

RELATIONSHIP WITH THE HAITIAN GROUP

RETAINED BUSINESSES OF THE HAITIAN GROUP

In addition to the business of the Group, the Haitian Group has also been engaged in the following businesses which were excluded from the Group following the Reorganisation:

- (a) the design, development, manufacture and sale of screw-air compressors which are used in the production process of industrial machinery;
- (b) the design, development, manufacture and sale of CNC machines and machining centres which process mainly industrial parts and components for the manufacture of industrial machinery;
- (c) the import and export trading of accessories and sundries;
- (d) the design, manufacture and sale of hydraulic motors and related parts and components for industrial machinery; and
- (e) the holding of land for construction of an industrial factory.

The Haitian Group will continue to carry on these businesses through the Non-Transferred Companies following the Reorganisation and completion of the Global Offering. As the Group's operations are separated from the above business lines and the Group's products are completely different and distinguishable from the products manufactured by the Haitian Group, there is no competition, directly or indirectly, between the retained businesses of the Haitian Group and the Group's business.

Haitian Turkey and Haitian Brazil, which are engaged in the sale of plastic injection moulding machines on behalf of the Group, were also excluded from the Group following the Reorganisation for reasons set out below. Zhafir, a company held as to 80% in aggregate by the two executive Directors, has not commenced its R&D activities as at the Latest Practicable Date and hence it was also not transferred to the Group under the Reorganisation.

Details of the businesses retained by the Haitian Group and of Haitian Turkey, Haitian Brazil and Zhafir are set out below.

POTENTIAL COMPETITION WITH THE HAITIAN GROUP

As at the Latest Practicable Date, the Haitian Group retained a controlling interest, directly or indirectly, in the following companies which may or may not compete with the Group's existing business.

(a) Ningbo Haitian Compressor Co., Ltd. ("Haitian Compressor")

The Haitian Group engages in this business through its subsidiary, Haitian Compressor. Please refer to the section headed "History and development" in this prospectus for details of this company.

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Since 2000, Haitian Compressor has been engaged in the design, development, manufacture and sale of screw-air compressors. During the Track Record Period, the Group purchased some of the screw-air compressors used in its production process from Haitian Compressor. Screw-air compressors are ancillary equipment purchased by the Group as fixed assets to produce compressed air in the production process of the Group.

The end-user customers of Haitian Compressor are of different industries including manufacture of medicine, commodities, textile, chemicals, automobile and industrial machinery including manufacture of plastic injection moulding machines by the Group. Haitian Compressor is considered as a potential supplier to the Group. Since the end-user customers of Haitian Compressor and the Group are completely different and distinguishable, the Directors consider there is no competition between the Group and Haitian Compressor.

(b) Ningbo Haitian Precision Machinery Co., Ltd. (“Haitian Precision”)

The Haitian Group engages in this business through its subsidiary, Haitian Precision. Please refer to the section headed “History and development” in this prospectus for details of this company.

Since 2002, Haitian Precision has been engaged in the design, development, manufacture and sale of CNC machines and machining centres which are equipment purchased by the Group as fixed assets used to process parts and components with specifications for the manufacture of various industrial machinery. During the Track Record Period, the Group purchased some of the CNC machines and machining centres used in its production process from Haitian Precision but the majority of such equipment were purchased from Independent Third-Party suppliers.

The end-user customers of Haitian Precision are various industrial machinery manufacturers, including the Group, and Haitian Precision is considered as a potential supplier to the Group. Since the end-user customers of Haitian Precision and the Group are completely different and distinguishable, the Directors believe there is no competition between the Group and Haitian Precision.

Ningbo Export Processing District Haitian Precision Machinery Co., Ltd. (“Haitian Precision Export”) was incorporated on 29 August, 2006 and will be engaged in the export of CNC machines and machining centres. As at the Latest Practicable Date, Haitian Precision Export has not commenced its business operation.

(c) Ningbo Haidun Trading Co., Ltd (“Haidun Trading”)

The Haitian Group engages in this business through its subsidiary, Haidun Trading. Please refer to the section headed “History and development” in this prospectus for details of this company.

Since 2000, Haidun Trading has been engaged in the export and import trading of various accessories and sundries including gear pumps, hydraulic valves, electric motors, etc. Since Haidun Trading will not be engaged in the trading of plastic injection moulding machines after the Listing, the Directors consider there is no competition between the Group’s business and this business retained by the Haitian Group.

(d) Ningbo STF Hydraulic Transmissions Co., Ltd (“STF Hydraulic”)

Since 2005, Haitian Group had been engaged in the design, manufacture and sale of hydraulic motors and related parts and components which are used in the manufacture of various industrial machinery. The Haitian Group engaged in this business through its subsidiary, STF Hydraulic. Please refer to the section headed “History and development” in this prospectus for details of this company. As part of the Reorganisation, Haitian Group disposed its entire interests in this company to an Independent Third Party on 17 March, 2006.

(e) Ningbo Haizhu Machinery Co., Ltd. (“Haizhu Machinery”)

Haizhu Machinery has not been engaged in any business operation since its incorporation in 2004 except the acquisition of a piece of land in Ningbo for the construction of an industrial factory. The construction commenced in May 2006 and is expected to complete in 2007.

(f) Haitian Brazil and Haitian Turkey

As at the Latest Practicable Date, Ningbo Haitian, indirectly owned 95% and 100% of the equity interest in Haitian Brazil and Haitian Turkey, respectively.

Haitian Brazil is principally engaged in the sale of the Group’s plastic injection moulding machines to the Brazilian market. The Group sells plastic injection moulding machines to Haitian Brazil for onward sales to local customers in Brazil. Haitian Brazil commenced sales for the Group in 2005. For 2005 and the six months ended 30 June, 2006, sales to Haitian Brazil were approximately RMB35.0 million and RMB25.2 million respectively, representing 1.4% and 1.6% of the total sales of the Group.

Haitian Turkey is principally engaged in the sale of the Group’s plastic injection moulding machines to the Turkish market. The Group sells plastic injection moulding machines to Haitian Turkey for onward sales to local customers in Turkey. For 2003, 2004, 2005 and the six months ended 30 June, 2006, sales to Haitian Turkey were approximately RMB14.7 million, RMB34.2 million, RMB13.7 million and RMB9.5 million, respectively, representing 0.7%, 1.3%, 0.5% and 0.6% of the Group’s sales.

Following the Reorganisation, Haitian Brazil and Haitian Turkey were excluded from the Group. To facilitate a smooth transition, the Company, Haitian Brazil and Haitian Turkey entered into a master agreement dated 5 December, 2006 for the sales of plastic injection moulding machines pursuant to which, for the period from 1 May, 2006 to 30 June, 2007, each of Haitian Brazil and Haitian Turkey will only sell the Group’s products in the relevant markets. Haitian Brazil and Haitian Turkey have agreed not to sell any products other than those produced by the Group, the Directors consider there is no competition between Haitian Brazil and Haitian Turkey with the Group.

(g) Zhafir

As at the Latest Practicable Date, Zhafir was owned by Mr. Zhang Jianming as to 60%, Mr. Zhang Jianfeng as to 20% and Professor Helmut Helmar Franz (“Professor Franz”) as to 20%. Professor Franz is a director of Ningbo Haitian and the chairman of the strategy and development committee of the Company. Please refer to the section headed “Directors, Senior Management and Staff” for details of Professor Franz and this committee.

Zhafir is principally engaged in the research and development (“R&D”) of plastic injection moulding machinery, which is in a similar line of business with the Group. The Directors consider that Zhafir was established to capitalise on the industry expertise of Professor Franz in new technology development in order to complement the Group’s R&D capabilities. As Zhafir is only a R&D institute with no production capability and the Group has the preferential right to obtain any intellectual property rights and related works and results of R&D activities conducted by Zhafir, the Directors consider that there would not be material competition between the Group and Zhafir.

The Directors confirm that the Group has no present plan to acquire any of the interest of the above retained business held by Haitian Group and the Directors of the Company.

REASONS FOR THE EXCLUSION OF THE RETAINED BUSINESSES

In the opinion of the Directors, Haitian Compressor, Haitian Precision, Haidun Trading and Haizhu Machinery had not been transferred to the Group since they are not considered in the same line of business of the Group. Ningbo STF was disposed by Haitian Group as part of the Reorganisation and hence had not been included.

In respect of Haitian Brazil and Haitian Turkey, they conducted sales with, and provided services to, end-user customers in the relevant markets on behalf of the Group during the Track Record Period. As part of the Reorganisation, the Group has streamlined its business resources to focus on product development and production planning by delegating most of the sales and marketing functions to third-party distributors and sales agents. The Directors consider that this strategy would be more cost-effective and would reduce the burden on the Group’s management over different jurisdictions overseas. Therefore, both Haitian Brazil and Haitian Turkey were excluded from the Group and are expected to cease engaging in plastic injection moulding machinery related business from 30 June, 2007 onward.

As at the Latest Practicable Date, Zhafir had not commenced any R&D activities and was still in the process of constructing its R&D facilities. It is not certain at this stage that the R&D work to be carried out by Zhafir will result in development of any new technologies or that any new technologies developed can be commercialised successfully or at all. As such, the Directors consider that it would not be in the best interest of the Group to transfer Zhafir to the Group at this early stage of its development.

Save as disclosed above, the Haitian Group and the Directors does not engage in any other business which may compete, directly or indirectly, with the plastic injection moulding business of the Group.

CORPORATE GOVERNANCE MEASURES

The Directors have taken the following measures to avoid and minimise the potential conflict of interest arising from the above retained businesses with the Group.

(a) Purchase of materials and equipment

The Group had sourced some equipment in its production line from Haitian Compressor and Haitian Precision during the Track Record Period and may acquire similar equipment in the future. Such acquisition will be deemed as a connected transaction and the Directors will ensure due compliance with requirements of announcement and independent Shareholders approval (if applicable) under the Listing Rules.

(b) Sale of plastic injection moulding machines

Haitian Brazil and Haitian Turkey will continue to act as sales distributors of the Group and the transactions will be deemed as continuing connected transactions. Pursuant to the requirements of the Listing Rules, the independent non-executive Directors will review the continuing connected transactions and confirm in the annual report and accounts that such transactions have been entered into:

- (i) in the ordinary course of business of the Company;
- (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to independent third parties; and
- (iii) in accordance with the contract entered into on terms which are fair and reasonable and in the interests of the Shareholders as a whole.

(c) Right of First Refusal

The following rights have been granted to the Company (for itself and on behalf of its subsidiaries) in relation to the retained businesses of Haitian Group and the Directors:

Parties (the "Grantor")	Rights to acquire equity interests or property (the "Interests")
Haitian Management (for themselves and on behalf of the Employee Group)	Right of first refusal to acquire the equity interests in the Non-transferred Companies controlled by the Haitian Management (the "Non-transferred Companies Right")
Messrs. Zhang Jianming and Zhang Jianfeng	Right of first refusal to acquire their respective equity interests in Zhafir (the "Zhafir Equity Right")
Zhafir	Right of first refusal to acquire all intellectual property rights and related works and results of R&D activities conducted by Zhafir regarding plastic injection moulding machinery (the "Zhafir IPR Right")

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If the relevant Grantor receives an offer to acquire the relevant interests and the Grantor proposes to accept such offer, the Grantor shall send a written notice (the "Transfer Notice") to the Company which notice shall include the following details: (i) the name and address of the proposed transferee (the "Proposed Transferee"); (ii) details of the relevant Interests; (iii) the amount and form of the proposed consideration for the proposed transfer; (iv) other terms and conditions of the proposed transfer; (v) the expected date of consummation of the proposed transfer. The Company will have 30 days to provide a written reply as to whether the Company will exercise the relevant right to commence the procedures for the acquisition of the relevant Interests. Each of the Grantors agree that when exercising the rights set out above, the Company is entitled to subject the acquisition of the relevant Interests to applicable requirements of the Listing Rules including approval of independent Shareholders.

The Non-transferred Companies Right, the Zhafir Equity Right and the Zhafir IPR Right (the "Relevant Rights") will terminate in the following circumstances:

- (i) upon the cessation of the listing of the Shares on the Stock Exchange (except suspension of listing of the Shares pursuant to the Listing Rules); or
- (ii) regarding the Non-transferred Companies Right, when the Haitian Management become, whether directly or indirectly, jointly entitled to exercise or control the exercise of less than 30% of the voting power at general meetings of the Company; or
- (iii) regarding the Zhafir Equity Right and the Zhafir IPR Right, when Messrs. Zhang Jianming and Zhang Jianfeng cease to be Directors nor hold any equity interest in the Company; or
- (iv) if the acquisition of the relevant Interests is rejected by the independent Shareholders;

whichever occurs first.

The following additional measures will be adopted:

- (a) the relevant Director(s) will, in accordance with the Articles, abstain from voting on any contract or arrangement or any other proposal as a result of the exercise of the Relevant Rights if such Director(s) or any of his/her associates have an interest in such exercise nor will such Director(s) be counted in the quorum present at the meeting;
- (b) in accordance with the requirements of the Listing Rules, an independent financial advisor will be appointed to advise the special committee of independent non-executive Directors and the independent Shareholders in relation to the transaction as a result of the exercise of the Relevant Rights; and
- (c) if applicable, the transactions arising from the exercise of the Relevant Rights will be subject to the approval of independent Shareholders in accordance with the Listing Rules.

Further corporate governance measures

The following measures will also be adopted to safeguard the interests of the Shareholders:

- (a) Mr. Zhang Jianming and Mr. Zhang Jianfeng will continue to disclose details of their interests in Zhafir and any subsequent change in the annual report of the Company following the Listing;
- (b) all decision on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the undertaking under the Non-competition Deed will be disclosed either through the annual report or by way of announcements to the public; and
- (c) on an annual basis, the independent non-executive Directors will review the non-competition undertakings provided by the Covenantors on their existing or future competing businesses and their compliance with such undertakings. In addition, they will further review, at least on an annual basis, the Non-transferred Companies Right, the Zhafir Equity Right and the Zhafir IPR Right. The Covenantors have undertaken to the Company that they will provide to the Company of all information necessary for the independent non-executive Directors to conduct such review. The Covenantors have further undertaken to make a statement in the Company's annual report confirming compliance by them with the undertakings. The Company undertakes to disclose in its annual reports whether the undertakings were complied with and enforced in accordance with the principles of making voluntary disclosures in the Corporate Governance Report as defined in Appendix 23 of the Listing Rules. The Company also undertakes to disclose all the decisions made on matters discussed during these meetings including but not limited to matters relating to compliance and enforcement of the undertakings either in its annual reports or by way of announcements to the public. The Company will ensure due compliance with the requirements under the Listing Rules in relation to the matters and circumstances requiring independent Shareholders' vote.

Independence of the Group from the Haitian Group

The Controlling Shareholders will hold in aggregate a 75% equity interest in the Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). The Controlling Shareholders will also hold in aggregate a 91.87% equity interest in Ningbo Haitian upon completion of the Global Offering.

Management independence

The Group has an independent management with extensive management skills that are capable of making and executing all management decisions independently. Except for Mr. Zhang Jingzhang, no Director will serve any executive or management roles in the Haitian Group following completion of the Global Offering. Mr. Zhang is the chairman of Ningbo Haitian, Ningbo Haizhu Machinery Co., Ltd., Ningbo Haitian Precision Machinery Co., Ltd. and Ningbo Export Processing District Haitian Precision Machinery Co., Ltd. and a director of Long Harvest, Lei Er, Hugh Power Limited and Anson Asia Ltd. and is responsible for the formulation of business strategy and development of the Haitian Group after the completion of the Global Offering. Mr. Hu Guiqing, a non-executive Director, is also a director of Ningbo

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Haitian with no executive or management role. Each Director is aware of his or her fiduciary duties as a director of the Company which require, among other things, that he or she acts for the benefit and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions.

Having considered the above factors, the Directors are satisfied that they are able to perform their roles in the Company independently, and the Directors are of the view that the Group is capable of managing its business independently from the Haitian Group after the Listing.

Operational independence

The Directors are of an opinion that the Company operates independently from the Haitian Group.

In respect of Zhafir, the Group has a very strong research and development team of its own and as at the Latest Practicable Date, Zhafir had not commenced any R&D activities and was still in the process of building its research and development facilities. It is not certain at this stage that the research and development activities to be carried out by Zhafir will result in development of any new technologies for plastic injection moulding machines or that any such new technologies developed can be commercialised successfully or at all. In any event, the Group has the Right of First Refusal to acquire the Relevant Interests owned by the two executive Directors in Zhafir and the Zhafir Right of First Refusal to acquire the IPRs of Zhafir.

In respect of the business carried out by Haitian Turkey and Haitian Brazil, Haitian Turkey and Haitian Brazil are expected to cease to engage in the plastic injection moulding machinery business on or before 30 June, 2007. The Company and Ningbo Haitian entered into a master agreement for the sales of plastic injection moulding machines pursuant to which, for the period from 1 May, 2006 to 30 June, 2007, the Group will continue to sell plastic injection moulding machines to Haitian Turkey and Haitian Brazil. The transactions under this agreement will constitute continuing connected transactions of the Company. Please refer to the section headed "Connected Transactions" in this prospectus for details.

Financial independence

The Group has an independent financial system and makes financial decisions according to the Group's own business needs. The Directors confirm that as at the date of this prospectus, (i) loans provided by the Haitian Group to the Group have been settled in full; and (ii) guarantees provided by the Haitian Group to the Group have been released in full. Therefore, there is no financial dependence on the Haitian Group or the Controlling Shareholders.

NON-COMPETITION UNDERTAKING

Each member of the Haitian Management (together the “Covenantors”) has entered into a deed of non-competition (the “Non-competition Deed”) in favour of the Company, pursuant to which each of the Covenantors has undertaken to the Company (for itself and for the benefit of its subsidiaries) that, save for the Haitian Brazil, Haitian Turkey and Zhafir, he or she would not, and would procure that his or her associates (except any members of the Group) would not, during the restricted periods set out below, directly or indirectly, either on his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the business of any member of the Group (the “Restricted Business”). Such non-competition undertaking does not apply where:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available to the Company, and the Company, after review and approval by the Directors or shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which any Covenantor (or his or her relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those disclosed to the Company; or
- (b) the Covenantors or their respective associates in aggregate hold interests in the shares of a company which is listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by any of the Covenantors and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenantors and/or their respective associates are not entitled to appoint a majority of the directors of that company and/or at any time, there should exist at least another shareholder of the company, the number of shares held by it in the company should be more than the total number of shares held by the Covenantors and their respective associates in aggregate.

The obligations of the Covenantors under the Non-competition Deed will cease (i) upon the cessation of listing of the Shares on the Stock Exchange (except suspension of listing of the Shares pursuant to the Listing Rules); or (ii) regarding each of the Covenantors, when he or she (or his or her associate(s)) ceases to hold any equity interest, whether directly or indirectly, in the Group; or (iii) when the Covenantors become jointly entitled to exercise or control the exercise of less than 30% of the voting power at general meetings of the Company.

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The Convenantors have further undertaken in the Non-competition Deed that:

- (i) Haitian Brazil and Haitian Turkey will cease to engage in the plastic injection moulding machinery related business as from 1 July, 2007; and
- (ii) prior to 1 July, 2007, Haitian Brazil and Haitian Turkey will only purchase plastic injection moulding machines and related products manufactured by the Group.

Since members of the Employee Group become beneficiaries under the Employee Trusts with no control over the exercise of voting rights in relation to the Shares indirectly held by the Trustees and in view of the insignificant percentage of interests of individual beneficiary in the Group, the Directors consider that the Haitian Management should provide the non-competition undertaking contained in the Non-competition Deed.