

Report of the Directors

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

Group Reorganisation and Listing

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

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

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 9 to the financial statements.

Details of the analysis of the Group's performance for the year by business segments and geographical segments are set out in note 24 to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 37.

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

Reserves

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

Donations

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

Property, Plant and Equipment

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

Share Capital

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

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB2,132.7 million as at 31 December, 2006. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

Financial Summary

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

Share option scheme

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

Directors

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

Executive Directors

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

Non-executive Director

Mr. Hu Guiqing (appointed on 13 July 2006)

Independent Non-executive Directors

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

In accordance with Article 87(1) of the Company's Bye-laws, Articles of Association, Mr. Zhang Jianguo, and Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Pan Chaoyang will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service agreements with the Company or any other member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year excepted as disclosed under Continuing Connected Transactions stated below and note 40 to the financial statements.

Biographical Details of Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 17 to 21.

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

As at 31 December 2006, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

Long position in shares and underlying shares of the Company

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

Notes:

- (1) Mr. Zhang Jingzhang is the beneficial owner of 12.84% of the issued share capital of Sky Treasure Capital Limited ("Sky Treasure"), which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jingzhang is indirectly interested in 153,694,800 Shares.
- (2) Mr. Zhang Jianming is the beneficial owner of 8.71% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jianming is indirectly interested in 104,258,700 Shares.
- (3) Mr. Hu Guiqing is the beneficial owner of 6.31% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Hu Guiqing is indirectly interested in 75,530,700 Shares.

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- (4) Mr. Zhang Jianguo is the beneficial owner of 5.22% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jianguo is indirectly interested in 62,483,400 Shares.
- (5) Mr. Zhang Jianfeng is the beneficial owner of 4.90% of the issued share capital of Sky Treasure, which in turn owns 75% of the issued Shares of the Company. Accordingly Mr. Zhang Jianfeng is indirectly interested in 58,653,000 Shares.
- (6) Ms. Chen Ningning is the beneficial owner of 2.72% issued share capital of Sky Treasure, which in turn owns 75% issued Shares of the Company. Accordingly Ms. Chen Ningning is indirectly interested in 32,558,400 Shares.
- (7) Mr. Guo Mingguang is a beneficiary with 12.93% beneficial interests under a trust which is the beneficial owner of 12.74% of the issued share capital of Sky Treasure which owns 75% of the issued shares in the Company. Accordingly Mr. Guo Mingguang is indirectly interested in 19,717,966 Shares.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company and the Stock Exchange pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the year was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Interests and Short Positions of Shareholders

As at 31 December 2006, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

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

(L) denotes a long position

(S) denotes a short position ⁽³⁾

Notes:

- (1) Sky Treasure Capital Limited ("Sky Treasure") held 1,197,000,000 shares, representing a 75% interest in the issued share capital of the Company as at 31 December 2006.
- (2) As Premier Capital Management Ltd. ("Premier Capital") controlled more than one-third of the voting power at general meetings of Sky Treasure, Premier Capital is deemed to be interested in 1,197,000,000 shares held by Sky Treasure under the provisions of the SFO as at 31 December 2006.
- (3) Under an international underwriting agreement dated 16 December 2006 in relation to the conditional placing of shares of the Company as part of the Global Offering (please refer to the details in the Prospectus), Sky Treasure granted to the underwriters under the international underwriting agreement an option to require Sky Treasure to sell up to an aggregate of 59,850,000 shares of the Company. Under the provisions of the SFO, Sky Treasure is treated as having a short position of 59,850,000 shares of the Company.

Save as disclosed above, as at 31 December 2006, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

Management Contracts

During the year, the Company did not enter into any contract in respect of the management or administration of the entire business or any significant business of the Group nor any such contract subsisting.

Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers at all times.

Competing Business

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

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

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

Save as disclosed above, none of the directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2006.

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

Continuing Connected Transactions

Certain related party transactions as disclosed in note 40 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant disclosure had been made by the Company in the Prospectus.

Sales of plastic injection moulding machines

The Group entered into a master agreement with Haitian Brazil and Haitian Turkey, whereby the Group agreed to sell its products to Haitian Brazil and Haitian Turkey at prices based on the terms offered to independent third parties in their respective jurisdictions. Haitian Brazil and Haitian Turkey were subsidiaries of Ningbo Haitian which was an associate of Mr. Zhang Jingzhang and Mr. Zhang Jianming, each of them an executive director of the Company and therefore are connected persons by virtue of Rule 14A.11(4) of the Listing Rules.

During the year, the Group's sales of plastic injection moulding machines to Haitian Brazil and Haitian Turkey amounted to RMB30.4 million and RMB8.3 million respectively.

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

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

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

Based on the work performed, the auditor of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions:

- (1) have been approved by the board of directors of the Company;
- (2) are in accordance with the pricing policies of the Group;
- (3) have been entered into in accordance with the terms of the relevant agreements governing the transaction; and
- (4) have not exceeded the caps allowed by the Stock Exchange in the relevant waiver.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

Auditor

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

Public Float

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

On behalf of the Board

Zhang Jianming

Chief Executive Officer

20 April 2007