Notes to the Consolidated Financial Statements

(Amounts expressed in RMB'000 unless otherwise stated)

1. General Information

Haitian International Holdings Limited (the "Company") was incorporated on 13 July 2006, as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as combined and revised) of the Cayman Islands. Pursuant to the Group reorganisation (the "Reorganisation") as set out in Note 2, the Company became the holding company of the companies now comprising the Group.

In the opinion of the directors, the ultimate holding company of the Company is Sky Treasure Capital Limited ("Sky Treasure"), a company incorporated in the British Virgin Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") since 22 December 2006. The Company's its registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111 Cayman Islands.

The Company and its subsidiaries (the "Group") is principally engaged in manufacture and sale of plastic injection moulding machines (the "Plastic Injection Moulding Machines Business"). Details of the principal subsidiaries of the Group are set out in Note 9 to the consolidated financial statements.

These financial statements are presented in Renminbi ("RMB") unless otherwise stated. These financial statements were approved for issue on 20 April 2007.

2. Group Reorganisation and Basis of Presentation

(a) Group reorganisation

(i) Before the formation of the Group, its businesses were carried out by the subsidiaries now comprising the Group as set out in Note 9 and other companies as set out in Note 37(a) (hereinafter referred to as the "Non-transferred Companies"), all of which were controlled by senior management members of the Group (hereinafter collectively referred to as the "Haitian Management").

(ii) For the preparation of the listing of the shares of the Company on SEHK, the following reorganisation was carried out to transfer the Plastic Injection Moulding Machines Business and its related assets and liabilities to Guo Hua Limited ("Guo Hua") and its subsidiaries:

(1) Guo Hua acquired the equity interests of certain subsidiaries now comprising the Group from the Non-transferred Companies. Details of such acquisitions are set out in Note 37(b).

(2) The subsidiaries now comprising the Group have acquired certain properties, plants, equipment and inventories in relation to the Plastic Injection Moulding Machines Business from the Non-transferred Companies.

(3) Effective from 30 April 2006, Haitian South American, Industry and Machinery Commerce Limited ("Haitian Brazil") and Sea Sky Plastic Machines Import Export Limited Liability Company ("Haitian Turkey") plan to cease their operations in the Plastic Injection Moulding Machines Business in 2007; the other Non-transferred Companies ceased their operations in the Plastic Injection Moulding Machines Business and continued to be engaged in the other businesses, including manufacture and sale of numerical controlled machine tool, compressor and trading of other plant and equipment (the "Other Businesses"); and the Group ceased to carry out the Other Businesses.

As a result of the above reorganisation, all the Plastic Injection Moulding Machines Business, except for those carried out by Haitian Brazil and Haitian Turkey, was transferred to Guo Hua and its subsidiaries effective from 30 April 2006.

2. Group Reorganisation and Basis of Presentation (continued)

(b) Formation of the Group

Pursuant to an agreement dated 5 December 2006, the Company acquired all equity interests in Guo Hua from Sky Treasure. In this connection, as consideration, the Company issued and allotted 999,999 shares of HKD0.1 each, credited as fully paid up, to Sky Treasure. Upon completion of the afore-mentioned share swap, the Company became the holding company of the companies now comprising the Group.

(c) Basis of presentation

Application of merger accounting for common control combinations.

These consolidated financial statements have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

The restructuring of the Group was accounted for with the basis set out above.

The Non-transferred Companies formed an integral part of the businesses of the companies comprising the Group as they were under the control of the Haitian Management and were not managed separately from the Plastic Injection Moulding Machines Business. Accordingly, they were reflected in the financial statements up to 30 April 2006, the effective date when they ceased their operations in the Plastic Injection Moulding Machines Business. Except for the assets acquired by the subsidiaries now comprising the Group as described in Note 2(a) above, assets and liabilities retained by the Non-transferred Companies as at 30 April 2006, totaling approximately RMB1,086,270,000 are reflected in the consolidated financial statements as a distribution made to then equity holders on 30 April 2006 (Note 37(c)).

3. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5 of this section.

(a) New standards and amendments to published standards and interpretations effective in 2006

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial Guarantee Contracts" (effective for annual periods beginning on or after 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on these consolidated financial statements.

- HK(IFRIC)-Int 4 "Determining Whether an Arrangement Contains a Lease" (effective for annual periods beginning on or after 1 January 2006). It requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (ii) the arrangement conveys a right to use the asset. The adoption of this interpretation does not have a significant impact on the Group's financial statements.

- HKAS 21 Amendment "Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 January 2006). This amendment permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation, and therefore any relating exchange difference to be treated as equity in the consolidated financial statements. Previously such loans had to be denominated in the functional currency of one of the parties to the transaction. The adoption of this amendment does not have a significant impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations.

- HKAS 19 Amendment — Employee Benefits;

- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

- HKFRS 1 Amendment — First-time Adoption of International Financial Reporting Standards;

- HK(IFRIC)-Int 5 — Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

- HK(IFRIC)-Int 6 — Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

3. Principal Accounting Policies (continued)

(c) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following are the new standards and interpretations to existing standards that have been published and are mandatory for accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7 "Financial instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2007), and HKAS 1 "Amendments to capital disclosures" (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group has assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will adopt HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

- HKFRS 8 "Operating Segment" (effective for accounting periods beginning on or after 1 January 2009) HKFRS 8 supersedes HKAS 14, "Segment Reporting", which requires segments to be identified and reported based on risk and return analysis for external reporting purposes. HKFRS 8 requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 has no significant impact to the segment disclosure of the Group. The Group will apply HKFRS 8 from 1 January 2009.

- HK(IFRIC)-Int 8 "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006). HK (IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 11 "HKFRS 2 — Group and Treasury Share Transfer" (effective for annual periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008 but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006). Management believes that this interpretation should not have significant impact on the Group's accounting policies as the Group has already assessed whether embedded derivatives should be separated using principles consistent with HK(IFRIC)-Int 9.

3. Principal Accounting Policies (continued)

(d) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations.

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies" (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

- HK(IFRIC)-Int 12 "Service Concession Arrangement", (effective for annual accounting periods beginning on or after 1 January 2008). This interpretation sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

3.1 Consolidation

(a) Subsidiaries

Subsidiaries are those entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation which is accounted for as a common control combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.7). The results of subsidiaries are accounted by the company on the basis of dividend received and receivable.

Minority interests represents the interest of outside shareholders in the operating results and net assets of the subsidiaries. The increases in equity interests of certain companies comprising the Group during the year ended 31 December 2006 and 2005 as a result of injections of capital were reflected in the financial statements as contributions from then equity holders.

3. Principal Accounting Policies (continued)

3.1 Consolidation (continued)

(b) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statements, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

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

In the company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 3.7). The results of associated companies are accounted for by the company on the basis of dividend received and receivable.

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.3 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

3. Principal Accounting Policies (continued)

3.3 Foreign currency translation (continued)

(ii) Transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

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

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.4 Property, plant and equipment

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

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

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

(Amounts expressed in RMB'000 unless otherwise stated)

3. Principal Accounting Policies (continued)

3.4 Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to write off the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 years
Plant and machinery	10 years
Vehicles	5 years
Office equipment	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.7).

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

3.5 Land use rights

All land in Mainland China is state-owned and no individual land ownership right exists. The group acquired the right to use certain land and the premiums paid for such right are recorded as land use rights, which are amortised over the use terms of 33 to 50 years using the straight-line method.

3.6 Intangible assets-technology know-how

Technology know-how is shown at historical cost. Technology know-how has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technology know-how over their estimated useful lives of 3 to 5 years.

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

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

3.8 Financial assets

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

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

3. Principal Accounting Policies (continued)

3.8 Financial assets (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 3. 11).

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other gains/(losses) – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3.9 Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

3.10 Inventories

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

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value, generally equivalent to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3. Principal Accounting Policies (continued)

3.12 Cash and cash equivalents

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

3.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.14 Trade payables

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

3.15 Borrowings

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

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

3.16 Borrowing costs

Borrowing costs are expensed as incurred.

3.17 Deferred income tax

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

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

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

3. Principal Accounting Policies (continued)

3.18 Employee benefits

The group's contributions to the defined contribution retirement schemes are expensed as incurred. The group has no legal or constructive obligations to pay further contributions if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

3.19 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

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

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

3.20 Government grants

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight line basis over the expected lives of the related assets.

3.21 Revenue recognition

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

Revenue from sale of services is recognised in the accounting periods in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

3.22 Operating leases

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

3. Principal Accounting Policies (continued)

3.23 Dividend distribution

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

3.24 Contingent liabilities and contingent assets

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

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

4. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("USD"), EURO and Hong Kong dollars ("HKD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has not used any forward contracts or other means to hedge its foreign currency exposure.

(ii) Cash flow and fair value interest-rate risk

Except for the cash at bank and short-term bank deposits as at 31 December 2006 of approximately RMB1,712,097,000 held at effective interest rates ranging from 1.16% per annum to 3.86% per annum, the Group has no other significant interest-bearing asset.

The Group's interest-rate risk also arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. It performs periodic credit evaluations/reviews of its customers. Cash are only deposited to high-credit-quality financial institutions.

4. Financial Risk Management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk

The Group maintains sufficient cash and credit lines to meet its liquidity requirements.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including trade and other receivables and financial assets at fair value through profit or loss and assets held for sale; and financial liabilities including trade and other payables, and short-term bank borrowings, approximate their fair values due to their short maturities.

The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current bank borrowings are disclosed in Note 23 in this section.

5. Critical Accounting Estimates and Judgements

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

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

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

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(ii) Estimated impairment of property, plant and equipment and land use rights

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

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

(Amounts expressed in RMB'000 unless otherwise stated)

5. Critical Accounting Estimates and Judgements (continued)

(iii) Estimated impairment of receivables

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

(iv) Estimated write-downs of inventories to net realisable value

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

(v) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

6. Land Use Rights — Group

	2006	2005
Mainland China, held on:		
Land use rights of between 33 to 50 years	**106,734**	152,270
At beginning of year		
Cost	**157,841**	62,288
Accumulated amortisation	**(5,571)**	(4,417)
Net book amount	**152,270**	57,871
Opening net book amount	**152,270**	57,871
Additions	**41,872**	95,553
Amortisation for the year	**(1,475)**	(1,154)
Distributions to then equity holders on 30 April 2006	**(85,933)**	–
Closing net book amount	**106,734**	152,270
At end of year		
Cost	**112,842**	157,841
Accumulated amortisation	**(6,108)**	(5,571)
Net book amount	**106,734**	152,270

(Amounts expressed in RMB'000 unless otherwise stated)

7. Property, Plant and Equipment — Group

	Buildings	Plant and machinery	Vehicles	Office equipment	Construction in progress	Total
At 1 January 2005						
Cost	321,588	482,788	51,752	37,478	116,591	1,010,197
Accumulated depreciation	(66,126)	(156,607)	(14,399)	(11,748)	–	(248,880)
Net book amount	255,462	326,181	37,353	25,730	116,591	761,317
Year ended 31 December 2005						
Opening net book amount	255,462	326,181	37,353	25,730	116,591	761,317
Additions	2,906	77,332	14,872	6,424	99,584	201,118
Depreciation	(17,331)	(43,505)	(8,895)	(4,955)	–	(74,686)
Transfer	99,793	58,458	–	–	(158,251)	–
Disposals	–	(310)	(242)	(1,117)	–	(1,669)
Closing net book amount	340,830	418,156	43,088	26,082	57,924	886,080
At 31 December 2005						
Cost	424,287	617,519	65,579	42,714	57,924	1,208,023
Accumulated depreciation	(83,457)	(199,363)	(22,491)	(16,632)	–	(321,943)
Net book amount	340,830	418,156	43,088	26,082	57,924	886,080
Year ended 31 December 2006						
Opening net book amount	340,830	418,156	43,088	26,082	57,924	886,080
Additions	8,256	21,814	11,766	7,070	70,219	119,125
Depreciation	(14,363)	(44,107)	(9,685)	(6,189)	–	(74,344)
Transfer	56,680	14,603	–	66	(71,349)	–
Disposals	–	(839)	(210)	(2,952)	–	(4,001)
Disposal of a subsidiary	–	(758)	(1,035)	(160)	–	(1,953)
Distribution to then equity holders on 30 April 2006	(76,821)	(115,948)	(7,102)	(4,550)	(24,838)	(229,259)
Closing net book amount	314,582	292,921	36,822	19,367	31,956	695,648
At 31 December 2006						
Cost	389,811	516,915	62,409	35,806	31,956	1,036,897
Accumulated depreciation	(75,229)	(223,994)	(25,587)	(16,439)	–	(341,249)
Net book amount	314,582	292,921	36,822	19,367	31,956	695,648

Depreciation expense has been charged to the consolidated income statement as follows:

	2006	2005
Cost of sales	**57,770**	57,662
General and administrative expenses	**14,974**	16,785
Selling and marketing expenses	**1,600**	239
	74,344	74,686

(Amounts expressed in RMB'000 unless otherwise stated)

8. Intangible Assets — Technology Know-How — Group

	Technology know-how
Year ended 31 December 2005	
Opening net book amount	7,519
Additions	336
Amortisation	(2,260)
Closing net book amount	5,595
At 31 December 2005	
Cost	10,132
Accumulated amortisation	(4,537)
Net book amount	5,595
Year ended 31 December 2006	
Opening net book amount	5,595
Additions	–
Amortisation	(882)
Distributions to then equity holders on 30 April 2006	(4,713)
Closing net book amount	–
At 31 December 2006	
Cost	–
Accumulated amortisation	–
Net book amount	–

Amortisation expense has been charged to the consolidated income statement as follows:

	2006	2005
General and administrative expenses	**882**	2,260

9. Investments in and Loans to Subsidiaries — Company

(a) Investments in subsidiaries

	2006	2005
Investments, at cost:		
– Unlisted shares	**778,077**	–

(Amounts expressed in RMB'000 unless otherwise stated)

9. Investments in and Loans to Subsidiaries — Company (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries at 31 December 2006:

Company name	Country and date of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Guo Hua	British Virgin Islands ("BVI"), 2 January 2004, limited liability company	USD50,000	100%	–	Investment holding, BVI
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. ("Haitian Guangzhou")	Mainland China, 20 December 1997, wholly foreign owned enterprise	USD2,400,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Ningshing Machinery Co., Ltd. ("Haitian Ningshing")	Mainland China, 12 April 1999, foreign equity joint venture	USD2,500,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Plastic Injection Machinery Group Limited ("Haitian Machinery")	Mainland China, 23 February 2001, wholly foreign owned enterprise	USD15,000,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Tianxin Dagang Machinery Co., Ltd. ("Tianxin Dagang")	Mainland China, 29 August 2002, foreign equity joint venture	USD6,000,000	–	100%	Repair and sale of plastic injection moulding machines, Mainland China
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. ("Daxie Haitian")	Mainland China, 7 March 2003, foreign equity joint venture	USD1,550,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Heavywork Machinery Co., Ltd. ("Haitian Heavywork")	Mainland China, 11 June 2003, foreign equity joint venture	USD15,000,000	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Shili Machinery Co., Ltd. ("Haitian Shili")	Mainland China, 24 June 2003, foreign equity joint venture	USD12,000,000	–	100%	Manufacture and sale of accessories of plastic injection moulding machines, Mainland China
Haitian Europe S.p.A ("Haitian Europe")	Italy, 1 August 2003, a limited liability company	EURO500,000	–	100%	Sale of plastic injection moulding machines, Italy
Dahai (H.K.) Company Limited ("Dahai HK")	Hong Kong, 4 June 2004, limited liability company	HKD10,000	–	100%	Trading of machinery and machinery accessories, Hong Kong
Ningbo Haitian Huayuan Co., Ltd. ("Haitian Huayuan")	Mainland China, 26 August 2004, foreign equity joint venture	USD8,162,128	–	100%	Manufacture and sale of plastic injection moulding machines to foreign countries, Mainland China

(Amounts expressed in RMB'000 unless otherwise stated)

9. Investments in and Loans to Subsidiaries — Company (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries at 31 December 2006: (continued)

Company name	Country and date of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company Direct	Attributable equity interest to the Company Indirect	Principal activities and place of operation
Ningbo Haitian Machinery Sales Co., Ltd. ("Haitian Sales")	Mainland China, 15 October 2004, limited liability company	RMB18,000,000	–	100%	Sale of plastic injection moulding machines, Mainland China
Wuxi Tianjian Machinery Co., Ltd. ("Wuxi Tianjian")	Mainland China, 14 December 2004, foreign equity joint venture	USD8,793,220	–	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. ("Haitian Beihua")	Mainland China, 19 January 2005, limited liability company	RMB10,000,000	–	80%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China
Ningbo Bonded Logistic Zone Dagang Haitian International Trading Co., Ltd. ("Dagang Trading")	Mainland China, 28 March 2006, limited liability company	RMB100,000	–	100%	Trading of machinery and machinery accessories, Mainland China
Haitian Huayuan (Hong Kong) Limited ("Huayuan HK")	Hong Kong, 4 December 2006, limited liability company	HKD10,000	–	100%	Trading of machinery and machinery accessories, Hong Kong

(b) Loans to subsidiaries

As at 31 December 2006, loans to subsidiaries amounting to approximately RMB214,518,000 were unsecured, interest free and settlement is neither planned nor likely to occur in the foreseeable future.

(c) Due to subsidiaries

As at 31 December 2006, the amounts were unsecured, interest free and repayable within twelve months.

10. Investments in Associates — Group

	2006	2005
Beginning of the year	**2,272**	10,526
Share of associates' results		
– profit/(loss) before taxation	**66**	(193)
– taxation	**–**	–
Increase in investments	**–**	520
Disposal of an associate	**–**	(8,581)
Distribution to then equity holders on 30 April 2006	**(1,863)**	–
End of the year	**475**	2,272

(Amounts expressed in RMB'000 unless otherwise stated)

11. Deferred Tax Assets — Group

Deferred tax assets of the group are to be recovered within 12 months. Movement on the deferred income tax assets is as follows:

	Provision for impairment of trade and other receivables	Write-down of inventories	Others	Total
At 1 January 2005	3,936	1,287	1,672	6,895
Recognised in the consolidated income statement	1,250	867	(231)	1,886
At 31 December 2005	5,186	2,154	1,441	8,781
Recognised in the consolidated income statement	(479)	2,458	(103)	1,876
At 31 December 2006	4,707	4,612	1,338	10,657

There was no material unprovided deferred income tax assets or liabilities at 31 December 2006.

12. Inventories — Group

	2006	2005
Raw materials	**242,650**	209,966
Work in progress	**119,171**	94,432
Finished goods	**289,828**	285,090
	651,649	589,488

The Group has recognised a loss of approximately RMB8,865,000 for the write-down of its inventories for the year ended 31 December 2006 (2005: RMB14,691,000). These amounts have been included in the cost of sales in the consolidated income statement.

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB2,273,199,000 (2005: RMB1,853,522,000).

13. Trade and Bills Receivables — Group

	2006	2005
Trade and bills receivables		
– third parties	**892,211**	842,872
– related parties (Note 40)	**14,512**	–
	906,723	842,872
Less: provision for impairment	**(28,118)**	(36,713)
Trade and bills receivables-net	**878,605**	806,159

The carrying amounts of trade and bills receivable approximated their fair value.

(Amounts expressed in RMB'000 unless otherwise stated)

13. Trade and Bills Receivables — Group (continued)

Customers are generally granted with credit terms ranging from 0 to 18 months. Ageing analysis of trade and bills receivables is as follows:

	2006	2005
0 to 6 months	**780,743**	714,598
6 months to 1 year	**79,621**	73,395
1 year to 2 years	**26,989**	41,234
Over 2 years	**19,370**	13,645
	906,723	842,872

The Group has reversed impairment of trade receivables of approximately RMB4,105,000 for the year ended 31 December 2006 (2005: provision of RMB12,591,000). The reversal and creation of provision have been included in general and administrative expenses in the consolidated income statement.

At 31 December 2006, the trade and bills receivables were denominated in currencies as follows:

	2006	2005
Renminbi	**599,560**	611,344
United States dollars	**259,149**	172,064
EURO	**43,082**	27,291
Hong Kong dollars	**4,932**	918
Others	**–**	31,255
	906,723	842,872

14. Prepayments and Other Receivables

	Group		Company	
	2006	2005	2006	2005
Prepayments and deposit				
– for raw materials	**13,025**	58,240	**–**	–
– others	**229**	2,394	**–**	–
Value Added Tax recoverable	**34,606**	5,854	**–**	–
Receivables from employees	**3,025**	29,293	**–**	–
Receivables of proceeds from issue of shares	**7,737**	–	**7,737**	–
Other loans	**–**	20,000	**–**	–
Loans to distributors (i)	**2,800**	10,000	**–**	–
Others	**10,810**	18,059	**1,107**	–
Due from related parties – non trade (Note 40)	**–**	39,612	**–**	–
	72,232	183,452	**8,844**	–

(i) Loans granted to distributors are unsecured, payable within one year, and non-interest bearing.

The carrying amounts of prepayments and other receivables approximated their fair value.

(Amounts expressed in RMB'000 unless otherwise stated)

15. Financial Assets at Fair Value Through Profit or Loss — Group

	2006	2005
Equity securities — listed in Mainland China	–	18,533

Changes in fair value of financial assets at fair value through profit or loss are recorded in other gains/(losses) — net in the consolidated income statement.

16. Assets Held For Sale — Group

Assets held for sale represents the 25% equity interest in Ningbo Huaneng International Economic and Trading Co., Ltd. ("Huaneng International") held by 寧波海天股份有限公司 (Ningbo Haitian Group Co., Ltd. ("Ningbo Haitian")). This investment was distributed to then equity holders on 30 April 2006 pursuant to the Reorganisation.

17. Pledged Bank Deposits — Group

	2006	2005
Deposits placed in certain banks as collaterals against certain trade finance facilities granted by banks	27,177	8,137

The trade finance facilities mainly represent bank guarantees for bills payable to suppliers, letters of credit for import and trading finance granted by the banks to the Group's customers.

(i) The weighted average interest rate per annum on pledged bank deposits was 0.72% at 31 December 2006 (31 December 2005: 1.43%).

(ii) The pledged bank deposits were denominated in currencies as follows:

	2006	2005
Renminbi	25,276	8,137
United States dollars	1,901	–
	27,177	8,137

18. Cash and Cash Equivalents

	Group		Company	
	2006	2005	**2006**	2005
Cash at bank and in hand	**425,483**	568,906	**51,373**	–
Short-term bank deposits	**1,286,614**	22,593	**1,266,604**	–
	1,712,097	591,499	**1,317,977**	–

(i) The weighted average effective interest rate per annum on cash at bank was 1.16% at 31 December 2006 (31 December 2005: 0.83%). The weighted average effective interest rate per annum on short-term bank deposits was 3.86% at 31 December 2006 (31 December 2005: 1.57%).

(ii) At 31 December 2006, the cash and cash equivalents were denominated in currencies as follows:

	Group		Company	
	2006	2005	**2006**	2005
Renminbi	**289,352**	480,756	**–**	–
United States dollars	**101,413**	91,451	**–**	–
Hong Kong dollars	**1,321,332**	2,272	**1,317,977**	–
EURO	**–**	10,548	**–**	–
Others	**–**	6,472	**–**	–
	1,712,097	591,499	**1,317,977**	–

Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the Mainland China government.

19. Share Capital

	Authorised share capital		
	Number of shares '000	**HKD'000**	**RMB'000**
Upon incorporation of the Company on 13 July 2006 and as at 31 December 2006 (a)	5,000,000	500,000	502,350

	Issued and fully paid up		
	Number of shares '000	**HKD'000**	**RMB'000**
Issued on 13 July 2006 (a)	–	–	–
Increase on 5 December 2006 (b)	1,000	100	101
Issue pursuant to the placing and public offer (c)	399,000	39,900	40,127
Capitalisation of share premium (d)	1,196,000	119,600	120,282
As at 31 December 2006	1,596,000	159,600	160,510

19. Share Capital (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 13 July 2006 (date of incorporation) to 31 December 2006:

(a) Upon incorporation of the Company, its authorised share capital was HKD500,000,000 (approximately RMB502,350,000), divided into 5,000,000,000 shares of HKD0.10 each. On 13 July 2006, one share of HKD0.10 of the Company was allotted and issued nil paid.

(b) As consideration for the acquisition by the Company of the entire issued share capital of Guo Hua, (i) 999,999 Shares were allotted and issued to Sky Treasure credited as fully paid at par and (ii) 1 nil paid Share held by Sky Treasure was credited as fully paid at par on 5 December 2006.

(c) On 22 December 2006, the Company issued 399,000,000 shares of HKD0.10 each through a placing and public offer of the Company's shares in Hong Kong (the "New Issue") at a consideration of HKD3.950 per share, totaling approximately HKD1,576,050,000 (approximately RMB1,585,033,485). The share issue costs were approximately HKD92,186,000 (approximately RMB92,711,000).

(d) Upon completion of the New Issue, a sum of HKD119,600,000 (approximately RMB120,282,000) was capitalised and applied in paying up in full at par 1,196,000,000 shares to the shareholder whose name was on the register of members of the Company on 5 December 2006.

As disclosed in Note 2, the consolidated financial statements have been prepared under the merger accounting method. Accordingly, the share capital of approximately RMB101,000 issued as described in note (b) above is deemed to have been in issue throughout the accounting periods presented in these financial statements.

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves

GROUP

	Share premium	Merger reserve and other reserves (note a)	Statutory reserves (note d)	Translation differences	Retained earnings	Total
At 1 January 2005	–	122,078	284,297	953	758,515	1,165,843
Profit for the year	–	–	–	–	306,898	306,898
Capital injection by then equity holders of subsidiaries	–	11	–	–	–	11
Appropriations	–	–	81,542	–	(81,542)	–
Dividends paid by group companies to then equity holders	–	–	–	–	(30,370)	(30,370)
Currency translation differences	–	–	–	7,482	–	7,482
At 31 December 2005	–	122,089	365,839	8,435	953,501	1,449,864
Profit for the year	–	–	–	–	450,867	450,867
Issue of share pursuant to New Issue (Note 19 (c))	1,544,906	–	–	–	–	1,544,906
Share issue costs	(92,711)	–	–	–	–	(92,711)
Capitalisation of share premium	(120,282)	–	–	–	–	(120,282)
Contribution of minority interest in subsidiaries by then equity holders (Note b)	–	6,536	–	–	–	6,536
Acquisition of minority interest in subsidiaries by then group companies (Note c)	–	(74)	–	–	–	(74)
Appropriations	–	–	40,764	–	(40,764)	–
Dividends paid by group companies to then equity holders	–	–	–	–	(30,370)	(30,370)
Currency translation differences	–	–	–	(1,184)	–	(1,184)
Distributions to then equity holders on 30 April 2006 (Note 37 (c))	–	22,962	(221,022)	(6,639)	(794,306)	(999,005)
At 31 December 2006	1,331,913	151,513	185,581	612	538,928	2,208,547

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves (continued)

GROUP (continued)

(a) Merger reserve and other reserves

The differences between the nominal value of the share capital issued by the Company as described in Note 19(a) and the aggregate nominal values of the share capital/paid-up capital of the subsidiaries comprising the Group and the Non-transferred Companies, where applicable, were recorded as merger reserve. The injection of additional paid-up capital by the equity holders to the respective companies and the acquisition of minority interests in the respective companies by then equity holders, which were combined from the effective date of acquisition, were recorded as additions during the year. The excess of the consideration over carrying amount of the minority interest acquired and the distribution of the paid-up capital of certain Non-transferred Companies to then equity holders of on 30 April 2006 were recorded as a reduction in merger reserve.

(b) In April 2006, the then equity holders of the Company acquired additional 32% interest in Haitian Ningshing from Ningshing Development Co., Ltd..The additional equity interest of this company acquired by the then equity holders was accounted for as an additional contribution into the Group.

(c) In March 2006, Ningbo Haitian acquired additional 10% equity interest in Ningbo Haidun Trading Co., Ltd ("Haidun Trading") (a Non-transferred Company) from Mr. Qian Yaoen with a consideration of approximately RMB600,000.

(d) Statutory reserves
Subsidiaries of the Company incorporated in Mainland China are required to make appropriations to certain statutory reserves namely, statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund from profit for the year after offsetting accumulated losses from prior years and before profit distribution to equity holders. The percentages to be appropriated to such statutory reserve funds are determined according to the relevant regulations in Mainland China at rates ranging from 2.5% to 10%, or at the discretion of the board of directors of the respective companies.

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses, to increase capital, or for special bonus or collective welfare of employees. They can not be distributed to equity holders of the Company. Movements in the statutory reserves are as follows:

	Statutory reserve fund	Statutory welfare fund	Enterprise expansion fund	Discretionary reserve fund	Total
At 1 January 2005	90,228	35,408	76,898	81,763	284,297
Additions	22,433	11,217	23,608	24,284	81,542
At 31 December 2005	112,661	46,625	100,506	106,047	365,839
Additions	–	–	16,954	23,810	40,764
Distributions to then equity holders on 30 April 2006 (Note 37(c))	(111,551)	(46,069)	(31,701)	(31,701)	(221,022)
At 31 December 2006	1,110	556	85,759	98,156	185,581

(e) Upon the transfer of the Plastic Machines Business to Guo Hua and its subsidiaries effective 30 April 2006, the net assets retained by the Non-transferred Companies as at 30 April 2006 are reflected in the consolidated financial statement as a distribution made to then equity holders (Note 37 (c)).

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves (continued)

GROUP (continued)

(f) Accounting adjustments under common control combination

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheet.

The consolidated balance sheet as at 31 December 2006:

	The Company	The Subsidiaries	Adjustments (Note)	Consolidated
Investment in the subsidiaries	778,077	–	(778,077)	–
Intra-group balances	203,548	(203,548)	–	–
Other assets/(liabilities)	1,311,633	1,058,732	–	2,370,365
Net assets	2,293,258	855,184		2,370,365
Share capital	160,510	733,998	(733,998)	160,510
Share premium	1,331,913	–	–	1,331,913
Contributed surplus	777,977	–	(777,977)	–
Capital reserves	–	(582,385)	733,898	151,513
Translation differences	–	612	–	612
Statutory reserve	–	185,581	–	185,581
Retained earnings	22,858	516,070	–	538,928
Minority interest	–	1,308		1,308
	2,293,258	855,184		2,370,365

The consolidated balance sheet as at 31 December 2005:

	The Company	The Subsidiaries	Adjustments (Note)	Consolidated
Investment in the subsidiaries	101	–	(101)	–
Other assets/(liabilities)	–	1,552,775	–	1,552,775
Net assets	101	1,552,775		1,552,775
Share capital	101	717,082	(717,082)	101
Capital reserves	–	(594,892)	716,981	122,089
Translation differences	–	8,435	–	8,435
Statutory reserve	–	365,839	–	365,839
Retained earnings	–	953,501	–	953,501
Minority interest	–	102,810		102,810
	101	1,552,775		1,552,775

Note: The above adjustment represents an adjustment to eliminate the share capital of the combining entities against the investment cost. The difference of RMB733,898,000 (2005: RMB716,981,000) has been made to the merger reserve in the consolidated financial statements.

No adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

(Amounts expressed in RMB'000 unless otherwise stated)

20. Reserves (continued)

COMPANY

	Share premium	Contributed surplus (Note a)	Retained earnings	Total
Issue of share pursuant to New Issue (Note 19 (c))	1,544,906	–	–	1,544,906
Profit for the year	–	–	22,858	22,858
Share issue costs	(92,711)	–	–	(92,711)
Capitalisation of share premium	(120,282)	–	–	(120,282)
Effect of reorganisation	–	777,977	–	777,977
At 31 December 2006	1,331,913	777,977	22,858	2,132,748

(a) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiaries being acquired in connection with the Reorganisation of the Group prior to its listing on the SEHK, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired.

21. Trade and Bills Payables — Group

	2006	2005
Trade payables	**626,183**	465,427
Bills payable	**472,189**	433,090
Trade and bills payables	**1,098,372**	898,517
Due to related parties — trade related (Note 40)	**3,517**	2,019
	1,101,889	900,536

Ageing analysis of trade and bills payables is as follows:

	2006	2005
0 to 6 months	**1,101,771**	893,166
6 months to 1 year	**118**	898
1 year to 2 years	**–**	2,325
Over 2 years	**–**	4,147
	1,101,889	900,536

At 31 December 2006, the trade and bills payables were denominated in currencies as follows:

	2006	2005
Renminbi	**1,047,183**	848,144
United States dollars	**44,510**	32,994
EURO	**5,897**	7,936
Hong Kong dollars	**4,299**	5,136
Others	**–**	6,326
	1,101,889	900,536

The carrying amounts of accounts and bills payable approximate their fair value.

(Amounts expressed in RMB'000 unless otherwise stated)

22. Accruals and Other Payables

	Group		Company	
	2006	2005	**2006**	2005
Bonus and welfare payable	**131,132**	146,573	**–**	–
Sales commission payables	**92,537**	47,084	**–**	–
Customers deposits	**148,526**	155,958	**–**	–
Accrued expenses	**9,439**	3,817	**–**	–
Payable for purchase of property, plant and equipment and land use rights	**2,864**	16,445	**–**	–
Provision for warranty	**7,216**	8,867	**–**	–
Advance from a third party for acquisition of assets held for sale	**–**	9,000	**–**	–
Dividends payable of group companies to then equity holders	**–**	61,035	**–**	–
Considerations payable for acquisition of minority interests (i)	**–**	34,223	**–**	–
Share issue expenses payable	**15,188**	–	**15,188**	–
Other payables	**22,106**	18,888	**–**	–
Due to related parties – non trade (Note 40)	**–**	49,899	**–**	–
	429,008	551,789	**15,188**	–

(i) *The considerations payable for acquisition of minority interests represent the amounts payable for the acquisition of 30% equity interest in Haitian Machinery Co., Ltd. ("HMC").*

23. Bank Borrowings — Group

	2006	2005
Non-current		
Between 1 to 2 years	**150,000**	–
Current		
Bank borrowings	**6,850**	161,677
Borrowings arising from discounted bills	**84,345**	71,174
	91,195	232,851
Total bank borrowings	**241,195**	232,851
Representing:		
Unsecured	**6,850**	61,677
Secured	**234,345**	171,174
	241,195	232,851

(Amounts expressed in RMB'000 unless otherwise stated)

23. Bank Borrowings — Group (continued)

(a) An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	2006	2005
At fixed rates in RMB	**234,345**	171,174
At floating rates in RMB	**–**	50,000
	234,345	221,174
At fixed rates in EURO	**6,850**	11,677
Total borrowings		
– at fixed rates	**241,195**	182,851
– at floating rates	**–**	50,000
	241,195	232,851

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

	2006	2005
RMB	**3.36%**	3.99%
EURO	**5.00%**	5.00%

(c) The carrying values and fair values of non-current borrowings are as follows:

	2006	2005
Carrying values	**150,000**	–
Fair values	**145,468**	–

The fair values are based on discounted cash flows using a rate based on the borrowings rate at 6.30% as at 31 December 2006, depending on the types and currencies of borrowings.

The carrying amounts of current borrowings approximate their fair values.

(d) As at 31 December 2006, long-term bank borrowings of RMB150 million was guaranteed by a bank (2005: short-term bank borrowings of RMB100 million was guaranteed by a bank).

As at 31 December 2006, short-term bank borrowings of approximately RMB84 million (2005: RMB71 million) was secured by accounts and bills receivables.

24. Sales and Segment Information

	2006	2005
Sales of plastic moulding injection machine and related products	**3,134,291**	2,535,959
Others	**41,441**	41,630
	3,175,732	2,577,589

The Group is mainly engaged in the Plastic Injection Moulding Machines Business in Mainland China and more than 90% of its operation and assets are located in Mainland China. Less than 10% of the Group's turnover and contribution to operation is attributable to the Other Businesses or to any single overseas market. Therefore no business segment or geographical segment is presented.

(Amounts expressed in RMB'000 unless otherwise stated)

25. Expenses by Nature

Expenses included in cost of sales, selling and marketing expenses and general and administrative expenses are analysed as following:

	2006	2005
Auditors' remuneration	**2,580**	289
Depreciation and amortisation	**76,701**	78,100
Changes in inventories of finished goods and work in progress	**29,477**	125,216
Raw materials and consumables used	**2,053,858**	1,501,307
Operating lease for buildings	**6,066**	3,516
Sales commission	**159,204**	111,733
(Reversal of)/provision for impairment of trade receivables	**(4,105)**	12,591
Provision for write-down of inventories	**8,865**	14,691
Employee benefit expenses (Note 28)	**200,349**	163,909
Freight charges	**23,530**	25,244
Utilities	**31,700**	28,948
Bank charge for grant of letter of credit	**8,374**	5,649
Others	**138,125**	149,302
Total cost of sales, selling and marketing expenses and general and administrative expenses	**2,734,724**	2,220,495

26. Other Income

	2006	2005
Government grants	**24,821**	16,211
Interest income from loans and receivables	**380**	1,544
	25,201	17,755

27. Other Gains/(Losses) — Net

	2006	2005
Gain on financial assets at fair value through profit or loss	**6,593**	110
Exchange losses	**(2,460)**	(20,634)
Loss on disposal of property, plant and equipment, net	**(3,030)**	(92)
Loss on disposal of a subsidiary	**(1,031)**	–
Loss on disposal of an associate	**–**	(447)
Others	**3,816**	288
	3,888	(20,775)

28. Employee Benefit Expense

	2006	2005
Wages, salaries and bonus	**164,922**	138,815
Retirement benefit contributions	**11,398**	9,670
Staff welfare	**24,029**	15,424
	200,349	163,909

(Amounts expressed in RMB'000 unless otherwise stated)

29. Retirement Benefit Schemes and Housing Benefits

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement plans for certain of its employees in Mainland China. The Group are required to contribute 11% to 21% of employees' basic monthly salary.

In addition, the Group's employees in Mainland China participate in employee social security plans, including medical, housing and other welfare benefits, organised and administered by government authorities. The Group contributes 8% and 10% of employees' basic monthly on a monthly basis to medical and housing funds respectively.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation.

The Group has no further obligation for post-retirement benefits or housing funds beyond contributions aforementioned.

30. Directors and Senior Management's Emoluments

(a) Directors' emoluments

The emoluments of individual director for the year ended 31 December 2006 and 2005 are set out below:

Name of Director	Fees	Salary	Other benefits	Total
2006				
Executive directors				
– Mr. Zhang Jingzhang	–	700	6	706
– Mr. Zhang Jianming	–	730	13	743
– Mr. Zhang Jianfeng	–	502	13	515
– Mr. Zhang Jianguo	–	450	13	463
– Mr. Guo Mingguang	–	420	13	433
– Ms. Chen Ningning	–	400	13	413
	–	3,202	71	3,273
Non-executive director				
– Mr. Hu Guiqing	–	75	39	114
Independent non-executive directors				
– Mr. Pan Chaoyang	50	–	–	50
– Mr. Gao Xunxian	50	–	–	50
– Mr. Dai Xiangbo	50	–	–	50
	150	–	–	150
	150	3,277	110	3,537
2005				
Executive directors				
– Mr. Zhang Jingzhang	–	700	6	706
– Mr. Zhang Jianming	–	730	13	743
– Mr. Zhang Jianfeng	–	500	13	513
– Mr. Zhang Jianguo	–	450	13	463
– Mr. Guo Mingguang	–	350	13	363
– Ms. Chen Ningning	–	350	13	363
	–	3,080	71	3,151
Non-executive director				
– Mr. Hu Guiqing	–	420	6	426
	–	3,500	77	3,577

No directors of the Company waived any emoluments for the year ended 31 December 2006 (2005: nil).

(Amounts expressed in RMB'000 unless otherwise stated)

30. Directors and Senior Management's Emoluments (continued)

(b) Five highest paid individuals

Except for two individuals (2005: three), the three (2005: two) individuals whose emoluments were the highest in the Group during the year are also Directors of the Company as described in (a) above. The emoluments payable to the remaining individuals for the year ended 31 December 2006 and 2005 are as follows:

	2006	2005
Salary	1,783	967
Compensation for loss of office	–	5,282
	1,783	6,249

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emoluments bands		
Nil – HKD1,000,000 (equivalent to approximately RMB1,004,000)	1	2
HKD1,000,001 (equivalent to approximately RMB1,004,000) – HKD5,000,000 (equivalent to approximately RMB5,022,000)	1	1

31. Finance Income/(Costs) Net

	2006	2005
Interest expense:		
Bank borrowings wholly repayable within five years	15,544	6,362
Finance income:		
Interest income on short-term bank deposits	(5,781)	(3,870)
Interest income from over subscription of New Issue	(23,236)	–
	(29,017)	(3,870)
Finance (income)/costs net	(13,473)	2,492

32. Income Tax Expense

	2006	2005
Current income tax		
– Mainland China current income tax ("EIT")	23,421	23,438
– Hong Kong profits tax	318	153
– Overseas taxation	–	351
Deferred taxation	(1,876)	(1,886)
	21,863	22,056

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

The subsidiaries incorporated in British Virgin Islands under the International Business Companies Acts of the British Virgin Islands are exempted from payment of British Virgin Islands income tax.

(Amounts expressed in RMB'000 unless otherwise stated)

32. Income Tax Expense (continued)

The subsidiaries established in Mainland China are subject to EIT at rates ranging from 15% to 33% for the year ended 31 December 2006 and 2005. Except for Haitian Sales, Haitian Beihua, Dagang Trading, other subsidiaries, being incorporated as foreign investment enterprises in Mainland China, have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

The subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 17.5%.

The subsidiary established in Italy is subject to the corporate income tax at rate of 33% and Local Income Tax of 4.25% on the taxable income for the year ended 31 December 2006 and 2005.

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

	2006	2005
Profit before income tax	**483,636**	351,389
Tax calculated at weighted-average tax rates	**91,643**	79,060
Effect of tax exemptions	**(91,586)**	(78,449)
Expenses not deductible for tax purpose	**21,806**	21,445
Income tax expense	**21,863**	22,056
% of weighted-average tax rates	**18.9%**	22.5%

33. Profit Attributable to the Equity Holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB22,858,000.

34. Earnings per Share

The calculation of basic earnings per share for the year is based on the profit attributable to the equity holders of the Company of approximately RMB450,867,000 (2005: RMB306,898,000) and on the weighted average number of approximately 1,205,745,205 (2005: 1,197,000,000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 1,197,000,000 shares issued pursuant to the issues of shares and capitalisation issue as stated in Note 19(a) & (b) & (d) were deemed to have been issued since 1 January 2005.

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

35. Dividends

(a) The directors do not recommend payment of a final dividend in respective of the year ended 31 December 2006.

(b) Dividends paid by Group companies to their then equity holders during the years ended 31 December 2006 and 2005 of approximately RMB30,370,000 and RMB30,370,000 represented dividends declared out of the retained earnings of these companies to their then equity holders.

(Amounts expressed in RMB'000 unless otherwise stated)

36. Notes to Consolidated Cash Flow Statements

(a) Cash generated from operations

	2006	2005
Profit before income tax	**483,636**	351,389
Adjustments for:		
– share of results of associates (Note 10)	**(66)**	193
– amortisation of land use rights (Note 6)	**1,475**	1,154
– depreciation of property, plant and equipment (Note 7)	**74,344**	74,686
– amortisation of intangible assets (Note 8)	**882**	2,260
– loss on disposal of property, plant and equipment (Note 27)	**3,030**	92
– loss on disposal of an associate (Note 27)	**–**	447
– loss on disposal of a subsidiary (Note 27)	**1,031**	–
– (reversal of)/provision for impairment of trade receivables (Note 25)	**(4,105)**	12,591
– provision for write-down of inventories (Note 25)	**8,865**	14,691
– interest income from loans and receivables (Note 26)	**(380)**	(1,544)
– finance (income)/costs-net (Note 31)	**(13,473)**	2,492
– gain on financial assets at fair value through profit or loss (Note 27)	**(6,593)**	(110)
	548,646	458,341
Changes in working capital:		
– increase in pledged bank deposit	**(19,040)**	(2,485)
– increase in trade and other receivables	**(368,855)**	(63,610)
– increase in inventories	**(180,730)**	(97,581)
– increase in trade and bills payable and accruals and other payables	**642,580**	48,539
Cash generated from operations	**622,601**	343,204

(Amounts expressed in RMB'000 unless otherwise stated)

36. Notes to Consolidated Cash Flow Statements (continued)

(b) Disposal of interest of a subsidiary

	2006	2005
Net assets disposed of:		
Fixed assets	**1,953**	–
Cash and cash equivalents	**4,083**	–
Trade and other receivables	**5,334**	–
Inventories	**7,934**	–
Other current assets	**962**	–
Total assets	**20,266**	–
Trade payables	**4,786**	–
Other current liabilities	**4,340**	–
Total liabilities	**9,126**	–
Net assets	**11,140**	–
Less: net assets attributable to minority interest	**(5,334)**	–
Net assets attributable to the equity holder of the Company	**5,806**	–
Loss on disposal of interest in a subsidiary (Note 27)	**(1,031)**	–
Satisfied by:		
Cash consideration	**4,775**	–

An analysis of the net cash inflow in respect of the disposal of subsidiary is as follows:

Cash consideration	**4,775**	–
Cash and cash equivalent disposed of	**(4,083)**	–
	692	–

The subsidiary disposed of during the year made no significant contribution to the Group's cash flow, sales or profit attributable to the equity holders of the Company for the year ended 31 December 2006.

(Amounts expressed in RMB'000 unless otherwise stated)

37. Details of the Non-transferred Companies

(a) Non-transferred Companies

Company name	Equity interests controlled by the Haitian Management since foundation up to 30 April 2006 (the effective date of completion of the business reorganisation)
Long Harvest Investments Limited	100%
Lei Er Company Limited	100%
Hugh Power Limited	100%
Anson Asia Ltd.	100%
Ningbo Haitian	91.87%
HMC	94.31%
Ningbo Haizhu Machinery Co., Ltd.	95.12%
Haidun Trading	82.68%
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision")	96.99%
Ningbo STF Hydraulic Transmissions Co., Ltd.	68.90%
Ningbo Haitian Compressor Co., Ltd. ("Haitian Compressor")	64.31%
Haitian Brazil	87.28%
Haitian Turkey	91.87%

(b) Details of equity interests of the subsidiaries acquired from Non-transferred Companies are as follows:

Equity interest acquired	Time of Acquired in
70% of Haitian Machinery	April 2006
30% of Haitian Heavy Work	April 2006
30% of Haitian Huayuan	April 2006
60% of Tianxin Dagang	April 2006
70% of Haitian Shili	April 2006
90% of Haitian Sales	April 2006
80% of Haitian Beihua	March 2006
100% of Dahai HK	February 2006
98% of Haitian Europe	February 2006
68% of Haitian Ningshing	April 2006
75% of Daxie Haitian	April 2006
30% of Wuxi Tianjian	April 2006
100% of Haitian Guangzhou	April 2006
100% of certain intermediate investment holding companies (namely China Chance Limited, Develop Kind Limited, East Victory Ltd. and Kaman Limited)	April 2006

(Amounts expressed in RMB'000 unless otherwise stated)

37. Details of the Non-transferred Companies (continued)

(c) Effect on distribution to then equity holders on 30 April 2006

On 30 April 2006, the assets and liabilities of the Non-transferred Companies was accounted for as a distribution to then equity holders. The cash outflow in respect of such distribution is approximately RMB424,532,000. An analysis of the assets and liabilities and the cash outflow of the distribution is as follows:

Non-current assets	
Land use rights	85,933
Property, plant and equipment	229,259
Intangible assets	4,713
Interests in an associate	1,863
	321,768
Current assets	
Inventories	101,771
Trade and bills receivables	225,206
Prepayments and other receivables	570,992
Financial assets at fair value through profit or loss	23,687
Assets held for sale	9,000
Cash and cash equivalents	424,532
	1,355,188
Current liabilities	
Trade and bills payables	333,120
Accruals and other payables	207,222
Taxation payable	344
Bank borrowings	50,000
	590,686
Net assets distributed	1,086,270
Cash and cash equivalent distributed	424,532

38. Commitments

(a) Capital commitments

	2006	2005
Contracted but not provided for:		
Acquisition of property, plant and equipment	**90,953**	41,709

(b) Operating lease commitments

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

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

	2006	2005
Not later than 1 year	**2,756**	3,550
Later than 1 year and not later than 5 years	**4,149**	1,354
Later than 5 years	**84**	–
	6,989	4,904

(Amounts expressed in RMB'000 unless otherwise stated)

39. Contingent Liabilities

As at 31 December 2006, contingent liabilities not provided for in the consolidated financial statements was as follows:

	2006	2005
Guarantee given to the banks in connection with facilities granted to the customers	**300,636**	213,486

40. Related Party Transactions

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

德馬格海天塑料機械（寧波）有限公司 (Demag Haitian Plastics Machinery Co., Ltd. ("Demag Plastics")) and 寧波佳精液壓工業有限公司 (Ningbo SPP Hydraulics Co., Ltd. ("SPP Hydraulics")) are associates of the companies owned by the equity holders of the Company and are considered to be related parties of the Group. Directors of the Company and their associates and the Non-transferred Companies are also considered to be related parties of the Group.

(a) Transactions with related parties:

The following transactions were carried out with related parties:

Continuing

	2006	2005
(i) Sales of goods to:		
Haitian Turkey	**8,252**	–
Haitian Brazil	**30,384**	–
	38,636	–
(ii) Lease of property from:		
Ningbo Haitian	**295**	–
(iii) Remuneration of directors and senior management:		
– fees and salaries	**4,239**	3,816
– other benefits	**167**	110
	4,406	3,926

(Amounts expressed in RMB'000 unless otherwise stated)

40. Related Party Transactions (continued)

(a) Transactions with related parties: (continued)

Discontinued

		2006	2005
(i)	Sales of goods to:		
	Demag Plastics	–	14,826
	SPP Hydraulics	98	532
	Haitian Compressor	34	–
	Haitian Precision	299	–
		431	15,358
(ii)	Lease of property and plant to:		
	Demag Plastics	–	1,233
	SPP Hydraulics	48	144
		48	1,377
(iii)	Purchase of goods or services from:		
	Demag Plastics	–	20
	SPP Hydraulics	2,221	4,198
	Haitian Compressor	264	–
		2,485	4,218
(iv)	Purchase of equipment from:		
	Haitian Compressor	1,044	–

(v) During the year ended 31 December 2006, the equity holders of the Company made advances of approximately RMB62,263,000 to the Company's subsidiaries. The advances were non-interest bearing and had been repaid as at 31 December 2006.

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2006 and 2005:

		2006	2005
(i)	Due from related parties Non-trade: From directors and their associates		
	– Mr. Zhang Jingzhang	–	14,726
	– Mr. Zhang Jianming	–	24,846
	– Mr. Zhang Jianfeng	–	40
		–	39,612
	Trade related		
	– Haitian Brazil	14,512	–
		14,512	39,612

Maximum balance outstanding for amounts due from related parties for the year ended 31 December 2006 and 2005 were as follows:

	2006	2005
– From directors and their associates		
– Mr. Zhang Jingzhang	14,726	14,726
– Mr. Zhang Jianming	24,846	24,846
– Mr. Zhang Jianfeng	161	40
– From related companies		
– Haitian Brazil	25,373	–
– Haitian Turkey	18,883	–

(Amounts expressed in RMB'000 unless otherwise stated)

40. Related Party Transactions (continued)

(b) Balances with related parties: (continued)

	2006	2005
(ii) Due to related parties		
Non-trade related		
– Mr. Zhang Jianming	**–**	2,488
– Mr. Qian Yaoen	**–**	2,488
– Due to equity holders of the Company	**–**	44,923
	–	49,899
Trade related		
– Ningbo SPP	**–**	2,019
– Ningbo Haitian	**152**	–
– Haitian Turkey	**3,365**	–
	3,517	51,918

(iii) Ageing analysis of balances with related parties, which are trade related, is as follows:

	2006	2005
Due from related parties		
– 0 to 6 months	**14,512**	–
Due to related parties		
– 0 to 6 months	**3,517**	2,019

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

41. Events after the Balance Sheet Date

Change of Mainland China enterprise income tax law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.