

## RISK FACTORS

*You should carefully consider all of the information set out in this prospectus before making an investment in the Offer Shares, including the risks and uncertainties described below. You should pay particular attention to the fact that the Company is incorporated in the Cayman Islands and that most of the Group's operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. The Group's business, financial condition or results of operations could be affected materially and adversely by any of these risks.*

### RISKS RELATED TO THE GROUP

#### **The Group depends on third-party sales agents and distributors to sell most of its products and provide part of its after-sales services**

In line with standard industry practice in China, the Group sells its products mainly through third-party sales agents and distributors. The Directors expect that it will continue to depend on third-party sales agents and distributors for a significant portion of its sales volume and sales. In each of 2003, 2004 and 2005 and the six months ended 30 June, 2006, sales through third-party sales agents and distributors accounted for more than 80% of the Group's sales.

The Group normally enters into sales agency and distributorship agreements with third-party sales agents and distributors, respectively, for a term of one year, renewable on a yearly basis. Pursuant to these agreements, a majority of its domestic third-party sales agents and distributors and certain of its overseas third-party sales agents and distributors are required to provide certain after-sales services in their respective geographical locations. However, there is no guarantee that these agreements can be renewed on similar terms or at all. If for any reason the Group loses one or more of these third-party sales agents and distributors, or any of them fails to perform its obligations under these agreements, and the Group is unable to replace them in a timely manner, the Group's financial condition, results of operations and quality of after-sales services may be adversely affected.

#### **The Group is exposed to payment delays and/or default by its customers**

The Group's customers (including third-party distributors) are generally required to pay the Group within 15 to 20 days following the date of delivery of its products. The Group may adjust its usual credit term according to a customer's or distributor's credit history as well as local market practice. In addition, the Group allows a significant number of its customers (including third-party distributors) in China to pay using banker acceptance bills for the amounts due at the end of their credit terms in lieu of payment in cash or by bank remittance. Banker acceptance bills are guaranteed by commercial banks in China and have maturities of up to 180 days. Although the Group accepts 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. The Group also allows certain of its customers to pay for its products by installment. As a result, the Group's average trade receivable turnover days for 2003, 2004, 2005 and the six months ended 30 June, 2006 were 102, 98, 114 and 106 days, respectively. There is no assurance that the Group's customers will meet their payment obligations on time or in full or that the Group's average trade receivable days will not

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increase. Any inability on the part of its customers to settle or settle promptly the amounts due to the Group may cause its financial performance and operating cash flows to be adversely affected.

### **The Group provides guarantees on bank loans to some of its end-user customers and may be required to repay such loans if these customers default**

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 purchase 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, which reflects the increased sales of the Group. As at 31 December, 2003, 2004 and 2005 and 30 June, 2006, the aggregate amount of the outstanding loans covered by this guarantee was approximately RMB124.0 million, RMB190.7 million, RMB213.5 million and RMB243.6 million, respectively. 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. 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. If the level of default by these customers increases in the future, the Group's financial condition and results of operations may be adversely affected.

### **The Group's future profitability may be adversely affected by its reliance on the China market**

In 2003, 2004, 2005 and the six months ended 30 June, 2006, domestic sales of plastic injection moulding machines accounted for approximately 81.2%, 73.0%, 65.4% and 64.1% of the Group's sales, respectively. The business and profitability of the Group have been materially dependent on the China market. In the event that there are any major changes in the regulatory, political or economic climate in China and such changes directly or indirectly affect the demand for the Group's product in China, the Group's business and profitability may be adversely affected.

### **The Group may experience a decline in its overall gross profit margin as a result of changes in its product sales mix**

The Group's product sales mix will affect its overall gross profit margin because the gross profit margins of its products vary significantly by product 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. Furthermore, 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. If the proportion of lower-margin products in the Group's product

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sales mix increases either as a result of changes in the products ordered by its customers or changes in its customer base, the Group may experience a decline in its overall gross profit margin and such decline will adversely impact its financial condition and results of operations.

### **The exclusion of Haitian Brazil and Haitian Turkey from the Group as part of the Reorganisation may adversely affect the Group's sales in the markets previously serviced by these entities**

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 rely on 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 the respective markets 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 agents and provide after-sales and technical support services for these markets. Each of Haitian Brazil and Haitian Turkey is expected to cease to engage in the plastic injection moulding machinery business, including any such business on behalf of the Group, on 30 June, 2007. 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's sales, respectively.

Although the Group intends to rely on third-party sales agents and distributors after 30 June, 2007 to generate sales and provide after-sales services in the respective markets currently serviced by Haitian Brazil and Haitian Turkey, there is no assurance that the Group will be able to recruit suitable third-party sales agents and/or distributors in those markets or that newly recruited third-party sales agents and/or distributors would be able to service these markets as effectively as Haitian Brazil and Haitian Turkey. As a result, the Group's sales and, in turn, its financial condition and results of operations may be adversely affected.

### **The Group offers comprehensive warranty and maintenance services which may increase its warranty cost, maintenance cost and related overhead cost**

In order to enhance its competitiveness, the Group offers a standard one-year warranty for parts and a two-year free maintenance program for all of its products. The Group provides services under the warranty and maintenance programs free of charge, resulting in additional overhead cost. For 2003, 2004, 2005 and the six months ended 30 June, 2006, the Group's warranty cost was approximately RMB6.1 million, RMB9.3 million, RMB8.9 million and RMB7.8 million, respectively. As a result, the Group's profit margin may be adversely affected by any increase in such warranty cost, maintenance cost and related overhead cost.

### **The Group has experienced difficulties in managing the operation of its overseas companies and there can be no assurance that the remedial measures to be implemented by the Group will be followed consistently and effectively as planned**

The Group is headquartered in Ningbo, China, and most of the senior management members reside in China. The Group has experienced difficulties in managing the operation of its overseas companies. There can be no assurance that any remedial measures

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implemented by the Group to address these operational difficulties will be followed consistently and effectively as planned. Any failure by the Group to effectively manage its overseas operations could adversely affect its financial condition and results of operations.

### **The Group's increasingly significant international operations subject it to risks such as unfavourable regulatory, economic, political, labour, foreign exchange and tax conditions**

The Group's business is subject to risks related to the different legal, political, social and regulatory requirements and economic conditions of the jurisdictions in which it has operations and sells its products. The Group sells its products to end-user customers in Europe, Middle East, South America, North America, Asia Pacific and Africa. The Directors expect sales from international markets to represent an increasing portion of the Group's sales. Risks inherent in the Group's international sales and operations include the following:

- agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;
- foreign countries may impose additional withholding taxes on the Group's foreign income, impose tariffs or adopt other restrictions on foreign trade or investment, including currency exchange controls;
- general economic and political conditions in the countries in which the Group operates could have an adverse effect on the Group's earnings from those countries;
- fluctuations in exchange rates may affect product demand and may adversely affect the Group's profitability where payment for the Group's products and services is made in US Dollars or in the local currency;
- unexpected adverse changes in foreign laws or regulatory requirements may occur; and
- compliance with a variety of foreign laws and regulations may be difficult.

The Group's overall success as a global business depends, in part, upon its ability to succeed in differing and unpredictable legal, regulatory, economic, social and political conditions. The Group may not be able to continue to succeed in developing and implementing policies and strategies that will be effective in each foreign market where it does business. Any of the foregoing factors may adversely affect the Group's results of operations and future plans.

### **The Group may be unable to respond in an efficient and timely manner to technological changes in the industry and could lose customers as a result**

The Group's success in the future will depend, in part, upon the Group's ability to maintain and enhance its technological capabilities, develop and market products and applications that meet changing customer needs and successfully anticipate or respond to technological changes in a more cost-effective and timely manner. The Group's inability to anticipate, respond to or utilize changing technologies could cause the Group to lose customers to its competitors.

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### **The Group may not be able to adequately protect its intellectual property rights and disputes over intellectual property rights could be costly and could deprive the Group of technologies that it needs to remain competitive**

On 5 December, 2006, pursuant to certain transfer and license agreements, Ningbo Haitian transferred all of the intellectual property related to the plastic injection moulding machinery business to the Group, which included 21 registered patents, six registered trademarks, 10 patent applications and one trademark application in China and one registered trademark in each of seven foreign countries and 12 trademark applications in certain foreign countries. Until the completion of such transfers in accordance with the procedural formalities of the relevant jurisdictions, the Group has been granted the exclusive right to use these patents and trademarks royalty-free. However, infringement of intellectual property rights by other enterprises, through the production of counterfeit products, occurs frequently in China. Although the Group relies upon a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements, and patent, copyright and trademark laws to protect its intellectual property rights, there can be no assurance that the steps it takes in this regard are adequate to prevent or deter infringement or other misappropriation of the Group's intellectual property rights. In addition, the Group may not be able to detect the unauthorised use of, or take appropriate and timely steps to enforce, the Group's intellectual property rights. Any significant infringement of the Group's confidential information and proprietary technologies and processes could adversely affect its financial condition, results of operations and prospects.

Furthermore, the Group may need to defend its intellectual property rights in legal proceedings. If the Group does not prevail in such proceedings, it could be required to pay damages, develop non-infringing products and technologies or obtain licenses to certain products and technologies. In the event the Group is required to obtain any licenses, these may not be available on commercially reasonable terms or at all. Moreover, defending claims may be expensive and would divert the efforts of the Group's management and technical personnel from the management and operation of the Group's business.

### **The Group's insurance coverage may not be sufficient to cover the risks related to its business operations**

The Group maintains property, plant, equipment and employee injury insurance but such insurance policies may not cover all risks associated with the hazards of its business. For instance, in accordance with customary practice in China, the Group does not carry any business interruption insurance or third-party liability insurance other than those relating to the Group's vehicles. In addition, the Group's insurance policies are also subject to limitations, including deductibles and maximum liabilities coverage. The Group may incur losses beyond the limits, or outside the coverage, of the Group's insurance policies, including liabilities for environmental remediation. Furthermore, the Group may not be able to obtain coverage at current levels, and the premium on the Group's insurance coverage may increase significantly, in the future.

### **The Group may not be able to implement its future plans efficiently or at all**

The Group's future growth primarily depends on the successful implementation of its strategies and future plans. The Group may not be able to manage its anticipated growth and the expansion of its operations efficiently. The implementation of the Group's growth strategies and plans may be affected by many factors, including changes in the competitive

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landscape, the availability of technological resources, its ability to enhance existing research and development and production capabilities and capacities, changes in demand and market trends and changes in the political, regulatory and economic conditions in which it operates or sell its products. If any of its strategies and plans cannot be successfully implemented, the Group's financial condition, results of operations and future prospects may be adversely affected.

### **The Group's future performance is dependent on its ability to attract and retain key personnel and skilled manufacturing workers**

The Group's future performance depends to a significant extent upon its ability to continue to attract, retain and motivate key personnel, including members of the Group's senior management team. If the Group loses the services of any of these key personnel, including Mr. Zhang Jingzhang, the chairman of the Group, Mr. Zhang Jianming, the chief executive officer of the Group, Mr. Zhang Jianfeng, the senior vice president of sales and marketing of the Group and Mr. Zhang Jianguo, the senior vice president of research and development of the Group, without adequate replacement, such loss may limit its competitiveness, affect its production processes, reduce its manufacturing quality or cause customer dissatisfaction, any of which would adversely affect the Group's financial condition, results of operations and future prospects. Moreover, the Group does not maintain insurance for the loss of any key personnel.

In addition, the Group requires a large number of skilled manufacturing workers to operate its production facilities. Due to the skills involved in operating some of the Group's equipment, it would normally require approximately three months' training in order for a new hire to attain the necessary basic skills and up to two years for a new hire to acquire the relevant experience. Due to the large concentration of manufacturing enterprises in China, competition for skilled manufacturing workers is intense. If the Group is not able to attract and retain enough skilled manufacturing workers to sustain or grow its business or its labour cost increases significantly as a result of the competition for skilled workers, the Group's results of operations and future growth may be adversely affected.

### **The Group may not be able to identify suitable acquisition targets or successfully integrate any future acquisitions into its business**

As part of its strategy, the Group intends to pursue acquisition opportunities which would complement or create synergies for the Group's business. There can be no assurance, however, that the Group will be able to identify any suitable acquisition targets. Moreover, even if the Group is able to identify a suitable acquisition target, there can be no assurance that it will be able to successfully negotiate the terms or integrate the acquired business with its existing business should the acquisition be successful. Therefore, if the Group fails to properly evaluate or execute its acquisitions or investments, the Group may not achieve the anticipated benefits of the acquisition, and it may incur costs in excess of what it anticipates, which may adversely affect the Group's business, financial condition and results of operations.

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**The Group's PRC subsidiaries provide social insurance and housing funds to their employees in accordance with the relevant local government's implementation policies on the requirements under the relevant PRC national labour laws and regulations which are less stringent than the actual requirements**

Under the relevant PRC national labor laws and regulations, business enterprises in China are required to provide social insurance (namely, medical, unemployment, pension, work related and maternity insurance) and housing funds to all of their employees, including temporary and part-time employees. Pursuant to the implementation policies of the local governments in Ningbo, Guangzhou and Wuxi, China, business enterprises within their respective jurisdictions are not required to provide these funds to temporary and part-time employees. Accordingly, during the Track Record Period, the Group did not provide social insurance and housing funds for certain of its temporary and part-time employees. If any relevant local government changes its implementation policies in the future requiring stricter compliance with the PRC national laws and regulations, the Group's results of operations may be adversely affected.

### **RISKS RELATING TO THE INDUSTRY**

**Fluctuations in the price of crude oil may adversely affect the demand for plastic injection moulding machines**

Crude oil is the major raw material used in the production of plastic resins which are used by plastic manufacturers, the Group's end-user customers, to manufacture plastic products and parts. In recent years, large scale fluctuations in the price of crude oil have caused a parallel increase in the price of plastic resins. The price of resin increased significantly in 2005 and the Directors believe that sharp fluctuations in the price of resins (which is correlated to the price of crude oil) may continue in the foreseeable future. When resin prices increase, the profit margins of the Group's end-user customers generally decrease, which may affect their ability to purchase the Group's products, since the price of plastic resins tends to fluctuate to a greater degree than what plastic manufacturers can adjust for in the pricing of their products. Although plastic manufacturers may sometimes pass on this price increase to their customers, the Directors believe that there is usually a time lag of two to six months before they are able to do so. As a result, fluctuations in resin prices create significant uncertainties to plastic manufacturers when they negotiate contract pricing for their products, affecting their profitability and confidence, and consequently causing them to become more cautious and conservative in purchasing plastic injection moulding machines to expand their production capacities. Therefore, fluctuations in the price of crude oil may adversely affect the demand for plastic injection moulding machines.

**The plastic injection moulding machinery industry is highly competitive and the Group may not be able to compete effectively**

The plastic injection moulding machinery industry is highly competitive. The Group's competitors include international players, such as Husky Injection Moulding Systems Limited, Krauss-Maffei Kunststofftechnik, Demag Plastics Group, Engel Holding GmbH, Japan Steel Works, Milacron Inc. and Chen Hsong Holdings Limited, as well as other domestic manufacturers with comparable scale of operations in China. Some of the Group's competitors may have stronger brand names, greater access to capital, longer or more established relationships with their customers, stronger research and development capabilities, and greater marketing and other resources than the Group. In addition, some

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international companies have established operations in China and have acquired, or formed joint ventures with, some of the Group's domestic competitors. These international companies and joint ventures may have certain advantages over the Group, including technology exchanges and the ability to cross-sell each other's products within and outside China. Furthermore, some of the Group's domestic competitors may merge in the future, and any consolidation of the industry could pose new challenges to the Group. The Group's competitors may develop and introduce new products sooner, or provide more attractively priced, enhanced or better quality products than the Group. If the Group cannot compete successfully, it could experience reduced profit margins or lose market share and its financial conditions and results of operations would be adversely affected.

### **The Group is currently experiencing increased price competition in China in the small tonnage hydraulic plastic injection moulding machinery segment, in particular, those machines with clamping forces of less than 200 metric tons**

Small tonnage hydraulic plastic injection moulding machines, especially those with clamping forces of less than 200 metric tons, require less capital investment, are easier to manufacture and have attracted new domestic entrants in China due to its relatively lower barriers to entry. As a result, there has been increased price competition in this segment and the Group may be required to, from time to time, reduce its prices for these products in order to remain competitive against other producers on price. For 2003, 2004, 2005 and the six months ended 30 June, 2006, sales of small tonnage hydraulic plastic injection moulding machines with clamping forces of less than 200 metric tons accounted for approximately 37.6%, 37.6%, 38.4% and 39.8% of the Group's sales, respectively. In order for the Group to maintain or improve its profitability, the Group will need to shift to higher margin products such as medium-to-large tonnage and customised plastic injection moulding machines and small-tonnage all-electric plastic injection moulding machines; improve existing products or develop new products through innovation and research and development; and lower its unit cost by improving production efficiency and selling more units. If the Group is not able to do so, the Group's overall gross margin and market share would be adversely affected.

### **The demand for plastic injection moulding machines depends on the cyclical nature of the industries in which its end-user customers operate**

Many of the Group's end-user customers are in businesses that are highly cyclical in nature, such as automotive, construction materials, IT, household appliances and electronics industries, and therefore are sensitive to changes in general economic conditions as well as industry-specific conditions. Demand by the Group's end-user customers for its products changes as a result of general economic and industry-specific conditions (including increases in the cost structure and capital spending pattern of the Group's end-user customers), fluctuations in interest rates and commodity prices, and other factors beyond the Group's control. As a result, the success of the Group's business depends on the profitability of its end-user customers' businesses.

### **The Group is subject to increases and fluctuations in the prices of, and shortages and delays in, the supply of raw materials, components and parts**

For 2003, 2004, 2005 and the six months ended 30 June, 2006, cost of raw materials, components and parts accounted for 90.5%, 91.8%, 90.0% and 89.2%, respectively, of the Group's cost of sales. The Group depends on suppliers of raw materials, components and parts for the manufacture of its products. The Group's main raw materials and components

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include iron, steel and other alloy metals, steel cylinders, steel platens and other semi-processed metal components. The Group's major parts include electronic control units, pumps and motors. The Group sources most of its raw materials, components and parts from a limited group of suppliers, both foreign and domestic. The Group does not have long-term contracts with any of its suppliers or guarantees of supply. Accordingly, there is no assurance that the Group will be able to obtain adequate supplies of raw materials, components and parts from its existing suppliers, or from alternative sources, in a timely manner and at reasonable cost. In recent years, steel and iron that are essential to the manufacture of the Group's products have been subject to substantial pricing cyclicality and periodic shortages of supply in China. In addition, the Group may, from time to time, reject raw materials, components or parts that fail to meet agreed specifications or standards set by the Group. If the supply of raw materials, components and parts is substantially interrupted or reduced or if there are significant increases in the prices for raw materials, components and parts, the Group may incur additional costs to acquire sufficient quantities of these raw materials, components and parts to maintain the Group's production schedules and commitments to customers. Any significant increases and fluctuations in the prices of these raw materials, components and parts, which cannot be passed on to the Group's customers, would have an adverse effect on the Group's financial condition and results of operations.

### **RISKS RELATED TO THE GROUP'S OPERATIONS IN THE PRC**

The Group's manufacturing operations are all located in China. Accordingly, the Group's results of operations and financial condition are subject to a significant degree to economic, political and legal developments in China, including the following risks:

#### **Changes in China's political, economic and social conditions, laws, regulations and policies may have an adverse effect on the Group**

The PRC economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing utilisation of market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. Although the Directors believe these reforms will have a positive effect on its overall and long-term development, the Group cannot

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predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have any adverse effect on its business, results of operations or financial condition in the future.

### **Government control of currency conversion and future movements in exchange rates may adversely affect the Group's business operations**

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 foreign currency denominated trade and bill 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.

The value of the Renminbi is subject to changes in China's governmental policies and to international economic and political developments. As of 21 July, 2005, the Renminbi is no longer pegged solely to the U.S. dollar. Instead, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to rise or fall by as much as 0.3% each day, based on market supply and demand and by reference to a basket of currencies. For example, on 21 July, 2005, the Renminbi was revalued against the U.S. dollar to approximately RMB8.11 to US\$1.00, representing an upward revaluation of 2.1% of the Renminbi against the U.S. dollar, as compared to the exchange rate of the previous day. The Renminbi may appreciate significantly in value against the U.S. dollar or other foreign currencies in the long-term, depending on the fluctuation of the basket of currencies against which it is currently valued or it may be permitted to enter into a full float, which may also result in an appreciation of the Renminbi against the U.S. dollar or other foreign currencies.

Further appreciation in the Renminbi against these currencies may lead to a decline in sales of the Group, which could materially adversely affect the Group's financial condition and results of operations. In addition, a stronger Renminbi may give incentives to the Group's domestic customers to source plastic injection moulding machines by way of import, which may lower the level of demand for the Group's products in China. Furthermore, since the Renminbi is the Group's reporting currency, appreciation in the Renminbi may adversely affect the value of the overseas net assets and earnings of the Group, translated or converted into Renminbi. 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.

### **China's legal system embodies uncertainties that could adversely affect the Group's business and results of operations, and the interest of investors in the Shares**

Almost all of the Group's assets are located in China and almost all of the Group's employees are PRC citizens. The Group's operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since 1979, many new laws and regulations covering general economic matters have been promulgated in China. Despite

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this activity to develop the legal system, China's system of laws is not yet complete. Even where adequate law exists in China, the enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, as many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. The Group cannot predict the effect of future legal development in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to the Group and investors in the Shares.

### **A change in the Group's tax benefits, including preferential corporate tax rates, in China may have a negative impact on the Group's results of operations**

Domestic enterprises in China are subject to an enterprise income tax at the rate of 33% of their pre-tax profits. Foreign invested enterprises in China are generally subject to a state enterprise income tax at the rate of 30% and a local enterprise income tax at the rate of 3%, in each case, of their pre-tax profits. The Group's manufacturing operations in China are generally subject to income tax rates lower than the maximum state and local tax rates as a result of preferential treatment prescribed by the relevant laws and regulations and as approved by the local administrative authorities of the State Taxation Administration of China. For further details of the Group's preferential tax treatment, see the paragraph headed "Income tax expenses" under the section headed "Financial Information" in this prospectus. Any change in the preferential tax treatment or cessation of any tax holidays currently enjoyed by the Group's PRC operations may have a negative impact on the Group's results of operations.

### **Failure to comply with environmental regulations could harm the Group's business**

The Group is subject to various PRC national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge and disposal of hazardous substances in the ordinary course of its manufacturing process. If more stringent compliance or clean up standards under these laws or regulations are imposed, or the results of future testing and analyses at the Group's production facilities indicate that it is responsible for the release of hazardous substances, the Group may be subject to remediation liability and increased environmental compliance cost.

### **It may be difficult to effect service of process upon the Company or the Directors who live in China or to enforce against it or them in China judgments obtained from non-PRC courts**

The majority of the Directors are residents of China. A substantial proportion of the Company's assets and majority of the assets of those Directors who are residents of China are located within China. Therefore, it may not be possible for investors to effect service of

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process upon the Company or those persons inside China. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States or most other western countries. Therefore, it may be difficult for investors to enforce against the Company or the Directors in China any judgments obtained from non-PRC courts.

### **An outbreak of the H5N1 strain of bird flu, or Avian Flu, or any other similar epidemic may, directly or indirectly, adversely affect the Group's results of operations and the price of the Shares**

Recently, certain Asian countries, including China, have encountered incidents of the Avian Flu. This disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. If any of the Group's employees are identified as a possible source of spreading the Avian Flu or any other similar epidemic, the Group may be required to quarantine the employees that have been suspected of being infected, as well as others that have come into contact with those employees. The Group may also be required to disinfect its affected premises, which could cause a temporary suspension of its manufacturing capacity, thus adversely affecting its operations. Even if the Group is not directly affected by the epidemic, an outbreak of the Avian Flu or other similar epidemic, whether inside or outside China, could slow down or disrupt exporting activities and/or restrict the level of economic activity generally, which could in turn adversely affect the Group's results of operations and the price of the Shares.

### **The Group's corporate structure may restrict its ability to receive dividends from, and transfer funds to, its PRC operating subsidiaries, which could restrict the Company's ability to declare dividends to its shareholders, act in response to changing market conditions and reallocate funds from one PRC subsidiary to another in a timely manner**

The Company is a Cayman Islands holding company and substantially all of its operations are conducted through its PRC operating subsidiaries, Haitian Machinery, Daxie Haitian, Haitian Heavywork, Haitian Guangzhou, Haitian Shili, Haitian Sales, Haitian Ningshing, Dagang Trading, Wuxi Tianjian, Tianxin Dagang, Haitian Beihua and Haitian Huayuan. The ability of these subsidiaries to make dividend and other payments to the Company may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under PRC law, those operating subsidiaries which are wholly foreign-owned enterprises may only pay dividends after 10% of their net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of their respective registered capital. In addition, the profit available for distribution from the Company's PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in China. This calculation may differ from the one performed in accordance with HKFRS. As a result, the Company may not have sufficient distributions from its PRC subsidiaries to enable necessary profit distributions to the Company or any payment of dividends to its shareholders in the future, which calculation would be based upon the Company's financial statements prepared under HKFRS. Therefore, future declarations of dividends by the Company may or may not be consistent with the Group's historical declarations of dividends. For 2003, 2004 and 2005, the Group declared dividends of RMB28.0 million, RMB30.4 million and RMB30.4 million, respectively, to its shareholders.

Distributions by the Company's PRC subsidiaries to it other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from the Company to its PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is

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subject to registration or approval of PRC governmental authorities, including the relevant foreign exchange and/or foreign trade and economic cooperative regulatory authorities. In addition, it is not permitted under PRC law for the Company's PRC subsidiaries to directly lend money to each other. Therefore, it is difficult to change the Group's capital expenditure plans once the relevant funds have been remitted from the Company to its PRC subsidiaries. These limitations on the free flow of funds between the Company and its PRC subsidiaries could restrict the Company's ability to act in response to changing market conditions and reallocate funds from one PRC subsidiary to another in a timely manner.

### **The PRC government's recent measures to tighten fixed investment and credit control in the banking and other sectors may adversely affect the Group's suppliers and end-user customers in China**

In recent years, in response to concerns about economic overheating, the PRC government has implemented a range of austerity measures, including measures aimed at tightening fixed investment and credit control in the banking and other sectors. In the short run, these measures may have adverse effects on enterprises which are categorised as engaging in "prohibited projects" or "restricted projects", such as steel production, cement production and certain real estate related activities. While the plastic injection moulding machinery industry does not fall within these categories, steel manufacturers, one of the Group's major categories of suppliers, are among the overheated sectors that have been specifically targeted with these adjustment measures. These measures have resulted in fluctuations in steel prices in China in recent years. In addition, the overall tightening of fixed investment and credit control in the banking and other sectors has affected and may continue to affect the financial ability of some of the Group's end-user customers in China to purchase the Group's products. These austerity measures may cause the Group's end-user customers to postpone or cancel their machine replacement or production expansion plans. In 2005, the Group's domestic sales of plastic injection moulding machines decreased by 11.0% as compared to 2004 primarily as a result of the combined effect of these austerity measures implemented by the PRC government and the fluctuations in oil prices in that year. If the PRC government implements additional austerity measures in the future causing the Group's steel suppliers and end-user customers to experience working capital tightness, the Group's procurement of raw materials and sale performance, respectively, and, in turn, the Group's business and results of operations, may be adversely affected.

### **Failure or inability of a member of the Controlling Shareholders to comply with SAFE Notice 75 could subject the Company's subsidiaries in China to fines and legal sanctions, restrict the Company's additional investments in those subsidiaries, or limit those subsidiaries' ability to make distributions or pay dividends outside of China**

In 2005, the SAFE issued a number of regulations regarding overseas investments by PRC residents. The current regulations, known as the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (《關於境內居民通過特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("SAFE Notice 75") were issued in October 2005. SAFE Notice 75 requires PRC residents to register with and receive approvals from the SAFE in connection with certain overseas investment activities. Since the Company is incorporated in Cayman Islands and ultimately controlled by the Controlling Shareholders (other than the Trustees) who are PRC residents, the Group is affected by the registration requirements imposed by SAFE Notice 75. The Company's subsidiaries in China are also affected by SAFE Notice 75. The failure or inability of a

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member of the Controlling Shareholders to comply with SAFE Notice 75 could subject those subsidiaries to fines and legal sanctions, restrict the Company's additional investments in those subsidiaries, or limit those subsidiaries' ability to make distributions or pay dividends offshore.

For further details on SAFE Notice 75, please refer to the paragraph headed "PRC regulation of foreign exchange in certain onshore and offshore transactions" in the section headed "History and Development" in this prospectus.

### **RISKS RELATED TO THE GLOBAL OFFERING**

#### **The Controlling Shareholders may take actions that conflict with the best interests of the Company's other shareholders**

Immediately before the Global Offering, the Controlling Shareholders, through Sky Treasure, owned 100% of the issued share capital of the Company and immediately after the Global Offering, the Controlling Shareholders have substantial control over the issued share capital of the Company. Accordingly, subject to the Company's Memorandum and Articles and the Companies Law, the Controlling Shareholders, by virtue of their indirect controlling ownership of the share capital of the Company as well as the positions of certain Controlling Shareholders on the Board, will be able to exercise significant control or exert significant influence over the Group's business or otherwise on matters of significance to the Group and other shareholders by voting at the general meetings of shareholders or at the meetings of the Board, including:

- election of Directors;
- selection of senior management;
- amount and timing of dividend payments and other distributions;
- acquisition of or merger with another entity;
- overall strategic and investment decisions;
- issuance of securities and adjustment to the Company's capital structure; and
- amendments to the Company's Memorandum and Articles.

The interests of the Controlling Shareholders may differ from the interests of other shareholders and the Controlling Shareholders are free to exercise their votes according to their interests. Accordingly, the Controlling Shareholders may take actions that favour their interests which may not be in the best interests of the other shareholders of the Company. Any such actions could adversely affect the interests of the other shareholders of the Company or the price of the Shares.

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### **There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile**

Prior to the Listing, there has been no public market for the Shares. The Offer Price for the Shares will be the result of negotiations between the Joint Global Coordinators (on behalf of the Underwriters) and the Company, and may differ from the market prices for the Shares after the Listing. The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for the Shares. The market price, liquidity and trading volume of the Shares may be volatile. There can be no assurance as to the ability of holders to sell their Shares or the price at which the Shares can be sold. As a result, shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Global Offering. Factors that may affect the volume and price at which the Shares will be traded include, among other things, variations in the Group's sales, earnings, cash flows and costs, announcements of new investments, and changes in laws and regulations in China. There is no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that the Shares may be subject to changes in price not directly related to the Group's performance.

### **Purchasers of the Shares will experience immediate dilution and may experience further dilution if the Company issues additional Shares in the future**

The Offer Price of the Shares is higher than the net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value of HK\$1.35 per Share, based on the maximum Offer Price of HK\$3.95.

In order to expand the Group's business, the Company may consider offering and issuing additional Shares in the future. Purchasers of the Shares may experience dilution in the net tangible assets value per Share if the Group issue additional Shares in the future at a price which is lower than the net tangible assets value per Share.

### **Future sales by the Company's current shareholders of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares**

Future sales of a substantial number of the Shares by the Company's current shareholders, or the possibility of such sales, could negatively impact the market price of the Shares and the Company's ability to raise equity capital in the future at a time and price that the Company deems appropriate. The shares held by the Controlling Shareholders are subject to certain lock-up undertakings for periods ending six to twelve months after the date on which trading in the Shares commences on the Stock Exchange, details of which are set out in the section headed "Underwriting" in this prospectus. While the Company is not aware of any intentions of the Controlling Shareholders to dispose of significant amounts of their Shares after the end of the lock-up periods, there is no assurance that they will not dispose of any Shares they may now own or in the future.

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### **Forward-looking information may prove inaccurate**

This prospectus contains forward-looking statements and information relating to the Group and its operations and prospects that are based on the Directors' current beliefs and assumptions as well as information currently available to the Group. When used in this prospectus, the words "anticipate," "believe," "estimate," "expect," "plans," "prospects" and similar expressions, as they relate to the Group or its business, are intended to identify forward-looking statements. Such statements reflect the Directors' current beliefs with respect to future events and are subject to risks, uncertainties and various assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions or information prove incorrect, actual results may diverge significantly from the forward-looking statements in this prospectus. The Company does not intend to update these forward-looking statements in addition to on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange.

### **Investors may face difficulties in protecting their interests because the Company is incorporated under Cayman Islands law, which law may provide less protection to minority shareholders than the laws of Hong Kong and other jurisdictions**

The Company's corporate affairs are governed by the Company's Memorandum and Articles and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in certain respects from those in Hong Kong and other jurisdictions. Such differences may mean that the Company's minority shareholders, including investors in the Shares, may have less protection than they would otherwise have under the laws of Hong Kong or other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs. See "Summary of the Constitution of the Company and Cayman Islands Companies Law" in Appendix V to this prospectus.

### **Certain facts and other statistics with respect to China, the PRC economy and the plastic injection moulding machinery industry in this prospectus are derived from various official sources and may not be reliable**

Certain facts and other statistics in this prospectus relating to China, the PRC economy and the PRC and international plastic processing machinery industries and markets have been derived from various government publications. However, the Group cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by the Group, the Joint Global Coordinators, the Sponsor, the Underwriters or any of their respective affiliates or advisors and, therefore, the Group makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Nonetheless, the Directors have taken reasonable care in reproducing these facts and statistics in this prospectus from their respective official sources.

In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

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**Potential investors should read the entire prospectus carefully and the Group strongly cautions potential investors not to place any reliance on any information contained in press articles or disseminated through other media relating to the Group and/or the Global Offering, certain of which may not be consistent with the information contained in this prospectus**

There has been press coverage, including certain news publications in Hong Kong such as *The South China Morning Post* published on 6 December, 2006, regarding the Group and the Global Offering prior to the publication of this prospectus, which has not been authorized by the Group but included certain financial information, profit forecasts, operational projections, valuations, dividend policy and other information about the Group (the “Unauthorized Information”). The Group wishes to emphasise to potential investors that it does not accept any responsibility for any such news publications, the accuracy or completeness of the Unauthorised Information and that such news publications and the Unauthorised Information were not sourced from or approved by the Group. The Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any of the news publications or the Unauthorised Information and the underlying assumptions. To the extent that any of the Unauthorised Information appearing in the news publications is inconsistent with, or conflicts with, the information contained in this prospectus, the Group disclaims it. Accordingly, prospective investors are cautioned to make their investment decisions based solely on the information contained in this prospectus and should not rely on any of the news publications or the Unauthorised Information.