a member of the Group.
- (2) Other products include related parts for plastic injection moulding machines and products of the Other Businesses. As part of the Reorganisation, the Other Businesses were retained by the Non-transferred Companies and after 30 April, 2006, the date of the completion of the Reorganisation, were no longer part of the Group's business.

The Group's sales depend primarily on the demand for plastic injection moulding machines, which depends on various factors ranging from general economic conditions such as the level of overall consumption of plastic products worldwide to industry specific

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conditions such as the price of plastic resins that affect the end-user customers of the Group's products. According to the China Plastic Machine Industry Association, the global demand for plastic injection moulding machines increased at a CAGR of 6.5% from approximately US\$9.8 billion (approximately RMB76.8 billion) in 2001 to approximately US\$12.6 billion (approximately RMB98.7 billion) in 2005. From 2003 to 2004, global demand for plastic injection moulding machines in terms of US dollars increased by approximately 17.9%. Over the same period, the demand in China in terms of Renminbi grew faster at approximately 25.8% as China consumed more plastic products. To capitalize on this increasing demand, the Group expanded its production capacity for plastic injection moulding machines and increased its efforts to market its products overseas in 2004. As a result, the Group was able to sell more units in 2004, resulting in the growth of its sales by 29.3% over the same period.

In 2005, the Group continued to expand its sales overseas. As a result, the Group's international sales of plastic injection moulding machines increased by 25.6% from 2004 to 2005. The Group's domestic sales of plastic injection moulding machines, however, decreased by 11.0% as a result of the decrease in overall demand for plastic injection moulding machines in China in 2005. This decrease in demand was primarily due to the PRC government's tightening of money supply and bank credit throughout China and the significant increase in international crude oil prices in 2005. Beginning in the second quarter of 2004 and continuing into 2005, in response to concerns about economic overheating, the PRC government implemented a series of austerity measures, including measures aimed at tightening fixed investment and credit control in the banking and other sectors to slow down the development of certain industries. These measures caused working capital tightness for many companies in China, including certain of the Group's PRC end-user customers. In addition, in 2005, the significant increase in international crude oil price led to a parallel increase in the price of plastic resins, the raw materials used by the Group's end-user customers to make their plastic products, resulting in a decrease in demand from certain of the Group's PRC end-user customers who are more sensitive to such price fluctuations due to the relative lower profit margins on their products. As a result, the Directors believe that certain of the Group's PRC end-user customers postponed or cancelled their machine replacement and production expansion plans in 2005, thereby affecting the demand for the Group's products in that year. For these reasons, the Group's sales decreased slightly by 0.6% from 2004 to 2005.

For the six months ended 30 June, 2006, the Group's international sales of plastic injection moulding machines continued to increase by 21.3% as compared to the same period in 2005. In addition, the price of plastic resins began to stabilize towards the end of 2005 and the impact of the PRC government austerity measures on the Group's end-user customer lessened. As a result, the Directors believe certain of the Group's end-user customers resumed their machine replacement and production expansion plans in the first half of 2006 which were deferred in 2005. This led to an increase in the demand of plastic injection moulding machines in China beginning in the fourth quarter of 2005 resulting in the Group's domestic sales of plastic injection moulding machines increasing by 28.3% as compared to the same period in 2005. As a result, for the six months ended 30 June, 2006, the Group's sales increased by 25.6% as compared to the same period in 2005.

## Cost of sales

The Group's cost of sales include cost of raw materials, components and parts used in the manufacturing of its products and labour cost and overhead cost relating to production and manufacturing.

The Group's main raw materials, components and parts include iron, steel and other alloy metals, steel cylinders, steel platens and other semi-processed metal components, electronic control unit, pumps and motors. Cost of raw materials, components and parts comprised 90.5%, 91.8%, 90.0% and 89.2% of the Group's cost of sales for 2003, 2004, 2005 and the six months ended 30 June, 2006, respectively. The Group's cost of raw materials, components and parts, in particular, steel and steel based products, is subject to price fluctuations resulting from market supply and demand. These price fluctuations are beyond the Group's control and are expected to continue in future periods.

The Group's production labour cost includes staff costs and other expenses relating to employees who are directly involved in the manufacture, assembly, testing and quality control of its products. These costs may be affected by the supply and demand for such labour and implementation of any new governmental policies or labour laws. Production labour cost represented 4.3%, 3.7%, 4.1% and 4.5% of the Group's cost of sales for 2003, 2004, 2005 and the six months ended 30 June, 2006, respectively.

The Group's overhead cost relating to production and manufacturing includes depreciation charges on machinery and equipment, utility expenses, other factory overheads and related expenses. Overhead cost comprised 5.2%, 4.5%, 5.9% and 6.3% of the Group's cost of sales for 2003, 2004, 2005 and the six months ended 30 June, 2006, respectively.

The Group's overall cost of sales has remained relatively stable at 71.8%, 73.4%, 72.5% and 71.8% of the Group's sales for 2003, 2004, 2005 and the six months ended 30 June, 2006, respectively. The relative stability of the Group's cost of sales as a percentage of sales reflects the success of its sales policy in factoring fluctuations in the cost of raw materials, components and parts in the price of its products.

## Gross Profit

The Group's gross profit margins are impacted by several factors including the selling prices of its products, product sales mix, customer mix and cost of raw materials, components and parts.

### *Selling Prices and Product Sales Mix*

The prices and gross profit margins of the Group's products vary significantly by product type and may vary from period to period. The Group's advanced machines, such as all-electric, high-speed, high-precision, two-platen, multi-material and multi-colour machines, generally have higher gross profit margins than its standard machines. Similarly, the Group's medium-to-large machines typically have higher gross profit margins than its small machines since they are more difficult to manufacture and end-user customers of those machines often require them to be customized based on their specification and performance requirements. As

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a result, the Group's gross profit margin for a period is affected by the proportion of sales of its higher gross profit margin products compared to sales of its lower gross profit margin products.

### *Customer Mix*

Different customers purchase different volumes and mixes of products from the Group and the Group may price its products in China and internationally differently depending on local market conditions. The Group typically obtains higher gross profit margins from its international sales of plastic injection moulding machines due to its ability to sell its products at higher prices based on local market conditions and the higher proportion of its international customers purchasing more advanced machines.

### *Cost of Raw Materials, Components and Parts*

The Group's cost of sales is affected by price fluctuations related to its raw materials, components and parts. Any significant increase in the prices of these raw materials, components and parts, which the Group may not be able to pass on to its customers through price increases, will affect the Group's gross profit margins on its products.

The following table sets forth the Group's gross profit and gross profit margin by small and medium-to-large plastic injection moulding machines and other products for the periods indicated:

	Year ended 31 December,								
	2003			2004			2005		
	Plastic injection moulding machines			Plastic injection moulding machines			Plastic injection moulding machineries		
	Medium- Small	to-large	other products <sup>(1)</sup>	Medium- Small	to-large	other products <sup>(1)</sup>	Medium- Small	to-large	other products <sup>(1)</sup>
	<i>(unaudited)</i>			<i>(unaudited)</i>			<i>(unaudited)</i>		
	<i>(in thousands of RMB, except percentages and number of units sold)</i>								
Sales <sup>(2)</sup>	1,350,222	622,492	33,949	1,658,243	858,542	77,289	1,742,897	725,265	109,427
Cost of sales	1,028,842	381,252	30,610	1,261,632	576,468	65,696	1,317,073	459,983	91,157
Gross profit	321,380	241,240	3,339	396,611	282,074	11,593	425,824	265,282	18,270
Gross profit margin	23.8%	38.8%	9.8%	23.9%	32.9%	15%	24.4%	36.6%	16.7%
Number of units sold	10,338	713	N/A	12,380	1,049	N/A	12,857	855	N/A
	Six months ended 30 June,								
	2005			2006					
	Plastic injection moulding machines			Plastic injection moulding machines					
	Medium- Small	to-large	other products <sup>(1)</sup>	Medium- Small	to-large	other products <sup>(1)</sup>	Medium- Small	to-large	other products <sup>(1)</sup>
	<i>(unaudited)</i>			<i>(unaudited)</i>			<i>(unaudited)</i>		
	<i>(in thousands of RMB, except percentages and number of units sold)</i>								
Sales <sup>(2)</sup>			856,005	336,419	54,526	1,099,141	402,178		65,329
Cost of sales			658,513	226,608	43,704	817,965	254,067		52,920
Gross profit			197,492	109,811	10,822	281,176	148,111		12,409
Gross profit margin			23.1%	32.6%	19.8%	25.6%	36.8%		19.0%
Number of units sold			6,344	394	N/A	8,116	505		N/A

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### Notes:

- (1) Other products include related parts for plastic injection moulding machines and products of the Other Businesses. As part of the Reorganisation, the Other Businesses were retained by the Non-Transferred Companies and after 30 April, 2006, the date of the completion of the Reorganisation, were no longer part of the Group's business.
- (2) Include sales generated by Haitian Brazil and Haitian Turkey which after 30 April, 2006, the date of the completion of the Reorganisation, were not included as a member of the Group.

The gross profit margin for the Group's small plastic injection moulding machines increased slightly from 23.8% in 2003 to 23.9% in 2004. This increase was primarily due to the Group adjusting the selling prices upward for certain small plastic injection moulding machines in light of the increase in global demand for these machines and increase in material cost in 2004. This increase was offset by the increase in the Group's cost of sales for small plastic injection moulding machines as a result of the increase in the average prices of steel and other alloy metals, the Group's main raw materials and the main raw materials of the parts and components used in the Group's products.

The gross profit margin for medium-to-large plastic injection moulding machines decreased from 38.8% in 2003 to 32.9% in 2004. This decrease resulted primarily from the increase in the Group's cost of sales for medium-to-large plastic injection moulding machines as a result of the increase in the average prices of steel and other alloy metals. In contrast to its small plastic injection moulding machines, the Group did not adjust the pricing of its medium-to-large plastic injection moulding machines to reflect the increase in the cost of sales because the gross profit margin without any pricing adjustments was still satisfactory to the Group and, more importantly, the Group wanted to increase its market share for these machines in certain markets.

The gross profit margin for small plastic injection moulding machines and medium-to-large plastic injection moulding machines increased from 23.9% and 32.9%, respectively, in 2004 to 24.4% and 36.6%, respectively, in 2005. This increase was primarily due to (i) cost control measures implemented by the Group; and (ii) an increase in the Group's international sales of plastic injection moulding machines, which had higher profit margins than its domestic sales, as a percentage of the Group's sales.

The gross profit margin for small plastic injection moulding machines and medium-to-large plastic injection moulding machines increased from 23.1% and 32.6%, respectively, for the six months ended 30 June, 2005, to 25.6% and 36.8%, respectively, for the six months ended 30 June, 2006. This increase was primarily due to a decrease in the Group's cost of raw materials, components and parts as a result of a decrease in the average price of steel and other alloy metals, the Group's main raw materials and the main raw materials of the parts and components used in the Group's products, over the same period.

### **Selling and marketing expenses**

The Group's selling and marketing expenses consist primarily of staff costs and other expenses relating to its sales and marketing personnel, sales commissions, freight and delivery charges, warranty costs and advertising and promotional expenses. Sales commissions consist primarily of two components: (i) a sales-based commission based on the actual sales referred to by the sales agents and (ii) an incentive commission based on annual sales targets as determined by the Group.

For 2003, 2004, 2005 and the six months ended 30 June, 2006, the Group's selling and marketing expenses were RMB141.1 million, RMB214.2 million, RMB202.7 million and RMB126.3 million, respectively. The increase in selling and marketing expenses from 2003 to 2004 was principally due to (i) an increased sales commissions and freight and delivery charges in line with the growth in the Group's sales, (ii) increased staff costs related to increased salaries for existing staff and hiring additional sales and marketing personnel and (iii) increased costs relating to the establishment of a sales network in Italy. The decrease in selling and marketing expenses from 2004 to 2005 resulted primarily from the decrease in incentive commissions due to the Group's sales decreasing by 0.6% from 2004 to 2005.

### **General and administrative expenses**

The Group's general and administrative expenses consist primarily of staff costs and other expenses relating to its administrative personnel, research and development expenses, office-related expenses such as rental expenses, utilities and depreciation charges and professional fees paid to service providers. The Group's general and administrative expenses also included reserves made by certain subsidiaries of the Group for a staff welfare and bonus fund in accordance with the Supplementary Regulations for the Financial Reporting of Foreign Investment Enterprises (外商投資企業執行新企業財務制度的補充規定) which is applicable to those subsidiaries. Pursuant to this regulation, the Group determined to declare up to 15% of the net profit generated by these subsidiaries in a given year as a reserve for a staff welfare and bonus fund. These reserves were recorded as a liability of the Group and general and administrative expenses in accordance with HKFRS. This fund is available for use by the Group for various incentive and welfare benefits for its employees such as non-recurring bonuses, staff housing and subsidies for recreational activities. For 2003, 2004, 2005 and the six months ended 30 June, 2006, the Group made reserves of RMB55.0 million, RMB71.4 million, RMB0.3 million and nil, respectively, for the fund. In light of the significant outstanding balance of the reserve for the fund as at 31 December, 2005, which the Directors believe was adequate for the purposes of the fund, the Group did not make any additional reserves for the fund for the six months ended 30 June, 2006. As at 30 June, 2006, the outstanding balance of the reserve for the fund was RMB102.5 million.

For 2003, 2004, 2005 and the six months ended 30 June, 2006, the Group's general and administrative expenses were RMB124.4 million, RMB199.6 million, RMB149.5 million and RMB86.1 million, respectively. The increase in general and administrative expenses from 2003 to 2004 was primarily due to (i) an increase in the reserve for the staff welfare and bonus fund by RMB16.4 million as a result of the increase in profits generated by the subsidiaries contributing to the reserve, (ii) an increase in provisioning for the Group's bad debt by RMB13.6 million due to increase in sales activities and the PRC government's tightening of fixed investment and credit control in the banking and other sectors in 2004 and (iii) an increase in overall administrative expenses related to the expansion of the Group's operations. The decrease from 2004 to 2005 resulted primarily from the relevant subsidiaries declaring a smaller amount of reserves for the staff welfare and bonus fund in 2005 (RMB0.3 million in 2005 as compared to RMB71.4 million in 2004) in light of the significant outstanding balance of the reserve for the fund as at 31 December, 2004 which the Directors believe was adequate for the purposes of the fund.

## Income tax expenses

Domestic enterprises in China are subject to an enterprise income tax at the rate of 33%. Foreign investment enterprises (“FIEs”) in China are generally subject to a state enterprise income tax (“EIT”) at the rate of 30% and a local enterprise income tax (“LEIT”) at the rate of 3%, in each case, of their pre-tax profits. Each of Dagang Trading, Haitian Beihua and Haitian Sales is a domestic enterprise and, as a result, is subject to the enterprise income tax at the rate of 33%. Haitian Sales, however, received a full exemption from the enterprise income tax in 2005 pursuant to the Circular on Certain Preferential Policies for Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) jointly issued by Ministry of Finance and State Administration of Taxation of China and the Reply Regarding Reduction and Exemption of Income Tax of Certain Enterprises Including Ningbo Xingfa Special Steel Co., Ltd. in 2005 (關於同意減免寧波市興發特種鋼有限公司等企業2005年度企業所得稅的批覆) issued by Local Tax Bureau of Beilun District in Ningbo, China, which provides for full exemption from taxation for the first profitable year for domestic enterprises that meet certain qualifications.

According to the Income Tax Laws of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) (“FEIT”), FIEs that meet the following criteria are entitled to preferential tax treatments as set out below:

- FIEs incorporated in economic and technological development zones that are engaging in production are entitled to pay EIT at a reduced rate of 15% and, subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, LEIT at a reduced rate of 1.5%;
- FIEs incorporated in coastal economic redevelopment zones that are engaging in production are entitled to pay EIT at a reduced rate of 24% and, subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, LEIT at a reduced rate of 2.4%;
- FIEs that are engaging in production with an operating term exceeding 10 years are entitled to full exemption from the applicable EIT for the first two years and a 50% reduction in the applicable EIT for the next three years (the “Tax Holiday”), commencing in the first profitable year after offsetting all expired tax losses carried forward from the previous years in accordance with FEIT. Subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, FIEs may also enjoy a similar Tax Holiday from LEIT during the corresponding period.

In addition, according to the Rules on Encouraging Foreign Investment (關於鼓勵外商投資的規定) and the Implementation Procedures for Confirmation and Verification of Foreign Invested Product Export Enterprises and Advanced Technology Enterprises (關於確認和考核外商投資的產品出口企業和先進技術企業的實施辦法), FIEs which have undergone the relevant confirmation and approval process and received a Product Export Enterprise Certificate (產品出口企業證書) in a given year are entitled to a further 50% reduction in the EIT applicable to the FIE prior to obtaining such the certificate in that year, subject to a minimum rate of 10% if the applicable EIT was 15%. The Product Export Enterprise Certificate is valid for only one year and FIEs would have to reapply on a yearly basis to receive this certification.

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Other than Dagang Trading, Haitian Beihua and Haitian Sales, which are domestic enterprises, each of the Group's other PRC subsidiaries was incorporated as a FIE in either an economic and technological development zone or a coastal economic redevelopment zone and is engaged in production with an operating term exceeding 10 years. In accordance with the above rules and regulations, these PRC subsidiaries has been (or will be) entitled to preferential tax treatment as set out in the table below:

Subsidiaries	Applicable EIT	Applicable LEIT	First Profitable Year	Applicable Period of the Tax Holiday
Haitian Machinery	15%	1.5%	2002	2002–2006 <sup>(1)</sup>
Daxie Haitian	15%	1.5%	2003	2003–2007
Haitian Huayuan	15%	1.5%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Haitian Guangzhou	24%	3.0%	2000	2000–2004
Haitian Heavywork	24%	2.4%	2005	2005–2009
Haitian Ningshing	24%	2.4%	1999	1999–2003 2004–2006 <sup>(3)</sup>
Haitian Shili	24%	2.4%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Tianxin Dagang	15%	1.5%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Wuxi Tianjian	15%	1.5%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>

*Notes:*

- (1) At the discretion of the relevant local administrative authorities of the State Taxation Administration of China, Haitian Machinery received a full exemption from LEIT in 2004, 2005 and 2006 instead of a 50% reduction in LEIT.
- (2) Each of these entities has not yet had a profitable year, and as such, did not pay any taxes during the Track Record Period and will enjoy the applicable preferential tax treatment beginning with its first profitable year.
- (3) In each of 2004, 2005 and 2006, Haitian Ningxing applied for and received the Product Export Enterprise Certificate. As a result, the applicable reduced EIT for Haitian Ningshing in 2004, 2005 and 2006 was 10%, 12% and 12%, respectively. In addition, during the corresponding period, Haitian Ningshing was also exempted from LEIT as a result of its status as a Product Export Enterprise.

As at 30 June, 2006, members of the Group incorporated in jurisdictions other than China are subject to the following corporate tax rates:

Hong Kong	17.5%
Italy	37.25%
Cayman Islands	exempted
British Virgin Islands	exempted

### Minority interest

Minority interest represents third party interests in certain of the Company's subsidiaries and Non-transferred Companies during the Track Record Period.

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## RESULTS OF OPERATIONS

The following table sets forth the Group's results of operations and percentage of total sales for 2003, 2004 and 2005 and the six months ended 30 June, 2005 and 2006.

	For the year ended 31 December,						For the six months ended 30 June,			
	2003		2004		2005		2005 <i>(unaudited)</i>		2006	
	<i>(in thousands of RMB, except percentages)</i>									
Sales	2,006,663	100%	2,594,074	100%	2,577,589	100%	1,246,950	100%	1,566,648	100%
Cost of sales	<u>(1,440,704)</u>	<u>71.8</u>	<u>(1,903,796)</u>	<u>73.4</u>	<u>(1,868,213)</u>	<u>72.5</u>	<u>(928,825)</u>	<u>74.5</u>	<u>(1,124,952)</u>	<u>71.8</u>
Gross profit	565,959	28.2	690,278	26.6	709,376	27.5	318,125	25.5	441,696	28.2
Selling and marketing expenses	(141,127)	7.0	(214,227)	8.3	(202,733)	7.9	(109,677)	8.8	(126,326)	8.1
General and administrative expenses	<u>(124,440)</u>	<u>6.2</u>	<u>(199,609)</u>	<u>7.7</u>	<u>(149,549)</u>	<u>5.8</u>	<u>(76,684)</u>	<u>6.1</u>	<u>(86,057)</u>	<u>5.5</u>
Operating profit before other gains — net	300,392	15.0	276,442	10.6	357,094	13.9	131,764	10.6	229,313	14.6
Other gains — net	<u>42,209</u>	<u>2.1</u>	<u>36,574</u>	<u>1.4</u>	<u>850</u>	<u>0.0</u>	<u>12,724</u>	<u>1.0</u>	<u>34,125</u>	<u>2.2</u>
Operating profit	342,601	17.1	313,016	12.1	357,944	13.9	144,488	11.6	263,438	16.8
Finance costs	(2,689)	0.1	(4,014)	0.2	(6,362)	0.2	(3,210)	0.3	(5,526)	0.4
Share of profit/(loss) of associates	<u>930</u>	<u>0.0</u>	<u>3,629</u>	<u>0.1</u>	<u>(193)</u>	<u>0.0</u>	<u>(176)</u>	<u>0.0</u>	<u>50</u>	<u>0.0</u>
Profit before income tax	340,842	17.0	312,631	12.1	351,389	13.6	141,102	11.3	257,962	16.5
Income tax expense	<u>(10,214)</u>	<u>0.5</u>	<u>(22,420)</u>	<u>0.9</u>	<u>(22,056)</u>	<u>0.8</u>	<u>(7,369)</u>	<u>0.6</u>	<u>(19,736)</u>	<u>1.3</u>
Profit for the year/period	<u><u>330,628</u></u>	<u><u>16.5</u></u>	<u><u>290,211</u></u>	<u><u>11.2</u></u>	<u><u>329,333</u></u>	<u><u>12.8</u></u>	<u><u>133,733</u></u>	<u><u>10.7</u></u>	<u><u>238,226</u></u>	<u><u>15.2</u></u>
Attributable to:										
Equity holders of the Company	303,558		262,275		306,898		124,235		227,027	
Minority interest	<u>27,070</u>		<u>27,936</u>		<u>22,435</u>		<u>9,498</u>		<u>11,199</u>	
	<u><u>330,628</u></u>		<u><u>290,211</u></u>		<u><u>329,333</u></u>		<u><u>133,733</u></u>		<u><u>238,226</u></u>	
Dividends	<u><u>27,973</u></u>		<u><u>30,370</u></u>		<u><u>30,370</u></u>		<u><u>—</u></u>		<u><u>—</u></u>	

**Six Months Ended 30 June, 2005 Compared to Six Months Ended 30 June, 2006***Sales*

Sales increased by 25.6% from RMB1,247.0 million for the six months ended 30 June, 2005 to RMB1,566.6 million for the six months ended 30 June, 2006. This increase was mainly due to (i) a recovery in the overall domestic demand for plastic injection moulding machines resulting from the resumption by certain of the Group's end-user customers of their machine replacement and business expansion plans in the fourth quarter of 2005 which were deferred earlier and (ii) the increase in the Group's international sales of plastic injection moulding machines by 21.3% over the same period as a result of the Group's continuous expansion of its sales overseas.

*Cost of sales*

Cost of sales increased by 21.1% from RMB928.8 million for the six months ended 30 June, 2005 to RMB1,125.0 million for the six months ended 30 June, 2006. This increase was in line with the growth in the Group's sales over the same period.

*Gross profit*

The Group's gross profit increased by 38.8% from RMB318.1 million for the six months ended 30 June, 2005 to RMB441.7 million for the six months ended 30 June, 2006. The Group's gross profit margin increased from 25.5% to 28.2% during the same period primarily due to a decrease in the Group's cost of raw materials, components and parts as a result of a decrease in the average price of steel and other alloy metals, the Group's main raw materials and the main raw materials of the parts and components used in the Group's products, over the same period.

*Selling and marketing expenses*

Selling and marketing expenses increased by 15.2% from RMB109.7 million for the six months ended 30 June, 2005 to RMB126.3 million for the six months ended 30 June, 2006. This increase resulted primarily from an increase of RMB22.1 million in sales commissions due to the strong growth of the Group's sales over the same period.

*General and administrative expenses*

General and administrative expenses increased by 12.2% from RMB76.7 million for the six months ended 30 June, 2005 to RMB86.1 million for the six months ended 30 June, 2006. This increase was primarily due to an expense of RMB5.9 million incurred by the Group for the six months ended 30 June, 2006 with respect to the transfer of certain properties between the Haitian Group and the Group pursuant to the Reorganisation.

*Other gains — net*

Other gains — net increased from RMB12.7 million for the six months ended 30 June, 2005 to RMB34.1 million for the six months ended 30 June, 2006. This increase was principally due to (i) an increase in government subsidies given by the Ningbo government to

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certain members of the Group by RMB15.3 million over the same period and (ii) an exchange gain of RMB4.5 million for the six months ended 30 June, 2006 compared to an exchange loss of RMB0.1 million for six months ended 30 June, 2005.

### *Operating profit*

The Group's operating profit increased by 82.3% from RMB144.5 million for the six months ended 30 June, 2005 to RMB263.4 million for the six months ended 30 June, 2006. The Group's operating margin increased from 11.6% to 16.8% over the same period. The increase in the Group's operating profit and operating margin was primarily due to the decrease in the Group's cost of sales, selling and marketing expenses and general and administrative expenses, in each case, as a percentage of sales, for the reasons stated above.

### *Finance costs*

Finance costs increased from RMB3.2 million for the six months ended 30 June, 2005 to RMB5.5 million for the six months ended 30 June, 2006. This increase was primarily due to an increase in borrowings for the purpose of acquiring certain operating assets and shareholdings of subsidiaries that comprised the Group from the Non-transferred Companies and the expansion of the Group's business.

### *Profit before income tax*

The Group's profit before income tax increased by 82.8% from RMB141.1 million for the six months ended 30 June, 2005 to RMB258.0 million for the six months ended 30 June, 2006. This increase was primarily due to the increase in the Group's operating profit for the reasons stated above, which was partially offset by the increase in the Group's finance cost for the reasons stated above.

### *Income tax expense*

The Group's effective tax rate increased from 5.2% for the six months ended 30 June, 2005 to 7.7% for the six months ended 30 June, 2006. This increase was principally due to the end of the full exemption in EIT for Haitian Sales in 2006, resulting in the profit generated by Haitian Sales being taxed at the rate of 33% for the six months ended 30 June, 2006 as compared to a full exemption from taxation for the same period in 2005.

### *Profit for the period*

The Group's profit for the period increased by 78.1% from RMB133.7 million for the six months ended 30 June, 2005 to RMB238.2 million for the six months ended 30 June, 2006. This increase was primarily due to the increase in sales as a result of the increase in overall demand for the Group's product over the same period and that the selling and marketing expenses and general and administrative expenses increased to a less extent over the same period. The Group's net profit margin increased from 10.7% to 15.2% over the same period. This increase was primarily due to the decrease in the Group's cost of raw materials, components and parts as a result of the decrease in the average price of steel and other alloy metals over the same period.

**2005 Compared to 2004***Sales*

Sales decreased slightly by 0.6% from RMB2,594.1 million in 2004 to RMB2,577.6 million in 2005. This decrease was mainly due to a decrease in the Group's domestic sales of plastic injection moulding machines by RMB208.1 million over the same period. The decrease in domestic sales was principally due to a decrease in the demand for plastic injection moulding machines in China over the same period as a result of (i) the PRC government's tightening of fixed investment and credit control in the banking and other sectors which caused working capital tightness for many companies in China, including certain of the Group's end-user customers, and affected their ability to purchase new equipment to expand production capacity and (ii) the increase in the price of plastic resin which lower the demand from certain of the Group's PRC end-user customers who are more sensitive to such price fluctuations as a result of the lower profit margins on their products. This decrease was partially offset by an increase in the Group's international sales of plastic injection moulding machines by RMB159.5 million over the same period.

*Cost of sales*

Cost of sales decreased by 1.9% from RMB1,903.8 million in 2004 to RMB1,868.2 million in 2005. This decrease was in line with the decrease in the Group's sales over the same period.

*Gross profit*

The Group's gross profit increased by 2.8% from RMB690.3 million in 2004 to RMB709.4 million in 2005. The Group's gross profit margin increased from 26.6% to 27.5% over the same period primarily due to (i) cost control measures implemented by the Group and (ii) an increase in the Group's international sales of plastic injection moulding machines as a percentage of the Group's sales, which had higher profit margins than its domestic sales, from 24.1% to 30.4% over the same period.

*Selling and marketing expenses*

Selling and marketing expenses decreased by 5.4% from RMB214.2 million in 2004 to RMB202.7 million in 2005. This decrease resulted primarily from the decrease in incentive commissions due to the Group's sales decreasing by 0.6% from 2004 to 2005.

*General and administrative expenses*

General and administrative expenses decreased by 25.1% from RMB199.6 million in 2004 to RMB149.5 million in 2005. This decrease resulted primarily from the relevant subsidiaries declaring a smaller amount of reserve for the staff welfare and bonus fund in 2005 (RMB0.3 million in 2005 as compared to RMB71.4 million in 2004) in light of the significant outstanding balance of the reserve for the fund as at 31 December, 2004. The effect was partially offset by increase in administrative expense resulted from business expansion.

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### *Other gains — net*

Other gains — net decreased from RMB36.6 million in 2004 to RMB0.9 million in 2005. This decrease was principally due to (i) a decrease in the amount of government subsidies from RMB28.7 million in 2004 to RMB16.2 million in 2005 and (ii) an exchange loss of RMB20.6 million as a result of the appreciation of the Renminbi in 2005 compared to an exchange gain of RMB9.4 million in 2004.

### *Operating profit*

The Group's operating profit increased by 14.4% from RMB313.0 million in 2004 to RMB357.9 million in 2005. The Group's operating margin increased from 12.1% in 2004 to 13.9% in 2005. The increase in the Group's operating profit and operating margin was primarily due to the decrease in the Group's cost of sales, selling and marketing expenses and general and administrative expenses, in each case, in absolute terms and as a percentage of sales, respectively, for the reasons stated above.

### *Finance costs*

Finance costs increased from RMB4.0 million in 2004 to RMB6.4 million in 2005. This increase was principally due to an increase in borrowing for the expansion of the Group's business.

### *Profit before income tax*

The Group's profit before income tax increased by 12.4% from RMB312.6 million in 2004 to RMB351.4 million in 2005. This increase was primarily due to the increase in the Group's operating profit for the reasons stated above, which was partially offset by the increase in the Group's finance cost for the reasons stated above.

### *Income tax expense*

The Group's effective tax rate decreased from 7.2% in 2004 to 6.3% in 2005. This decrease was primarily due to the increase in the percentage of the Group's profit generated by Haitian Heavywork, which was enjoying its first year of full exemption from EIT in 2005.

### *Profit for the year*

The Group's profit for the year increased by 13.5% from RMB290.2 million in 2004 to RMB329.3 million in 2005. The Group's net profit margin increased from 11.2% in 2004 to 12.8% in 2005. This increase in the Group's profit and net profit margin was primarily due to the decrease in the Group's general and administrative expenses as a result of the decrease in the amount declared for the staff welfare and bonus fund over the same period. This increase was partially offset by the decrease in other gains-net over the same period.

**2004 Compared to 2003***Sales*

Sales increased by 29.3% from RMB2,006.7 million in 2003 to RMB2,594.1 million in 2004. This increase was mainly due to the increase in domestic and international sales of plastic injection moulding machines by RMB263.9 million and RMB280.1 million, respectively, in 2004. The increase in sales from 2003 to 2004 was principally due to the Group expanding its production capacity for plastic injection moulding machines to capitalize on (i) an increase in domestic demand for plastic injection moulding machines resulting from the increase in China's consumption of plastic products over the same period and (ii) its efforts in increasing market shares in existing overseas markets as well as new overseas markets by leveraging on its established brand name and overseas sales network.

*Cost of sales*

Cost of sales increased by 32.1% from RMB1,440.7 million in 2003 to RMB1,903.8 million in 2004. This increase was in line with the growth in the Group's sales over the same period.

*Gross profit*

The Group's gross profit increased by 22.0% from RMB566.0 million in 2003 to RMB690.3 million in 2004. The Group's gross profit margin decreased from 28.2% in 2003 to 26.6% in 2004. This decrease was mainly due to the increase in the average price of steel and other alloy metals, the Group's main raw materials and the main raw materials of the parts and components used in the Group's products, over the same period.

*Selling and marketing expenses*

Selling and marketing expenses increased by 51.8% from RMB141.1 million in 2003 to RMB214.2 million in 2004. This increase was primarily due to (i) increased sales commissions and freight and delivery charges in line with the growth in the Group's sales, (ii) increased staff costs related to increased salaries for existing staff and hiring additional sales and marketing personnel and (iii) increased costs relating to the establishment of a sales network in Italy.

*General and administrative expenses*

General and administrative expenses increased by 60.4% from RMB124.4 million in 2003 to RMB199.6 million in 2004. This increase was principally due to (i) an increase in the reserve for the staff welfare and bonus fund by RMB16.4 million as a result of the increase in profits generated by the subsidiaries declaring the reserve, (ii) an increase in provisioning for the Group's bad debt by RMB13.6 million due to increase in sales activities and the PRC government's tightening of fixed investment and credit control in the banking and other sectors in 2004 and (iii) an increase in overall administrative expenses related to the expansion of the Group's operations.

*Other gains — net*

Other gains — net decreased from RMB42.2 million in 2003 to RMB36.6 million in 2004. This decrease resulted principally from (i) a decrease in the amount of government subsidies by RMB6.0 million over the same period and (ii) a loss of RMB8.3 million on investment securities in 2004 compared to a gain of RMB2.6 million in 2003. This decrease was partially offset by (i) a foreign exchange gain of RMB9.4 million in 2004 compared to RMB3.2 million in 2003 and (ii) a gain of RMB3.3 million from the liquidation of an associate in 2004.

*Operating profit*

The Group's operating profit decreased by 8.6% from RMB342.6 million in 2003 to RMB313.0 million in 2004. The Group's operating margin decreased from 17.1% in 2003 to 12.1% in 2004. The decrease in the Group's operating profit and operating margin was primarily due to the increase in the Group's cost of sales, selling and marketing expenses and general and administrative expenses, in each case, in absolute terms and as a percentage of sales, respectively, for the reasons stated above.

*Finance Costs*

Finance cost increased from RMB2.7 million in 2003 to RMB4.0 million in 2004. This increase was primarily due to an increase in borrowings for the expansion of the Group's business.

*Profit before income tax*

The Group's profit before income tax decreased by 8.3% from RMB340.8 million in 2003 to RMB312.6 million in 2004. This decrease was primarily due to the decrease in the Group's operating profit and the increase in the Group's finance cost for the reasons stated above.

*Income tax expense*

The Group's effective tax rate increased from 3.0% in 2003 to 7.2% in 2004. This increase was primarily due to the end of the full exemption in EIT for Haitian Machinery in 2004, resulting in the profit generated by Haitian Machinery being taxed at a 50% reduced rate of taxation for 2004 as compared to a full exemption from taxation for 2003.

*Profit for the year*

The Group's profit for the year decreased by 12.2% from RMB330.6 million in 2003 to RMB290.2 million in 2004. The Group's net profit margin decreased from 16.5% in 2003 to 11.2% in 2004. This decrease in the Group's profit and net profit margin was primarily due to (i) the increase in the Group's cost of raw materials, components and parts as a result of the increase in the average price of steel and other alloy metals over the same period and (ii) the increase in overall general and administrative expenses over the same period as a result of (a) the Group's expansion of its operations, (b) the increase in reserve for the staff welfare and bonus fund and (c) the increase in provisioning for bad debt.

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## WORKING CAPITAL ANALYSIS

### Liquidity ratios

	For the year ended 31 December,			For the six months ended 30 June,	
	2003	2004	2005	2005 <sup>(4)</sup> <i>(unaudited)</i>	2006 <sup>(4)</sup>
Inventory turnover days <sup>(1)</sup>	64	76	107	104	84
Trade receivable turnover days <sup>(2)</sup>	102	98	114	120	106
Trade payable turnover days <sup>(3)</sup>	132	138	171	170	156

*Notes:*

- (1) Inventory turnover days means the average amount of beginning and ending inventory balances divided by cost of sales and multiplied by 365 days.
- (2) Trade receivable turnover days means the average amount of beginning and ending trade receivable balances divided by sales and multiplied by 365 days.
- (3) Trade payable turnover days means the average amount of beginning and ending trade payable balances divided by cost of sales and multiplied by 365 days.
- (4) The various liquidity ratios calculated for the six months ended 30 June, 2005 and 2006 are based on 180 days.

### Inventory turnover days

The Directors believe that the Group has formulated a set of inventory policies which enables it to maintain an optimal inventory level based on the nature of the raw materials, components and parts, market demand and supply for these items and location of suppliers. Using the production and planning module and materials management module of the ERP system, the Group employs a strategic and transparent approach to procurement. Through the ERP system, the Group can readily assess updated information on raw materials, components and parts on hand and material requirements for its coming production. The Group uses this information to formulate its materials procurement plan which the Directors believe allows it to achieve an optimal inventory level. Based on these policies, the Group maintains inventory necessary to sustain one to two months' production. The Group maintains its inventory of raw materials, components and parts solely for its own production use.

The Group's inventory turnover days for 2003, 2004 and 2005 were 64, 76 and 107, respectively. The increase in the inventory turnover days from 2003 to 2004 was primarily due to an increase in the Group's purchase of raw materials as a result of the expansion of the Group's production capacity in anticipation of increased demand for its products in 2004 and an increase in the price of such raw materials. The increase in the inventory turnover days from 2004 to 2005 was primarily due to an increase in the Group's work-in-progress and finished products inventory in 2005 as a result of an increase in customer orders in the fourth quarter of 2005 which were either not completed or delivered in 2005.

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For the six months ended 30 June, 2006, the Group's inventory turnover days was 84. This decrease in the inventory turnover days as compared to the six months ended 30 June, 2005 was primarily due to the completion of the Reorganisation as at 30 April, 2006 as a result of which related inventories for the businesses retained by the Non-Transferred Companies were transferred out of the Group as at 30 April, 2006.

Up to 31 October, 2006, the usage of inventory accounted for approximately 87.9% of total inventories as at 30 June, 2006.

### **Trade receivable turnover days**

The Group generally extends to its customers, including its distributors, credit terms ranging from 15 to 20 days following the date of delivery of its products. The Group may adjust its usual credit terms according to a customer's or distributor's credit history as well as local market practice. The Group also allows a significant number of its customers (including distributors) in China to pay using banker acceptance bills which have maturities of up to 180 days. Although the Group accepts the banker acceptance bills at the end of the credit term thereby discharging the customer's payment obligations, the Group does not receive the proceeds until these banker acceptance bills mature, which can take up to 180 days depending on their maturities. These banker acceptance bills may be deposited by the Group prior to maturity less the applicable early withdrawal penalty, which amount typically represents accrued interest on the principal amount. In addition, the Group allows certain customers to pay in installments with periods of up to 18 months for domestic customers and up to three years for certain overseas customers. As a result of the foregoing, the Group's trade receivable turnover days are greater than its usual credit terms.

The Group has adopted internal control measures in relation to payment arrangements with its customers (including distributors), whereby it conducts a creditworthiness assessment on the relevant customer's assets and liabilities, financial strength and prior dealing history before approving any such arrangement. Once the arrangement has been approved, the Group frequently and closely monitors the settlements from customers to ensure that outstanding balances are timely followed up and customers with financial difficulties are handled at an early stage.

The Group's trade receivable turnover days for 2003, 2004 and 2005 were 102, 98 and 114, respectively. The increase in the trade receivable turnover days from 2004 to 2005 resulted principally from an increase in the Group's domestic sales of plastic injection moulding machines in the fourth quarter of 2005 as a result of the recovery in demand for these machines in the domestic market beginning in that quarter.

For the six months ended 30 June, 2006, the Group's trade receivable turnover days was 106. This decrease in the trade receivable turnover days as compared to the six months ended 30 June, 2005 was principally due to the completion of the Reorganisation as at 30 April, 2006 as a result of which trade receivables of Haitian Brazil and Haitian Turkey and the Other Businesses were transferred out of the Group as at 30 April, 2006.

Up to 31 October, 2006, approximately 78.0% of the outstanding trade receivables as at 30 June, 2006 have been settled.

**Trade payable turnover days**

The Group's trade payable turnover days for 2003, 2004 and 2005 were 132, 138 and 171, respectively. The increase in the trade payable turnover days from 2003 to 2005 was primarily due to the increase in the Group's use of banker acceptance bills with maturities up to 180 days to settle purchases from certain domestic suppliers and, in the case of 2005, also due to the increase in purchase of raw materials, components and parts in the fourth quarter of 2005 as a result of the increased in domestic demand for plastic injection moulding machines in that quarter.

For the six months ended 30 June, 2006, the Group's trade payable turnover days was 156. This decrease in trade payable turnover days as compared to the six months ended 30 June, 2005 resulted primarily from the completion of the Reorganisation as at 30 April, 2006 as a result of which related trade payables of the Other Businesses were transferred out of the Group as at 30 April, 2006.

**LIQUIDITY AND CAPITAL RESOURCES**

The Group has relied on cash generated from operations, banks and other borrowings and trade credit from its suppliers to fund its operations. The Group's principal use of funds has been to fund its increased working capital requirements as its production capacity has expanded and for capital expenditures to purchase and upgrade production facilities and equipment. As at 30 June, 2006, the Group had cash and cash equivalents totaling RMB331.3 million.

As at 31 December, 2003, 2004 and 2005, the Group had net current assets, defined as the difference between current assets and current liabilities, of RMB344.6 million, RMB485.2 million and RMB497.8 million, respectively.

As at 31 October, 2006, being the latest practicable date for the purpose of this net current asset statement, the Group had net current assets of RMB356.3 million. The current assets comprised inventories of RMB543.2 million, trade and bill receivables of RMB904.1 million, other receivables of RMB143.8 million, pledged bank deposits of RMB3.2 million and cash of RMB310.4 million. The current liabilities comprised trade and bills payables of RMB1,084.0 million, other payables of RMB302.3 million, income tax liabilities of RMB12.4 million and bank borrowings of RMB149.7 million.

Based on its current and anticipated levels of operations and conditions in its markets and industry, the Group believes that its cash on hand, cash flow from operations, availability under its credit facilities, and trade credit from its suppliers will enable it to meet its working capital, capital expenditures, debt service, dividend payments to shareholders and other funding requirements for the foreseeable future. However, the Group's ability to fund its working capital needs, repay its indebtedness and finance other obligations depends on its future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level in spending of its end-user customers on capital expenditure in the regions in which it sell its products and other factors, many of which are beyond its control. Any future significant acquisitions or expansion may require additional capital and there is no assurance that such capital will be available to the Group on acceptable terms, if at all.

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## Cash Flows

The following table sets forth certain information regarding the Group's consolidated cash flows for the periods indicated:

	For the year ended 31 December,			For the six months ended 30 June,	
	2003	2004	2005	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	345,165	361,054	316,246	68,289	341,375
Net cash used in investing activities	(279,561)	(139,767)	(270,595)	(162,659)	(310,685)
Net cash generated from/(used in) financing activities	<u>2,928</u>	<u>53,734</u>	<u>(43,579)</u>	<u>(77,039)</u>	<u>(290,905)</u>
Net increase/(decrease) in cash and cash equivalents	<u>68,532</u>	<u>275,021</u>	<u>2,072</u>	<u>(171,409)</u>	<u>(260,215)</u>

### *Net cash generated from operating activities*

The Group's net cash generated from operating activities reflects the Group's profit for the year or period, as the case may be, as adjusted for non-cash items, such as depreciation and amortization, and the effects of changes in working capital, such as increases or decreases in inventories, trade and other receivables, and trade and other payables. The Group's net cash generated from operating activities was RMB345.2 million, RMB361.1 million and RMB316.2 million for 2003, 2004 and 2005, respectively. The Group's net cash generated from operating activities for the six months ended 30 June, 2006 was RMB341.4 million as compared to RMB68.3 million for the six months ended 30 June, 2005.

The increase of RMB15.9 million in the Group's net cash generated from operating activities between 2003 and 2004 was mainly due to (i) an increase of RMB20.9 million in the Group's operating cashflows before movements in working capital and (ii) an increase of RMB174.8 million in cash inflow from changes in trade and bills payables and accruals and other payables. This increase was partially offset by (i) an increase of RMB8.3 million in cash outflow from changes in trade and other receivables and (ii) an increase of RMB159.4 million in cash outflow from changes in inventories. The above increase of changes in working capital was primarily due to a significant increase in the Group's sales from RMB2,006.7 million in 2003 to RMB2,594.1 million in 2004 as a result of the Group's expansion of its production capacity to meet the increasing demand for its products in domestic and overseas markets.

The decrease of RMB44.8 million in the Group's net cash generated from operating activities between 2004 and 2005 was mainly due to an increase of RMB103.7 million in cash outflow from changes in working capital which resulted from an increase in sales order and sales in the fourth quarter of 2005. This increase in cash outflow from changes in working capital was partially offset by an increase of RMB54.1 million in the Group's operating cashflows before movements in working capital.

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The increase of RMB273.1 million in the Group's net cash generated from operating activities for the six months ended 30 June, 2006 as compared to the same period in 2005 was mainly due to (i) an increase of RMB105.7 million in the Group's operating cashflows before movements in working capital, (ii) an increase of RMB92.6 million in cash inflow from changes in inventories which was due to the decrease in the Group's work-in-progress and finished products that built up in the fourth quarter of 2005 as a result of them being completed and/or delivered in the first half of 2006 and (iii) an increase of RMB453.4 million in cash inflow from changes in trade and other payables which resulted from the Non-transferred Companies retaining the obligation to settle certain trade payables as part of the Reorganisation. The above increases were significantly offset by the decrease in cash inflow of RMB347.0 million from changes in trade and other receivables which resulted from the Non-transferred Companies retaining the right to receive on certain trade and other receivables as part of the Reorganisation.

### *Net cash used in investing activities*

The Group's net cash used in investing activities was RMB279.6 million, RMB139.8 million and RMB270.6 million for 2003, 2004 and 2005, respectively. The Group's net cash used in investing activities for the six months ended 30 June, 2006 was RMB310.7 million compared to RMB162.7 million for the six months ended 30 June, 2005.

The decrease of RMB139.8 million in the Group's net cash used in investing activities between 2003 and 2004 was mainly due to the maturity of time deposits in the amount of RMB104.9 million in 2004 as compared to an increase in time deposits of RMB49.3 million in 2003 and the repayment by third-parties of loans in the amount of RMB49.7 million. This decrease was partially offset by an increase of RMB72.7 million in the capital expenditure for the expansion of production facilities in connection with the expansion of the Group's business over the same period.

The increase of RMB130.8 million in the Group's net cash used in investing activities between 2004 and 2005 was principally due to (i) an increase of RMB78.5 million in the purchase of land use rights by a Non-transferred Company for a business not relating to the plastic injection moulding machinery business, (ii) an increase of RMB32.9 million in loans to related parties and a smaller amount of time deposits, RMB13.6 million, maturing in 2005 as compared to RMB104.9 million in 2004. This increase was partially offset by a slight decrease in capital expenditure of construction of plant and expansion of production facilities RMB39.2 million.

The increase of RMB148.0 million in the Group's net cash used in investing activities for the six months ended 30 June, 2006 as compared to the same period in 2005 was primarily due to an increase in cash outflow of RMB253.0 million for the purchase of certain operating assets and shareholdings of subsidiaries that comprised the Group from the Non-transferred Companies. This increase was partially offset by a decrease of RMB105.0 million in the purchase of fixed assets as a result of the substantial completion of construction in progress and existing expansion projects.

## *Net cash generated from/(used in) financing activities*

The Group's net cash generated from financing activities was RMB2.9 million and RMB53.7 million for 2003 and 2004, respectively. The Group's net cash used in financing activities in 2005 was RMB43.6 million. For the six months ended 30 June, 2006, the Group's net cash used in financing activities was RMB290.9 million compared to RMB77.0 million for the same period in 2005.

The increase of RMB50.8 million in the net cash generated from financing activities between 2003 and 2004 was mainly due to an increase of RMB79.6 million in net cash inflow from bank borrowings which resulted from a loan of RMB100 million borrowed for the expansion of the Group's production facilities in 2004. This increase was partially offset by an increase of RMB16.4 million in dividend payments to shareholders and a decrease of RMB12.6 million in loans from related parties.

The decrease of RMB97.3 million from a net cash generated to a net cash used in financing activities between 2004 and 2005 was primarily due to a decrease of RMB97.6 million in net cash inflow from bank borrowings which resulted from smaller borrowings in 2005 as compared to a loan of RMB100 million borrowed in 2004.

The increase of RMB213.9 million in the net cash used in financing activities for the six months ended 30 June, 2006 as compared to the same period in 2005 resulted primarily from a distribution of RMB424.5 million to the equity shareholders of the Company pursuant to the Reorganisation, which was partially offset by an increase in net cash inflow from bank borrowings of RMB246.5 million which resulted from the increase in bank borrowings for the purpose of acquiring certain operating assets and shareholdings of subsidiaries which comprised the Group from the Non-transferred Companies.

## **Trade related and non-trade related advances**

### *Related Party Transactions*

With respect to the related parties transactions as set out in Note 39(a) of the Accountant's Report attached as Appendix I to this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or on terms that are not less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of the Shareholders of the Company as a whole.

### *Other Receivables*

During the Track Record Period, the Group made loans to certain employees and existing distributors who are Independent Third Parties. As at 31 December, 2003, 2004 and 2005 and 30 June, 2006, the balance of these loans to employees was RMB44.8 million, RMB40.4 million, RMB29.3 million and RMB1.8 million, respectively, and the balance of these loans to distributors was RMB0.2 million, RMB10.0 million, RMB10.0 million and RMB10.0 million, respectively. Each of these loans required the approval of the Directors and must be properly documented. The Directors normally consider the following criteria in granting loans to employees and distributors:

- Purpose, amount and recoverability of the loan to be granted;

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- Credit assessment and past performance of the employee or distributor, the seniority of the employee and the Group's relationship with the distributor, as the case may be; and
- Financial resources available to the Group for making the loan.

The purpose of making these loans to employees and distributors was primarily to motivate and retain competent employees and distributors by providing them with an additional incentive to establish long-term and stable relationships with the Group, which the Directors believe would ultimately benefit the Group's operation. Due to the relevant restrictions on money lending activities in the PRC, these loans are non-interest bearing. As such, the Directors are of the view that they are not in normal commercial terms as compared to other bona fide loans. The Directors confirm that the Group has not experienced any difficulty in the recovery of these loans to employees and distributors and, accordingly, made no provisions for these loans during the Track Record Period. The Group will discontinue making these loans to distributors after the Global Offering.

### *PRC Legal Opinion*

The Group's PRC legal counsel, Jingtian & Gongcheng, opines that the trade-related advances do not contravene the PRC laws or regulations, and the non-trade related advances to individuals, such as the directors and the employees, do not fall into the General Principles of Loans promulgated by the People's Bank of China in 1996 (貸款通則) (the "General Principles") which prohibit companies from making loans to each other (rather than to individuals) and therefore do not contravene the PRC laws and regulations.

As advised by Group's PRC legal counsel, Jingtian & Gongcheng, the non trade-related inter-company loans made by the Group did not comply with the General Principles and the Group may be subject to a fine of a maximum of five times of the actual amount of interest received by it relating to such loans. The Directors confirm that, as at the date of this prospectus, the Group was not subject to any fine or penalty relating to those non-trade related inter-company loans and that none of the members of the Group charged any interests on the non-trade-related inter-company loans. Accordingly, as at the date of this prospectus, the maximum amount of fine that may be imposed on the Group is nil.

### **Capital Expenditure**

Capital expenditures are used to purchase property, plant and equipment such as land, buildings, vehicles, office furniture and equipment, IT hardware and software, and manufacturing equipment and machinery. For 2003, 2004, 2005 and the six months ended 30 June, 2006, the Group's capital expenditure totaled RMB174.6 million, RMB258.5 million, RMB297.0 million and RMB51.7 million, respectively.

### **Working Capital**

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the Global Offering, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

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## INDEBTEDNESS

As at 31 October, 2006, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately RMB449.7million as set forth below:

	Secured	Unsecured	Total
	<i>(RMB in millions)</i>		
Short-term bank borrowings	—	78.3	78.3
Long-term bank borrowings	150.0	150.0	300.0
Borrowings arising from discounted bills receivables	65.3	—	65.3
Bank overdraft	—	6.1	6.1
	<u>215.3</u>	<u>234.4</u>	<u>449.7</u>

As at 31 October 2006, bank borrowings of RMB150.0 million were guaranteed by The Bank of China and bank borrowings of RMB65.3 million were secured by the discounted bills receivables of the Group.

On 10 November, 2006, the Group entered into a new unsecured US\$8.5 million (approximately RMB66.6 million) term loan facility with the OCBC Bank with an interest rate of one-month LIBOR plus 0.75% and expiring on 5 June, 2007. On 13 November, 2006, the Group borrowed US\$5.0 million (approximately RMB39.2 million) under this facility. Other than this new borrowing, the Directors confirm that there has been no material change in the indebtedness of the Group since 31 October, 2006.

Save as disclosed above, and apart from intra-group liabilities, the Group did not have, at the close of business at 31 October, 2006, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness.

## Contingent Liabilities

As part of its sales policy, the Group provides guarantees for loans granted by two PRC banks to some of the Group's end-user customers in connection with their purchases of the Group's products. Currently, the Group has agreed with these banks to guarantee these loans in an aggregate amount of up to RMB450.0 million. This guarantee is secured by the Group's deposits with these banks. The upper limit of this guarantee is adjusted on a yearly basis and has increased from RMB320.0 million in 2003 to RMB450.0 million in 2006. As at 30 June, 2006, the Group had contingent liabilities in the aggregate amount of RMB243.6 million arising from the Group's guarantees of these loans granted by the two PRC banks. If an end-user customer defaults on a loan, the bank will first deduct the default amount from the Group's deposits with the bank but is obliged to actively pursue collection action against the borrower. However, for sales through third-party sales agents or distributors involving these loans, the Group will be indemnified for any loss resulting from such defaults pursuant to the relevant sales agency or distributorship agreement. To the extent the bank is able to recover all or part of the default amount from the borrower, such amount is credited back to the Group's deposits with the bank. For 2003, 2004, 2005 and the six months ended 30 June, 2006, approximately RMB0.3 million, RMB9.1 million, RMB3.7 million and RMB11.0 million, respectively, were deducted from the Group's deposits with these banks.

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### Contractual Obligations

The following table sets forth the Group's contractual obligations as at 30 June, 2006, that may affect its liquidity over the next five years.

	Payments due by Period		
	Total	Less than 1 year	1-5 years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating lease commitments	4,584	2,224	2,360

The capital commitments of the Group in relation to the acquisition and construction of property, plant and equipment as at 30 June, 2006, was RMB51.9 million.

Save as disclosed above, the Group did not have, at the close of business at 30 June, 2006, any other material contingent liabilities and contractual obligations.

### INVESTMENTS IN FINANCIAL ASSETS

During the Track Record Period, the Group purchased certain equity securities listed in the A-share markets in China for investment purposes. As at 31 December, 2003, 2004 and 2005 and 30 June, 2006, the aggregate fair market value amount of these investments was RMB16.6 million, RMB28.3 million, RMB18.5 million and RMB11.0 million, respectively. The Directors confirm that, after the Global Offering, the Group will end its practice of purchasing listed equity securities for investment purposes and will dispose of its current portfolio of listed equity securities in the market at appropriate times and prices. The Group's PRC legal counsel, Jingtian & Gongcheng, confirms that the Group's investments in listed securities during the Track Record Period did not contravene any PRC laws and regulations.

### OFF-BALANCE SHEET TRANSACTIONS

As at Latest Practicable Date, the Group had not entered into any material off-balance sheet transactions.

**FINANCIAL INFORMATION OF THE NON-TRANSFERRED COMPANIES**

Prior to the Reorganisation, the companies now comprising the Group and the Non-transferred Companies conducted the Group's plastic injection moulding machinery business as an integral operation by engaging in various aspects of the business from procurement, processing and assembly to sales to customers. Upon the completion of the Reorganisation, the Non-transferred Companies, other than Haitian Brazil and Haitian Turkey, ceased their operations in the plastic injection moulding machinery business and transferred all operating assets essential to conduct such business to the companies now comprising the Group. After the Reorganisation, the companies now comprising the Group independently conducted the plastic injection moulding machinery business, comprising the research and development, procurement, production and sales of plastic injection moulding machines.

As the Non-transferred Companies had not been separately managed from the companies now comprising the Group in the conduct of the plastic injection moulding machinery business prior to 30 April, 2006, their results, cashflows and financial positions as set out below constituted only part of the results, cashflows and financial positions of the entire plastic injection moulding machinery business during the Track Record Period. Accordingly, the combined financial information of the Non-transferred Companies as set out below should be read in conjunction with the accountants' report of the Group for 2003, 2004 and 2005 and the six months ended 30 June, 2006 as set forth in Appendix I to this prospectus.

The following tables set forth the combined results, net cashflows and balance sheets of Non-transferred Companies, including transactions with companies now comprising the Group for 2003, 2004, 2005 and up to the completion of the Reorganisation as at 30 April, 2006 when the assets and liabilities retained by the Non-transferred Companies were reflected as a distribution made to the equity holders of those companies.

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The combined results of the Non-transferred Companies are analyzed below:

	For the year ended 31 December,			For the four months ended 30 April,	
	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2005 <i>RMB'000</i> <i>(unaudited)</i>	2006 <i>RMB'000</i>
Sales of plastic injection moulding machines and related parts <sup>(1)</sup>	1,414,977	2,277,007	1,710,339	551,477	31,808
Other Businesses	<u>1,294</u>	<u>20,556</u>	<u>41,630</u>	<u>19,295</u>	<u>41,441</u>
Total sales	<u><u>1,416,271</u></u>	<u><u>2,297,563</u></u>	<u><u>1,751,969</u></u>	<u><u>570,772</u></u>	<u><u>73,249</u></u>
Gross profit	----- 82,068	----- 205,113	----- 103,064	----- 33,993	----- 16,807
<b>Net (loss)/profit before dividend income and other losses</b>	<b>(12,013)<sup>(2)</sup></b>	<b>67,094<sup>(3)</sup></b>	<b>8,608<sup>(4)</sup></b>	<b>(1,020)</b>	<b>(3,270)</b>
Dividend income received from companies now comprising the Group	194,107	255,516	197,299	186,698	384,537
Losses arisen from waived amount due from companies now comprising the Group	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(119,013)</u>
Net profit	<u><u>182,094</u></u>	<u><u>322,610</u></u>	<u><u>205,907</u></u>	<u><u>185,678</u></u>	<u><u>262,254</u></u>
Attributable to:					
Plastic injection moulding machinery business	181,123	320,307	202,343	185,618	256,678
Other Businesses	<u>971</u>	<u>2,303</u>	<u>3,564</u>	<u>60</u>	<u>5,576</u>
	<u><u>182,094</u></u>	<u><u>322,610</u></u>	<u><u>205,907</u></u>	<u><u>185,678</u></u>	<u><u>262,254</u></u>

Notes:

- (1) Such sales of the Non-transferred Companies during the three years ended 31 December, 2003, 2004 and 2005 and the four months ended 30 April, 2005 and 2006 mainly represented inter-group sales (which were eliminated in the Group's financial statements) of semi-finished goods to the companies now comprising the Group for further processing.

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- (2) The net loss incurred by the Non-transferred Companies in 2003 amounted to approximately RMB12.0 million which was attributable to Ningbo Haitian, which formed part of the Non-transferred Companies and was the immediate holding company of the major operating subsidiaries of the Haitian Group prior to the Reorganisation. Ningbo Haitian bore the majority of the corporate expenses and cost of material purchases of the Haitian Group in that year.
- (3) The increase in net profit before dividend income and other losses by approximately RMB79.1 million from 2003 to 2004 was mainly due to the increase in revenue of the Non-transferred Companies by approximately RMB881.3 million, resulting from the sales growth of the Non-transferred Companies and the commencement of operation of Haitian Precision in 2004.
- (4) The decrease in net profit before dividend income and other losses by approximately RMB58.5 million from 2004 to 2005 was mainly due to the decrease in revenue of the Non-transferred Companies by approximately RMB545.6 million, resulting from the gradual transfer of the plastic injection moulding machinery business from HMC to the companies comprising the Group pursuant to the Reorganisation.

The combined net cashflows of the Non-transferred Companies are analyzed below:

	<b>For the year ended 31 December,</b>			<b>For the four months ended</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>30 April, 2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash generated from/(used in) from:				
Operating activities	87,290	(234,123)	(82,721)	(333,034)
Investing activities	(101,503)	230,194	(2,863)	818,066
Financing activities	<u>48,818</u>	<u>125,929</u>	<u>(27,621)</u>	<u>(204,739)</u>
Net increase/(decrease) in cash and cash equivalents	<u>34,605</u>	<u>122,000</u>	<u>(113,205)</u>	<u>280,293</u>

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The combined balance sheets of the Non-transferred Companies excluding their cost of investment in the companies now comprising the Group as at 31 December, 2003, 2004 and 2005 are analyzed below:

	<b>As at 31 December,</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	427,079	533,258	467,193
Land use rights	24,503	25,479	102,203
Intangible assets	6,955	7,519	5,596
Interests in associates	12,014	10,526	1,744
Other receivables	—	20,000	—
Deferred tax assets	—	2,426	3,238
<b>Current assets</b>			
Inventories	168,658	123,810	138,484
Trade and bill receivables	289,750	236,599	139,962
Other receivables	152,706	122,899	175,149
Due (to)/from companies now comprising the Group	(169,168)	456,602	730,183
Non-current assets held for sale	—	9,000	9,000
Pledged bank deposits	4,203	5,652	4,937
Bank deposits with initial terms of over three months	105,000	—	—
Cash and cash equivalents	135,444	257,444	144,239
<b>Non-current liabilities</b>			
Bank borrowings	—	(100,000)	—
<b>Current liabilities</b>			
Trade and bill payables	(572,563)	(785,688)	(779,906)
Other payables	(282,488)	(277,926)	(242,693)
Taxation payable	(9,143)	(6,502)	(12,771)
Bank borrowings	(60,630)	(107,191)	(221,174)

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Upon completion of the Reorganisation on 30 April, 2006, the Non-transferred Companies ceased their operations in plastic injection moulding machinery business. The assets and liabilities retained by the Non-transferred Companies as at 30 April, 2006 were excluded from the Group and accounted for as a distribution to equity holders. The assets and liabilities retained by the Non-transferred Companies on 30 April, 2006 are analyzed below:

	<b>As at 30 April, 2006</b> <i>RMB'000</i>
<b>Non-current assets</b>	
Property, plant and equipment	229,259 <sup>(1)</sup>
Land use rights	85,933 <sup>(2)</sup>
Intangible assets	4,713 <sup>(3)</sup>
Interests in an associate	<u>1,863<sup>(4)</sup></u>
	<u>321,768</u>
<b>Current assets</b>	
Inventories	101,771 <sup>(5)</sup>
Trade and bill receivables	225,206 <sup>(6)</sup>
Other receivables	570,992 <sup>(7)</sup>
Financial assets at fair value through profit or loss	23,687 <sup>(4)</sup>
Non-current assets held for sale	9,000 <sup>(4)</sup>
Cash and cash equivalents	<u>424,532</u>
	<u>1,355,188</u>
<b>Current liabilities</b>	
Trade and bill payables	(333,120) <sup>(8)</sup>
Other payables	(207,222) <sup>(9)</sup>
Taxation payable	(344)
Bank borrowings	<u>(50,000)<sup>(10)</sup></u>
	<u>(590,686)</u>
	<u><u>1,086,270</u></u>

*Notes:*

(1) Property, plant and equipment of approximately RMB229 million consisted of:

- property, plant and equipment of approximately RMB157 million which will only be used to conduct the Other Businesses after the Reorganisation;
- office building, vehicles and office equipment of approximately RMB53 million which will be retained by the Non-transferred Companies. Save for a building which will be leased to the Group for use as an office, the vehicles and office equipment retained by the Non-transferred Companies will not be used to conduct plastic injection moulding machinery business after the Reorganisation; and

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- approximately RMB19 million which mainly consist assembly facilities and offices owned by Haitian Turkey and Haitian Brazil, which were excluded from the Group following the Reorganisation.
- (2) Land use rights of approximately RMB77 million consisting of a vacant land which will be held by the Non-transferred Companies for future development purposes and approximately RMB9 million which will not be used to conduct the plastic injection moulding machinery business after the Reorganisation.
- (3) Intangible assets of approximately RMB5 million which were held by the Non-transferred Companies for the Other Businesses' use only.
- (4) Interests in an associate, financial assets at fair value through profit or loss, and non-current assets held for sale are not related to the plastic injection moulding machinery business and were retained by the Non-transferred Companies for investment purposes.
- (5) Inventories of approximately RMB102 million, of which approximately RMB34 million were held by Haitian Turkey and Haitian Brazil and the remainder was held for the Other Businesses.
- (6) Trade and bill receivables of approximately RMB225 million consisting of:
  - approximately RMB130 million of bills issued by two banks on behalf of the Group for the settlement of inter-company balances with the Non-transferred Companies;
  - approximately RMB41 million of trade and bill receivables retained by Haitian Turkey and Haitian Brazil; and
  - approximately RMB54 million of trade and bill receivables which were generated from the Other Businesses.
- (7) Other receivables of approximately RMB571 million consisting of:
  - approximately RMB429 million of amounts due from related parties;
  - approximately RMB88 million of other receivables which were generated from the Other Businesses;
  - approximately RMB9 million of other receivables retained by Haitian Turkey and Haitian Brazil; and
  - the remainder was other receivables retained by the Non-transferred Companies which are not related to the Group's plastic injection moulding machinery business.
- (8) Trade and bill payables of approximately RMB333 million consisting of:
  - approximately RMB240 million of trade and bill payables which were generated by the Non-transferred Companies from the plastic injection moulding machinery business. These payables cannot be transferred to the Group without the consent of the respective creditors as the legal obligations were made between the respective creditors and the Non-transferred Companies. As at 30 June, 2006, the outstanding amount of these payables was RMB72 million; and
  - approximately RMB93 million of trade and bill payables which were generated from the Other Businesses.
- (9) Other payables of approximately RMB207 million consisting of:
  - approximately RMB63 million of amounts due to related companies;
  - approximately RMB29 million of other payables retained by Haitian Turkey and Haitian Brazil;

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- approximately RMB18 million of other payables which were generated from the Other Businesses; and
- the remainder was other payables retained by the Non-transferred Companies which are not related to the Group's plastic injection moulding machinery business.

(10) Borrowings of approximately RMB50 million were retained by the Non-transferred Companies.

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group is, in the normal course of business, exposed to market risks relating primarily to fluctuations in interest rates and exchange rates, as well as commodity price risks. The Group's risk management strategy aims to minimize the adverse effects of these risks on its financial performance.

#### Interest Rate Risk

The Group is exposed to interest rate risk on its bank borrowings for working capital, capital expenditures associated with the Group's expansion in China and overseas and for other uses. Upward fluctuations in interest rates increase the cost of both existing and new debt. As at 30 June, 2006, all of the Group's long-term borrowings in the aggregate amount of RMB300.0 million bear a fixed rate of interest per annum ranging from 3.78% to 5.18% while most of the Group's short-term borrowings in the aggregate amount of US\$10.0 million (approximately HK\$77.8 million) bear a floating interest rate per annum of LIBOR plus 0.75%. Since only a small amount of its existing debt is subject to a floating rate of interest, the Group does not believe it is currently subject to interest rate risk. As at the Latest Practicable Date, the Group has not entered into any type of interest rate agreements or derivative transactions to hedge against interest rate changes.

#### Foreign Exchange Rate Fluctuation Risk

The Group exports a significant portion of its products to international markets which sales are denominated in U.S. dollars or other foreign currencies, while substantially all of the Group's purchases are denominated in Renminbi. In 2003, 2004, 2005 and the six months ended 30 June, 2006, approximately 17.1%, 24.1%, 30.4% and 31.8% of the Group's sales of plastic injection moulding machines were denominated in U.S. dollars or other foreign currencies, respectively, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of total purchases. As of 30 June, 2006, the Group's foreign-currency denominated deposits and trade and bill receivables amounted to RMB116.1 million and RMB293.4 million, respectively, while its trade and bills payables and bank borrowings amounted to RMB65.2 million and RMB83.2 million, respectively. Therefore, any significant fluctuation in the exchange rate of the Renminbi against other currencies will subject the Group to exchange rate risk which may be beneficial to, or adversely affect, the Group's financial condition and results of operations. For further information regarding the foreign exchange rate fluctuation risk faced by the Group, please see the section headed "Risk Factors" in this prospectus.

As at the Latest Practicable Date, the Group does not have a formal hedging policy and has not entered into any arrangements to hedge against its currency risk.

# FINANCIAL INFORMATION

## Commodity Price Risk

The Group is exposed to fluctuations in the prices of raw materials, components and parts, which represented 90.0% and 89.2% of the Group's cost of sales in 2005 and the six months ended 30 June, 2006, respectively. The Group makes such purchases at market prices, which may fluctuate and are beyond the Group's control. Therefore, fluctuations in the prices of the Group's raw materials, components and parts may have a significant effect on its results of operations. In particular, in recent years, prices for steel, iron and other alloy metals and components made therefrom have experienced significant fluctuations. In order to minimize the impact of these price fluctuations, in 2004 and 2005, the Group had prepaid suppliers in a lump sum to cap the pricing for these raw materials and components in those years. As a result, the Group's prepayment for raw materials was RMB42.0 million and RMB58.2 million in 2004 and 2005, respectively, as compared to RMB14.0 million in 2003. The amount of these prepayments has gradually decreased with each delivery of raw materials and components. The timing and the magnitude of the prepayments made were determined by the Group with reference to the market conditions for these raw materials and components and management's experience. As at the Latest Practicable Date, the Group has not entered into any future contracts to hedge any commodity price changes.

## Inflation

China has not experienced significant inflation or deflation in recent years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 1.2% in 2003, 3.9% in 2004 and 1.8% in 2005. Recent inflation and deflation have not materially affected the Group's business.

## UNAUDITED PRO FORMA STATEMENT OF NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June, 2006. This unaudited pro forma statement of net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June, 2006 or at any future date.

	Audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 June, 2006 <sup>(1)</sup>	Estimated net proceeds of the Global Offering <sup>(2)</sup>	Unaudited pro forma net tangible assets attributable to the equity holders of the Company	Unaudited pro forma net tangible assets value per Share <sup>(3)</sup>	Unaudited pro forma adjusted net tangible assets value per Share <sup>(3)</sup> <i>(Equivalent to HK\$)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	
Based on an Offer Price of HK\$2.77 per share	653,640	1,047,224	1,700,864	1.07	1.06
Based on an Offer Price of HK\$3.95 per share	653,640	1,509,444	2,163,084	1.36	1.35

# FINANCIAL INFORMATION

## Notes:

- (1) The audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 June, 2006 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the respective Offer price of HK\$2.77 and HK\$3.95 per Share after deduction of the underwriting fees and other related expenses payable by the Company. The estimated net proceeds are converted into Renminbi at the rate of RMB1.007 = HK\$1.00.
- (3) The unaudited pro forma net tangible assets value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 1,596,000,000 Shares were in issue immediately following the completion of the Global Offering. The unaudited pro forma net tangible assets value per Share is converted into Hong Kong dollars at the rate of RMB1.007 = HK\$1.00.
- (4) As at 31 October, 2006, the Group's land use rights and buildings interests were revalued by DTZ Debenham Tie Leung Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation. The net revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately RMB122,979,000. Such revaluation surplus has not been included in the Group's combined financial information as at 30 June, 2006 and will not be included in the Group's accounts for the year ending 31 December, 2006. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, an additional depreciation of RMB7.9 million per annum would be charged against the combined income statement for the year ending 31 December, 2006.

The land use rights of the Group are accounted for as operating lease under Hong Kong Accounting Standard 17 "Leases" and are treated as prepaid lease payments. Hong Kong Accounting Standard 38 does not apply to land use rights. Accordingly, land use rights of approximately RMB66,441,000 as at 30 June, 2006 were not excluded for the preparation of unaudited pro forma statement of net tangible assets.

- (5) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June, 2006.
- (6) The pro forma financial information is not prepared in accordance with Hong Kong Financial Reporting Standards.

## DIVIDEND AND DIVIDEND POLICY

The declaration of dividends is subject to the discretion of the Board and any final dividend for the year is subject to shareholders' approval. The amount of dividends will depend upon a number of factors, including the Group's earnings, cash and distributable reserves, investment requirements, working capital requirements, general financial conditions and any other factors considered relevant by the Board.

For 2003, 2004 and 2005, the Group declared dividends of RMB28.0 million, RMB30.4 million and RMB30.4 million, respectively.

The Board will not be declaring a dividend for the 2006 financial year to the shareholders of the Company. Subject to the availability of the Group's cash and distributable reserves and its investment, cashflow and working capital requirements, the Board intends to make a distribution to shareholders of the Company of approximately 33.0% of the Group's net profits attributable to the equity holders of the Company for the 2007 financial year as dividends.

## **DISTRIBUTABLE RESERVES**

There were no reserves available for distribution to the shareholders of the Company as at the Latest Practicable Date.

## **DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES**

The Directors have confirmed that as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

## **PROPERTY INTERESTS**

As at 31 October, 2006, the Group owned ten parcels of land (with an aggregate area of approximately 565,858 square meters) and nine industrial complexes (with an aggregate gross floor area of approximately 316,446 square meters) for use as production facilities and offices located in three cities in China.

The Group has legally obtained the state-owned land use rights certificates for all of its land.

The buildings for use as production facilities and offices include self-owned properties, properties under construction and properties under lease.

The Group has obtained the building ownership certificates of all the self-owned buildings units; and the Group has the right to transfer, lease, mortgage or otherwise dispose of these properties.

The Group has obtained the state-owned land use rights certificates and all the applicable construction commencement approvals and permits from the relevant authorities for all of its buildings currently under construction. As at the Latest Practicable Date, one property of the Group was under construction and the Group will apply for building ownership certificate for that property upon completion.

The Group has entered into valid lease agreements with lessors for all leased properties.

DTZ Debenham Tie Leung Limited, an independent property valuation firm, has valued the properties owned and leased by the Group as of 31 October, 2006 and the text of its letter, summary of values and valuation certificates are set out in Appendix IV to this prospectus.

## FINANCIAL INFORMATION

Disclosure of the reconciliation of the Group's properties from the audited combined financial statements as at 30 June, 2006 to the valuation as at 31 October, 2006 as required under Rule 5.07 of the Listing Rules is set out below:

	<i>RMB'000</i>
Valuation of properties of the Group as at 31 October, 2006 as set out in the property valuation report in appendix IV to this prospectus	<u>455,200</u>
Net book value of properties held by the Group as at 30 June, 2006	
Buildings	256,511
Land use rights	<u>66,441</u>
	322,952
Add/(Less):	
Transferred from construction-in-progress for the four months ended 31 October, 2006	14,600
Depreciation on buildings for the four months ended 31 October, 2006	(4,857)
Amortisation of land use rights for the four months ended 31 October, 2006	<u>(474)</u>
Net book value as at 31 October, 2006	<u>332,221</u>
Revaluation surplus	<u><u>122,979</u></u>

### PROFIT FORECAST

The Directors forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix III to this prospectus, the forecast of the Group's consolidated profit attributable to equity holders of the Company for the year ending 31 December, 2006 will not be less than RMB422.7 million (approximately HK\$419.8 million).

Based on a pro forma basis, the forecast unaudited earnings per Share for the year ending 31 December, 2006 will be RMB0.265 (approximately HK\$0.263). This is made on the assumption that the Company had been listed since 1 January, 2006, and a total of 1,596,000,000 Shares were in issue since 1 January, 2006 without taking into account any Shares which may be issued pursuant to the Issuing Mandate or any Shares which may be repurchased pursuant to the Repurchase Mandate. Please refer to "Appendix III — Profit Forecast" to this prospectus.

### NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 30 June, 2006 (being the date to which the latest audited financial statements of the Group were made up).