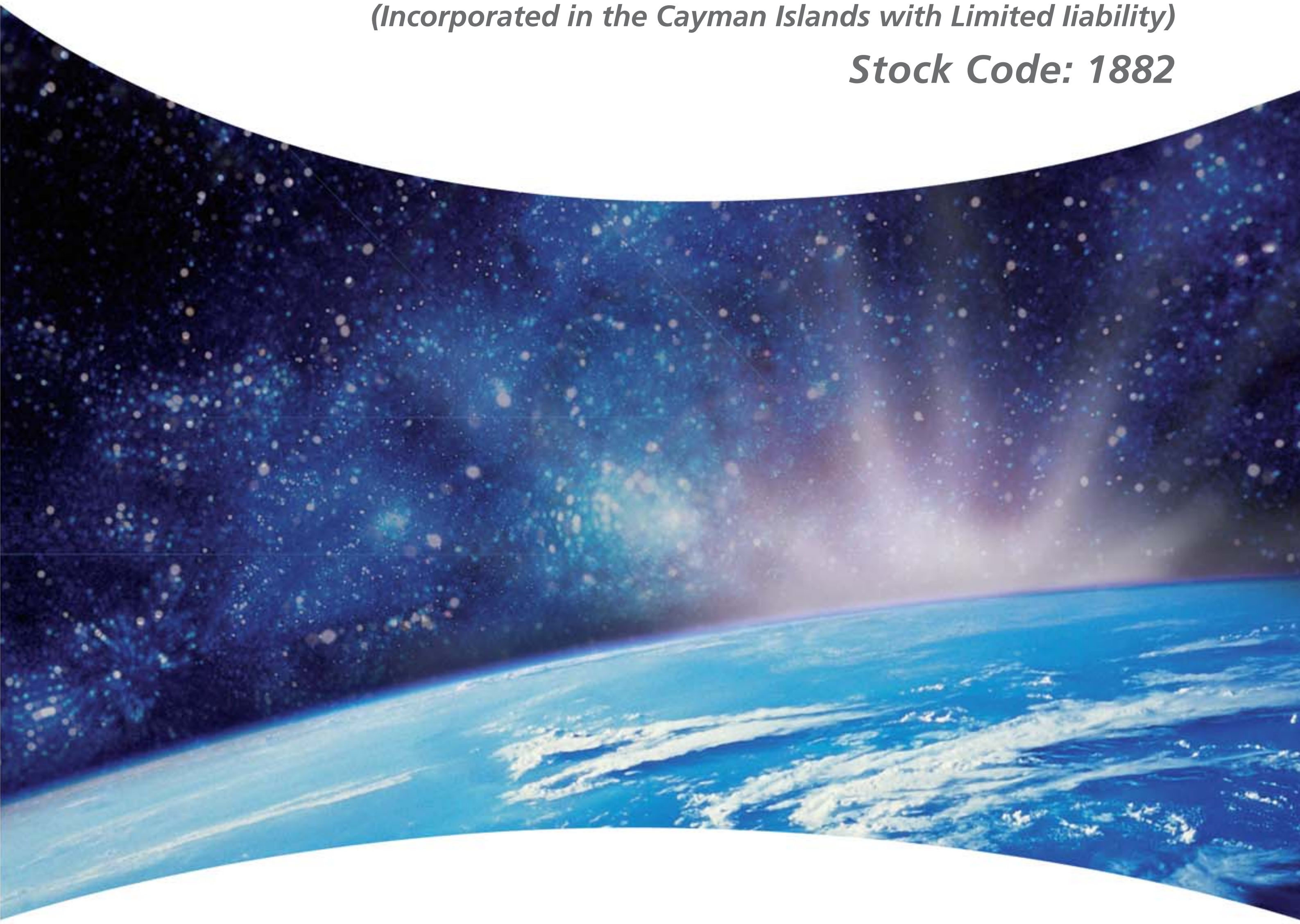
Annual Report 2008

Haitian International Holdings Limited
(Incorporated in the Cayman Islands with Limited liability)
Stock Code: 1882



HAITIAN
PLASTICS MACHINERY

A Member of Haitian International

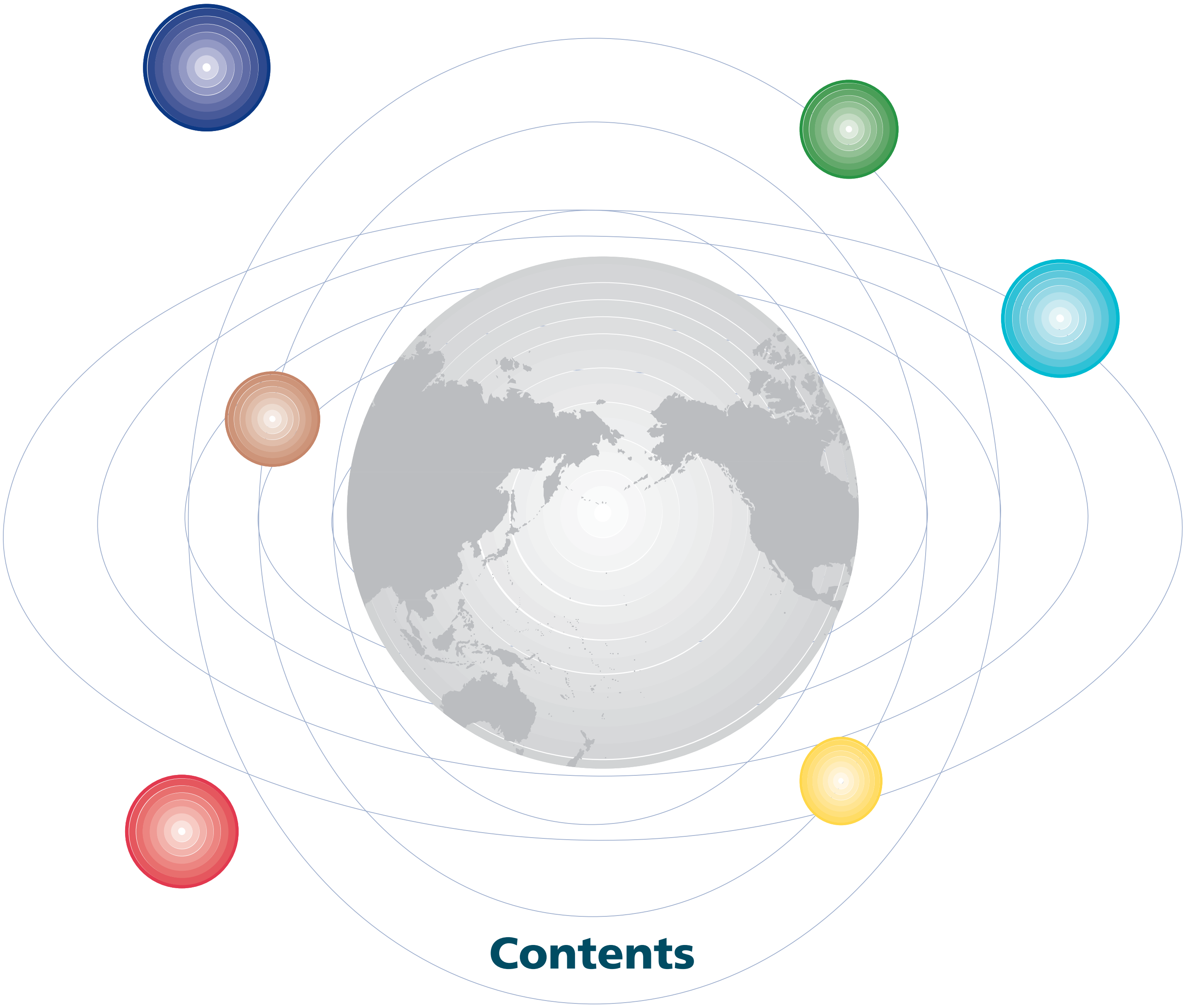
We Create Advantage.

A advanced technology D dependable machinery V value engineered A accessible support N new vision T team spirit A around the globe G growth driven E excellent price-performance ratio

ZHAFIR
PLASTICS MACHINERY

A Member of Haitian International

We Extend Advantage.



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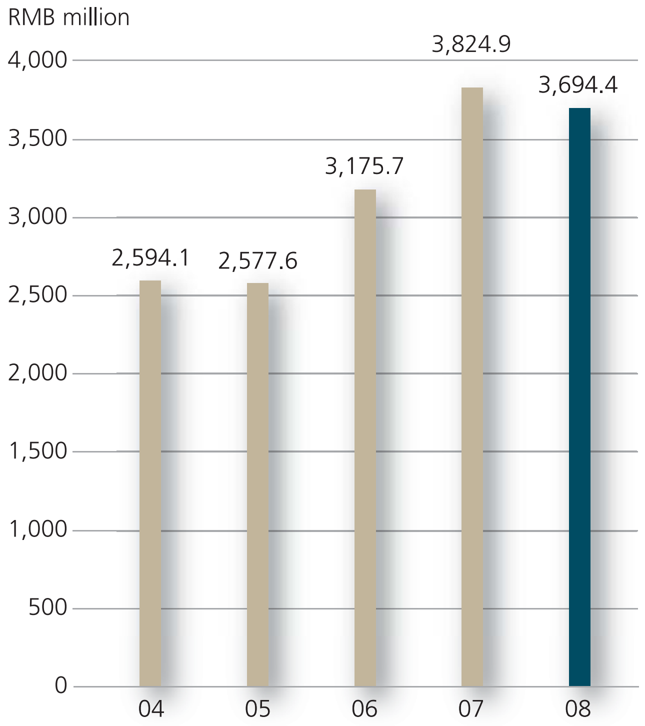
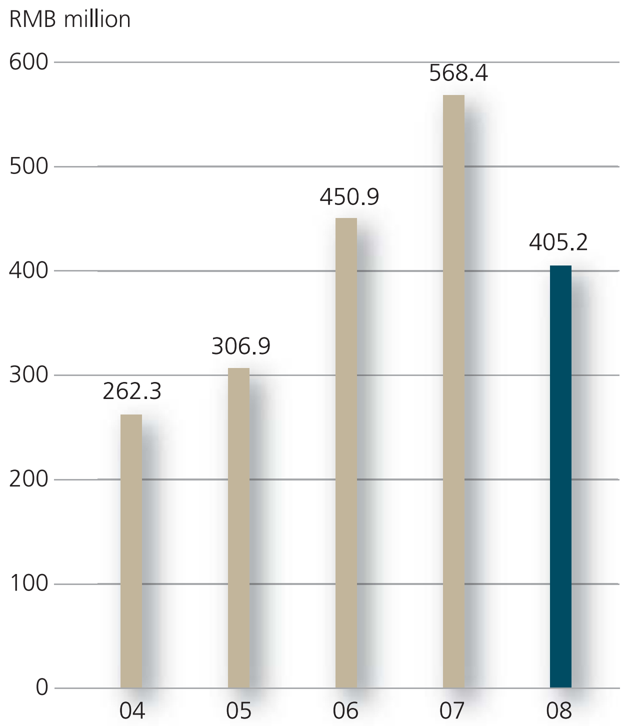
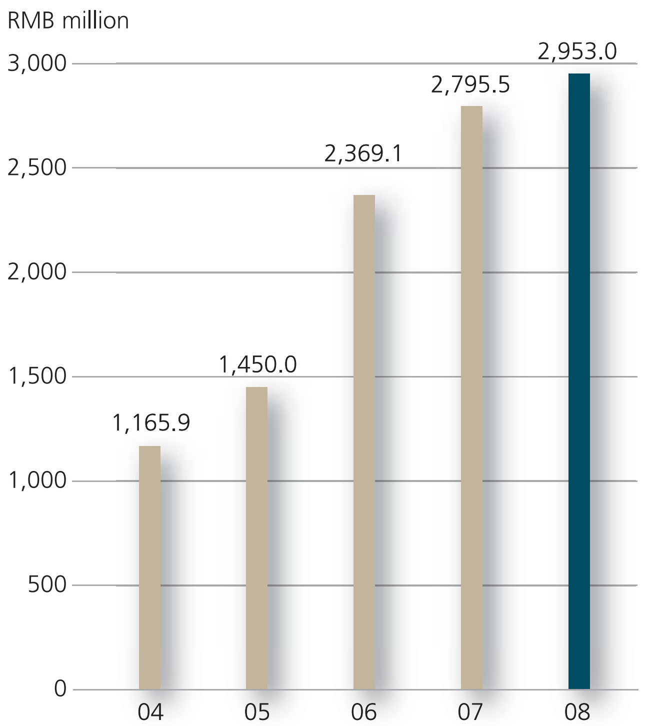


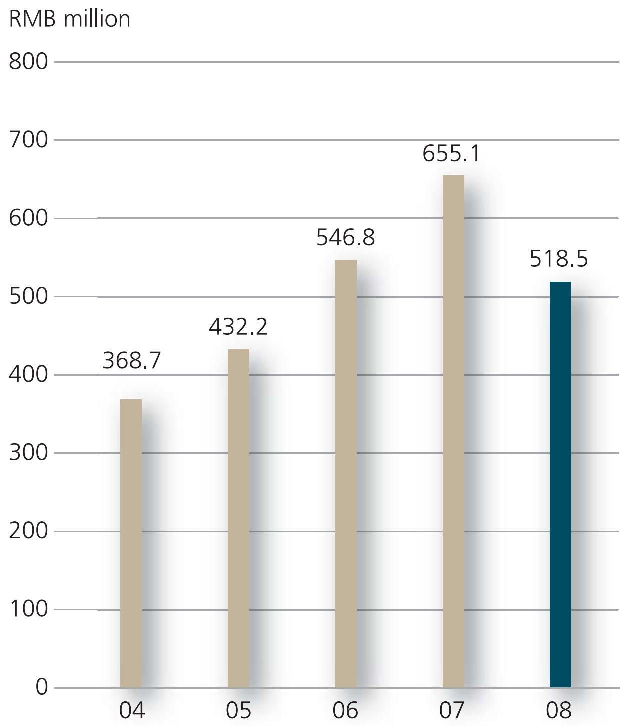
Profit attributable to the equity holders of the Company



Capital and reserves attributable to equity holders of the Company



EBITDA



Company Profile and Corporate Information

Executive Directors

Mr. ZHANG Jingzhang *(Chairman)*
Mr. ZHANG Jianming *(Chief Executive Officer)*
Prof. Helmut Helmar Franz
Mr. ZHANG Jianguo
Mr. ZHANG Jianfeng
Mr. GUO Mingguang
Mr. LIU Jianbo
Ms. CHEN Ningning

Non-Executive Director

Mr. HU Guiqing

Independent Non-Executive Directors

Mr. PAN Chaoyang
Mr. GAO Xunxian
Mr. DAI Xiangbo
Dr. Steven CHOW

Company Secretary and Qualified Accountant

Mr. LO Chi Chiu

Legal Advisors

Coudert Brothers in association with
Orrick, Herrington & Sutcliffe LLP

Registered Office

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman KY1-1111
Cayman Islands

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Place of Business

China
No. 32–35, Central Jiangnan Road
Ningbo 315821, Zhejiang
China

Hong Kong
Unit 1105, Level 11
Metroplaza, Tower 2
223 Hing Fong Road
Kwai Fong, N.T.
Hong Kong

Principal Bankers

Agricultural Bank of China
Bank of China
Shenzhen Development Bank
Industrial and Commercial Bank of China
Industrial Bank Co. Limited

Chairman's Statements

Dear Shareholders,

On behalf of Haitian International Holdings Limited, ("Haitian Holdings" or the "Company"), with its subsidiaries (together, the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2008.

Performance Review

The year 2008 was a challenging and difficult year for every sector of the global industry. The Group was confronted by a challenging business environment including outbreak of the US sub-prime mortgage crisis, shrinkage in the consumer demand and the unprecedented fluctuation of raw material price. With the effort of our strategy in continuous product advancement and diversification, we still managed to record a mild sales growth in the first half of 2008. However, the sales growth momentum prevailing in the first half of 2008 was hit by the drastic market downturn in the second half of the year. The adverse effect of US sub-prime mortgage crisis began to prominently surface in the fourth quarter of 2008 and caused the demand for the Group's products dropped. On top of the negative impact of badly shaken investment confidence resulting from rapid spread of the financial turmoil, the Group's business was also suffered from temporarily delay of orders resulted from the value-added tax ("VAT") reform of Mainland China in the fourth quarter of 2008. Under the VAT reform, our customers are allowed to deduct input VAT for fixed-asset purchased after 1 January 2009. Even though the policy would effectively encourage the corporate investment in machineries by saving 17% VAT cash outflow in the long-run, it led to our customers postponing their purchase plans until after 1 January 2009. As a result, the Group's sales performance in 2008 was seriously affected by these external factors and recorded turnover amounting to RMB3,694.4 million, representing a decrease of 3.4% as compared with RMB3,824.9 million for 2007.

Due to the change in market condition as evident by plummeting market demand for plastic injection moulding machines ("PIMMs") especially for small tonnage PIMMs and sales of our small tonnage PIMMs experienced a decline of 12.4% to RMB2,228.9 million. Nonetheless, our strategy of product diversification and improvement allowed us to be more resilient to the market softening than other industry peers. The continued acceptance of our energy-saving machines namely Mars (J5) series and the increase in sales of medium to large tonnage PIMMs, which are more often used by industries less influenced by the financial turmoil such as logistics and electrical home appliances, has partially offset the decline in demand in small tonnage PIMMs. For the year under review, our medium to large tonnage PIMMs, increased by 13.9% to RMB1,377.6 million. In addition, our Mars (J5) series, the high precision and energy saving PIMMs has recorded a significant increase in sales to RMB1,016.5 million for the year representing a growth of 136.3% compared to 2007. Currently, the Mars (J5) series accounted for 27.5% of our total sales for the year under review.

Besides the shrinkage in demand of capital goods hit our business, we also experienced another challenge of the pressure of the surge of raw material costs during the year. The unprecedented fluctuation of iron and steel price has adversely affected our profitability. With the pressure of hiking material cost, we took decisive actions towards cost optimization by raising our selling price of products by approximately 6% in 2008, improving our product mix in higher margin products (medium to large tonnage PIMMs and Mars (J5) series) and adopting certain cost saving measures to minimize the adverse impact on our financial performance during the year. The gross profit margin has decreased to 26.7% as compared to approximately 29.3% in 2007. Coupled with increase in our operating expense and effective tax rate resulting from expiry of tax holiday of a number of subsidiaries, the Group's profit attributable to equity holders of the Company for year 2008 is RMB405.2 million, which is 28.7% less than 2007.

New technology centres opened in southern and northern China during the year.

Future Prospect

In 2009, this dynamic and challenging environment caused by the financial tsunami will persist until the global consumer confidence restores. In the short term, the recession of the global economy will inevitably remain disturbed in the development of industry and hamper in our sales performance in 2009. On the other hand, we noted several unfavorable factors suffering us in the first half of 2008, such as hiking plastic and steel prices, appreciation of Renminbi and tightening of Chinese austerity have been dramatically swept away by this financial tsunami.

The Group remains optimistic about the prospect for the PIMMs industry in the medium and long term because of its strong fundamentals. In response to the rapidly deteriorating global economy devastated by the financial tsunami, the Mainland China Government embarked on a four trillion RMB stimulus package in 2008. In addition, following 1 January 2009, the effective date of the VAT reform, our customers are allowed to deduct input VAT for fixed-asset purchases. These measures will help encourage corporate investment in equipment in the long run and drive the growth of the domestic demand of PIMMs in the future. Since it takes time for the stimulus plan to re-activate the economy with remarkable results, the market is still clouded with uncertainties. We expect our business performance this year may be worse than that of the year 2008. We believe that Mainland China's macro-economy can recover from the financial turmoil at a pace faster than other countries. With approximately 60% sales in domestic market, we will be in a prime position to benefit from its recovery.

With history of more than 40 years, the Group has navigated through the different crises over the decades such as Asian financial turmoil in 1997 and the SARS crisis in 2003. The Group consistently overcame the crises and emerged even stronger. Under the current tough environment, the Group is consistently to be one of a few winners by delivering value to our customers, strengthening our presales and after-sales services, improving product mix, and increasing market share. The Group has proactively addressed the impacts of the global financial tsunami by implementing stringent cost control measures, optimising production process to lower the production and logistic costs, adjusting management structure and trimming hierarchical structure to enhance management efficiency as well as expediting product development to gear to the market demands. Having our prestigious brand, unmatched quality and price-performance ratio, self-developed core technology and efficient production scale, we are able to create much higher value in the production process than industry peer and maintain satisfactory profitability in this environment. The Group is confident that the current difficulties can be overcome and we are well positioned to reach a new height while the future demand for PIMMs will again grow at a healthy pace.

Appreciation

Finally, on behalf of the Board of Directors, I would like to thanks all staff members for their contribution in the past year and at the same time, I would also like to express our gratitude towards our shareholders, consumers, suppliers and business partners for their continued confidence in and support to the Group.

Mr. Zhang Jingzhang
Chairman of the Group

20 April 2009

CEO's Report

Highlights

	Year ended 31 December		
	2008 RMB'million	2007 RMB'million	Change %
Sales	**3,694.4**	3,824.9	(3.4)
Profit before income tax	**442.0**	600.1	(26.3)
Profit attributable to equity holders of the Company	**405.2**	568.4	(28.7)
Basic earnings per share (expressed in RMB per share)	**0.25**	0.36	(28.7)
Dividend per share (expressed in HK cents per share)			
Proposed final	**3.0**	10.0	(70.0)
Full year	**9.5**	19.0	(50.0)

- Under the tough business environment, a mild decrease of sales by 3.4% to RMB3,694.4 million.
- Profit attributable to equity holders of the Company decreased to RMB405.2 million, representing a decrease of 28.7%.
- Basic earnings per share amounted to RMB0.25 during the year.
- The Board proposed a final dividend of HK3.0 cents per share.
- Solid balance sheet with net cash of RMB925.1 million to fund future growth.

During the year the Group was confronted by a challenging business environment including outbreak of the US sub-prime mortgage crisis, shrinkage in the consumer demand and the unprecedented fluctuation of raw material price. Therefore, the Group's revenue decreased 3.4% year-on-year to RMB3,694.4 million and net profit attributable to equity holders decreased 28.7% year-on-year to RMB405.2 million.

Financial Review

Sales

Despite the ongoing adverse business environment in the general PIMM market due to the above unfavorable factors, the Group's sales recorded a mild decreased from RMB3,824.9 million to RMB3,694.4 million, representing a decrease of 3.4%.

The Group's sales by geographic areas is shown in the following table:

	2008		2007		
	RMB'000		RMB'000		Change
PIMMs					
— Domestic	**2,262,999**	**61.2%**	2,502,580	65.4%	(9.6%)
— Export	**1,343,544**	**36.4%**	1,250,425	32.7%	7.4%
Related Parts	**87,827**	**2.4%**	71,845	1.9%	22.2%
	3,694,370		3,824,850		

During the year, the sales in domestic market decreased by 9.6% which was due to the weakening market demand caused by the financial turmoil and postponement of purchases during the transitional period of Mainland China's VAT reform. In contrast the international market still strived to maintain a mild growth of 7.4% as a result of the Group's continuous strategy to develop new markets and clients with renowned brandnames of Haitian.

The decrease of sales in 2008 was mainly attributable to the decrease of sales in our small tonnage PIMMs by 12.4% compared to 2007 but was partially offset by (i) the growth in medium to large tonnage PIMMs of 13.9% compared to corresponding period in 2007, (ii) improvement of sales mix, and (iii) increase in selling price of products by approximately 6% during the year.

During the year, the average selling price was increased from RMB197,000 to RMB236,000 and the number of unit sold decreased from 19,000 to 15,300. The increase in average selling price is mainly due to the increase in sales mix of higher margin products (energy saving PIMMs and large tonnage PIMMs) and the increase of selling price during the year.

Gross Profit

During the year, the Group recorded gross profit of approximately RMB985.8 million representing a decrease of approximately 12.1% compared with the corresponding period in 2007. Overall gross margin has decreased from 29.3% in 2007 to 26.7% in 2008. The decrease in gross margin for the year was mainly due to rapid surge in raw material cost in the first three quarters which, however, was partially offset by (i) raising of selling price by 6% during 2008 and (ii) improved product mix to higher margin products including new generation of energy saving PIMMs and large tonnage PIMMs.

Selling and administrative expenses

The selling and administrative expenses increased by 10.7% from RMB524.4 million in 2007 to RMB580.4 million in 2008, primarily due to (i) the increase in sales commission expenses resulting from higher commission rate paid for higher margin products (ii) the commencement of operation of new factory in Ningbo, and (iii) increase in R&D expenses for certain PIMMs projects.

Other income

Other income mainly represented government subsidy and increased by 13.6% from RMB23.4 million in 2007 to RMB26.6 million in 2008. Besides, the Group also received approximately RMB9.5 million research subsidies for a research project recognized as a National Science and Technology Support Program during the year. However, this subsidy has not yet fully recognized as income during the year in accordance with prevailing accounting requirements.

Other losses, net

Other losses, net decreased by 66.1% from RMB44.1 million in 2007 to RMB15.0 million in 2008 which was represented mainly by the exchange losses. In the first half of 2007, there was a significant accounting translation losses incurred from the global offering's proceeds deposited in Hong Kong dollars. In 2008, the Group has deposited most cash in Renminbi and therefore the exchange losses decreased significantly. In order to hedge the exchange risk of US dollar denominated receivable arised from export sales, the Group has also borrowed a US dollar denominated bank loan amounted to RMB268.3 million during the year.

Operating profit

As a result of the foregoing, the operating profit decreased from RMB575.8 million in 2007 to RMB417.0 million during the year.

Finance income — net

Finance income, net increased by 2.5% from RMB24.3 million in 2007 to RMB24.9 million during the year.

Income tax expenses

Income tax expenses increased by 15.1% from RMB31.9 million in 2007 to RMB36.8 million for the year due to the expiration of tax holiday of certain operating subsidiaries expired after 2007.

Zhafir all-electric machines were awarded the medal of "excellent rating" in the Kielce exhibition (Poland International Fair of Plastics Processing Plastpol).

Products and Research and Development

We believe research and development ("R&D") is one of the core competitivenesses of the Group in meeting the dynamic needs of customers and sustaining our leading position in future. We are committed to product innovation and our research and development team is comprised of more than 270 engineers and technicians, representing approximately nearly 8% of our total staff. In the next 12 months, more R&D resources and effort will be devoted to introducing new generations of products. Even under the adverse market conditions, we believe that demand can be created by introduction of latest and quality products which properly fulfill the consumer needs especially the increasing consumer concerns in cost, effectiveness and reliability. By capitalising on our cutting edge R&D technology in energy saving solution and two platen PIMMs, we combined these two self-developed knowhow to develop a new series of two platen PIMMs equipped with Mars technology. In addition, we are in the progress of developing new version of the energy-saving PIMMs, Mars (J5), which is expected to be launched in 2009. In order to further enhance our R&D capabilities, we started a post-PHD R&D programme in January 2008. Under this programme, Haitian will fund a team of PHD graduates working with Beijing University of Chemical Technology to conduct researches in new plastic processing technology and the development of new PIMM models for future commercial use.

In July 2008, the Group was recognized as one of the innovative enterprises amongst the other 90 companies in China. The companies with such honor must have their own patented technologies, wellknown brands, strong international competitive edge and technological sustainable development potential, and also passing expert panel evaluations jointly conducted by Ministry of Science and Technology, the State Council's Assets Supervision and Administration Commission (SASAC) and the All-China Federation of Trade Unions after two year trial observation period. In future, the government will give certain policy incentives and increase public funding to bolster research and development in these awarded companies. Other awarded companies include China Aerospace Science and Technology Co, China Aluminum Co, ZTE Corporation and Lenovo Group.

During the year, the Group's research projects for high precision PIMMs jointly partnered with Chinese academic institutions, is one of the "2007 National Science and Technology Support Program", which received a subsidy funding from government amounted to RMB9.5 million during the year (This subsidy has not yet been fully recognized as income during the year in accordance with prevailing accounting requirements).

During the year, our products continued to receive excellent technological and market achievements.

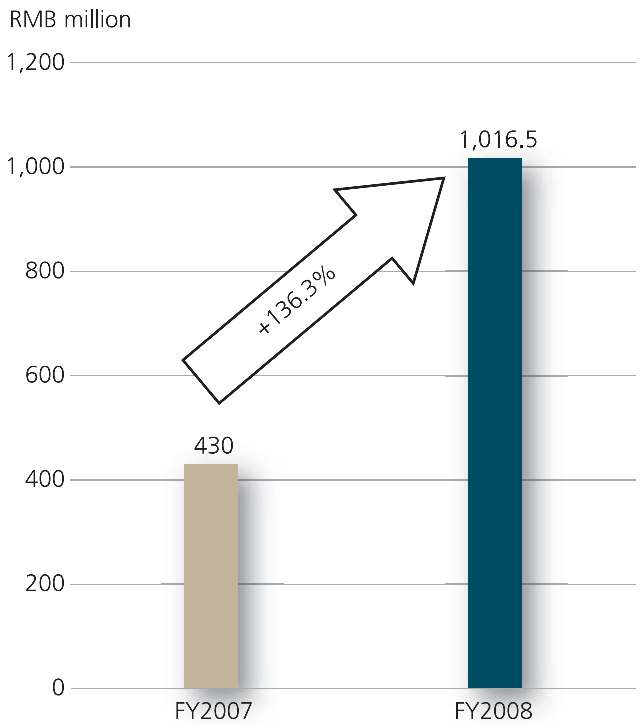
The Group received the following major awards and market achievements for its products:

Zhafir all-electric machines:	the evaluation panel of the Kielce exhibition (Poland International Fair of Plastics Processing Plastpol) awarded the medal of "excellent rating".
Energy-saving PIMMs, Mars (J5):	the Municipal Government of Ningbo awarded the First Class Award of Scientific and Technological Advancement of Ningbo (寧波市科學技術進步一等獎) in 2008.
	The sales increased to RMB1,016.5 million for the year representing a growth of 136.3% compared to 2007.
Two platen PIMM series:	The sales increased to RMB95.2 million for the year representing a growth of 170.2% compared to 2007.

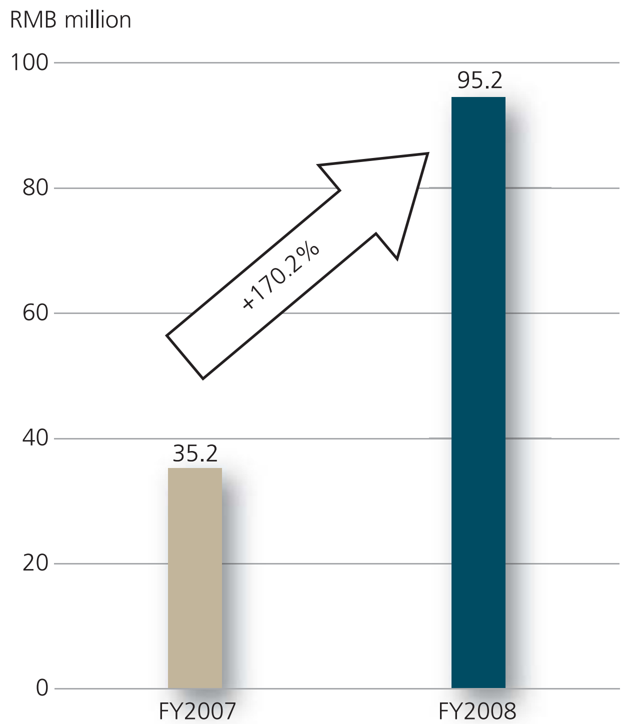
Capital Expenditure

In the year ended 31 December 2008, our capital expenditure consisted of additions of land use rights and property, plant and equipment amounted to RMB406.8 million (2007: RMB340.9 million).

Sales of Mars Series



Sales of Jupiter Series



Liquidity and Financial Resources

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders' equity. As at 31 December 2008, the Group is in a strong financial position with a net cash position amounting to RMB925.1 million (2007: RMB1,339.0 million). Hence, no gearing ratio is presented. The bank loan increased from RMB158.8 million at 31 December 2007 to RMB312.4 million at 31 December 2008 was due to the Group has borrowed a US dollar denominated bank loan amounted to RMB268.3 million to hedge the exchange risk of US dollar denominated receivable arised from export sales and offset by the settlement of previous year's Renminbi bank loans.

Charges on Group Assets

As at 31 December 2008, the Group has pledged deposits of RMB2.4 million (2007: RMB6.2 million) as collaterals against certain trade finance facilities granted by banks.

Foreign Exchange Risk Management

The Group exports approximately 35% of its products to international markets which sales are denominated in U.S. dollars or other foreign currencies, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of total purchases. The Group has not used any forward contracts or other means to hedge its foreign currency exposure however the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts. During the year, the Group has borrowed a U.S. dollar denominated bank loan amounted to RMB268.3 million to hedge the exchange risk of U.S. dollar denominated receivable arised from export sales.

Contingent Liabilities

As at 31 December 2008, the Group has RMB309.2 million (2007: RMB221.1 million) guarantee given to the banks in connection with facilities granted to customers.

Human Resources

As at 31 December 2008, the Group had a total workforce of approximately 3,700, majority of which is located in the Mainland China. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses will be paid to staff based on individual and Group performance. The Group is committed to nurturing a learning culture in the organization. Total staff costs for 2008 amounted to RMB283.3 million compared against RMB248.8 million in 2007.

Proposed Final Dividend

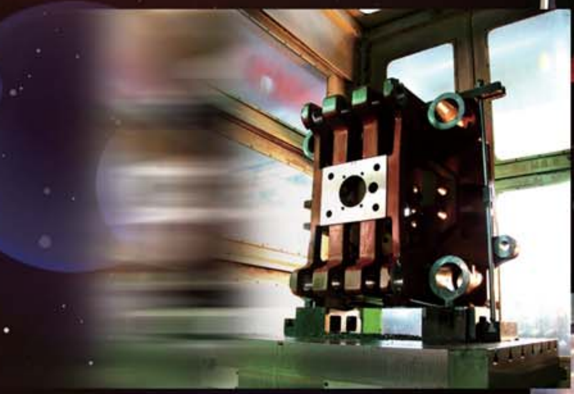
The Board has resolved to recommend the payment of a final dividend of HK3.0 cents per share for the year ended 31 December 2008 which is expected to be paid on or before 3 June 2009 to its shareholders whose names appear on the register of members at the close of business on 28 May 2009, subject to final approval at the Annual General Meeting of the Company.

Closure of Register of Members

The register of members of the Company will be closed from 26 May 2009 to 28 May 2009 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 25 May 2009.

Zhang Jianming
Chief Executive Officer

20 April 2009



Directors and Senior Management

Executive Directors

Mr. Zhang Jingzhang (**張靜章**), aged 72, is an executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has in-depth knowledge of, and more than 38 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) ("Ningbo Haitian") from 1970 to 1994. He was named an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People's Government, and was also awarded the title of an "Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo" (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affair and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was named as an economist by the Ningbo Municipal People's Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) was also elected as a deputy to the People's Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the chairman of the China Plastic Machine Industry Association (中國塑料機械協會).

Mr. Zhang is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng and the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive directors of the Company. He is also a director of Sky Treasure Capital Limited ("Sky Treasure") and Premier Capital Management (PTC) Ltd. ("Premier Capital"), which interests in the Company have been detailed under the paragraph headed "Interests and Short Positions of Shareholders" in the Directors' report.

Mr. Zhang Jianming (**張劍鳴**), aged 46, is an executive Director and the chief executive officer of the Group and is responsible for the overall daily operations of the Group such as production, sales and marketing. By introduction of Mr. Zhang Jingzhang, Mr. Zhang joined the Group in August 1977 as worker and has gained extensive exposure in various departments of the Group. With over 30 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. Currently, he is the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang Jianming is the eldest son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive Directors of the Company, and a director of Sky Treasure and Premier Capital.

Prof. Helmut Helmar Franz, aged 59, is an executive Director and the Chief Strategic Officer of the Group. He joined the Group in September 2007, has over 30 years of experience in the plastic processing machinery industry. Prof. Franz obtained a degree in engineering specialising in plastic machinery and processes and joined Plastmaschinenwerk Schwerin in the former German Democratic Republic in 1972. At Plastmaschinenwerk, Prof. Franz worked as a senior executive in research and development and marketing. In 1985, he joined WWW Import-Export in Berlin, Germany where he served as the managing director for WWW Import-Export's sales and services in Iraq, Egypt and Russia. In 1991, he joined Demag Ergotech (previously known as Mannesmann Demag Kunststofftechnik) ("Demag"), initially as the managing director for Demag's sales and services branch in Moscow, Russia. From 1995 until 1999, he served as the managing director for Demag's manufacturing plant for small machines in Wiehe, Germany. He was then promoted to Demag's chairman in 1999 and held the office until 2005. Prof. Franz had been a member of the board of the VDMA (the German Engineering Federation) association of German plastics machinery manufacturers for many years. He served as the chairman of the board of the VDMA from July 2003 until April 2005. Since December 2005, Prof. Franz has been the sole managing director of Zhafir Plastics Machinery GmbH, a German limited liability company which is engaged in the research and development of plastic injection moulding machineries. The Group acquired a 91% equity interest in Zhafir Plastics Machinery GmbH in August 2007 and Prof. Franz is interested in the remaining 9% equity interest in Zhafir Plastics Machinery GmbH.

Mr. Zhang Jianguo (**張建國**), aged 53, is an executive Director and the senior vice president of research and development of the Group. Mr. Zhang joined the Group in January 1974 and has more than 34 years of experience in the plastic processing machinery industry. He obtained a diploma in electrical and mechanical engineering from Zhejiang Radio TV University (浙江省廣播電視大學) in 1987. Mr. Zhang joined the Group in January 1974 initially working in the quality control division. He was subsequently promoted to the head of quality control in 1996. He has been appointed as the senior vice president of research and development of the Group since 1999. He has helped the Group in developing and improving its products including the HTFX series, the HTFW series and the HTK series. He was named as an outstanding technological worker in a township enterprise at provincial level (省級鄉鎮企業優秀科技工作者) in 1990 and twice named as a professional technician with outstanding contributions to the Ningbo region (區級有突出貢獻專業人員) by the people's government of Ningbo Beilun district in 1990 and 1997. In 1999, Mr. Zhang was awarded by the Ningbo Municipal People's Government the titles of outstanding professional technician of (寧波市優秀專業技術人員) and pioneer in technological innovations in Ningbo (寧波市首屆科技創新功臣). He was also named an excellent labour model of Ningbo (寧波市特等勞動模範) in April 2000. In 2001, Mr. Zhang obtained a "Great Achievement in the World Technology" award (世界科學技術發展成就獎) from the Hong Kong International EXPO Organising Committee for Patented Technology.

Mr. Zhang is a director of Sky Treasure and Premier Capital.

Mr. Zhang Jianfeng (**張劍峰**), aged 39, is an executive Director and the senior vice president of sales and marketing of the Group. Mr. Zhang joined the Group in October 1985 and has more than 20 years of experience in the plastic processing machinery industry. He was promoted to the deputy head of the Group's sales division in the sales and marketing department in 1997. He has been appointed as the senior vice president of sales and marketing of the Group since 2002. Mr. Zhang is the youngest son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive Directors of the Company, and a director of Sky Treasure and Premier Capital. Since 2004 and until immediately prior to the Reorganisation, Mr. Zhang served as the deputy general manager to Ningbo Haitian.

Mr. Guo Mingguang (郭明光), aged 43, is an executive Director and the vice president of manufacturing of the Group. Mr. Guo joined the Group in January 1983 and has more than 20 years of experience in the plastic processing machinery industry. In 1985, he was transferred to the Group's customer services department, and was transferred again in 1989 to the Group's engineering department. From 1994 to 1999, he served as the deputy general manager of Ningbo Zongtian Plastic Processing Machinery Manufacturing Co., Ltd. From 1999 to 2002, he served as the general manager of factory of the Group. In 2003, he was appointed as the deputy head of production of the Group and was promoted to the vice president of production of the Group in 2004. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming and Mr. Zhang Jianfeng, all of whom are executive Directors of the Company and a director of Sky Treasure and Premier Capital.

Ms. Chen Ningning (陳寧寧), aged 46, is an executive Director and the vice president of finance of the Group. Ms. Chen is a qualified accountant in China. Ms. Chen first joined the Group in May 1984. Ms. Chen served as the deputy head of the finance and accounting department, and the head of the accounting division, the cost division and the inventory division of the Group from 1999 to 2003. Since 2004, Ms. Chen has served as the vice president of finance of the Group. Since 2003, Ms. Chen has been appointed as a director of the Accounting Association of Ningbo Beilun District. She was named as an outstanding accountant of Ningbo in 2005. Ms. Chen is a director of Sky Treasure and Premier Capital.

Mr. Liu Jianbo (劉劍波), aged 41, is an executive Director and the vice president of quality control and customer service of the Group. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming and Mr. Zhang Jianfeng, all of whom are executive Directors of the Company, and a director of Sky Treasure and Premier Capital.

Non-Executive Director

Mr. Hu Guiqing (胡桂青), aged 68, is a non-executive Director of the Company and a non-executive Director of Ningbo Haitian. Mr. Hu served as the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian, from 1968 to 1970. After the establishment of Ningbo Haitian, Mr. Hu served as the vice executive officer of the Haitian Group until he retired at the end of 2005. Mr. Hu is a director of Sky Treasure and Premier Capital.

Independent Non-Executive Directors

Mr. Pan Chaoyang (潘朝陽), aged 63, joined the Group in August 2006 as an independent non- executive Director. Mr. Pan has over 10 years of experience in the machinery industry. Between 1968 and 1980, Mr. Pan was employed with the Ningbo Machining Factory (寧波機床廠) and held various positions in the factory during that period. From 1980 to 1994, Mr. Pan held various governmental positions in the city of Ningbo including the Vice Office Administrator of the Ningbo Municipal People's Government (寧波市人民政府辦公廳副主任), the People's Representative of the Ningbo (寧波市人大代表), the Administrator of Beilun District, Ningbo (寧波市北侖區人民政府區長) and Member of Party Committee of Ningbo (寧波市市委委員). Since 1993, Mr. Pan has served as the director of The Entrepreneur Association of Ningbo and as the president of the Economic Development Association of Ningbo (寧波經濟建設促進會). In April 1994, Mr. Pan was appointed as the vice general manager of Zhong Xin Daxie Development Company (中信集團大謝開發公司).

Mr. Gao Xunxian (高訓賢), aged 63, joined the Group in August 2006 as an independent non- executive Director. He is a qualified accountant and a tax agent in China. During 1972 to 1980, he worked with the Taxation Bureau of Zhenhai (鎮海縣財政部稅務局) and the Taxation Bureau of Chengguan (城關財稅所) as the secretary and administrator. In 1984, he was appointed as the vice director of the Taxation Bureau of Zhenhai and from 1985 to 1987, he served as the vice director of the Finance and Taxation Bureau of Ningbo Beilun District (寧波市北侖區財政稅務局) and the general manager of Cai Zheng XinYong Investment Ltd. (財政信用投資公司). In 1987, he was promoted as the director of the Finance and Taxation Bureau of Ningbo Beilun District. From February, 1998 to June, 2006, he served as the vice chairman of Ningbo Beilun District Committee of the Chinese People's Politics Consultation Conference (寧波北侖政協).

Mr. Dai Xiangbo (戴祥波), aged 46, joined the Group in August 2006 as an independent non-executive Director. He graduated from Jiangxi College of Finance and Economics (江西財經學院) in 1984, majoring in industrial accounting, and completed his postgraduate study in Zhejiang University in 2002, majoring in economics. Mr. Dai has obtained PRC certified accountant and senior accountant certificates. He currently serves as the deputy secretary of Zhejiang Certified Public Accountant Association (浙江省註冊會計師協會) president of Zhejiang Internal Audit Association (浙江省內部審核計協會), a director of Zhejiang Accounting Society and a professor specially retained by the Accounting College of Zhejiang Finance Economics College (浙江財經學院會計學院). He also serves as an independent non-executive director of each of Shenzhou International Group Holdings Limited (申洲國際集團控股有限公司), Eastcompeace Smart Card Co., Ltd. (東信和平智能卡股份有限公司), Gem-year Industrial Co., Ltd. (普億實業股份有限公司) and Nature Service Technology Co., (耐吉科技股份有限公司). Mr. Dai served as the deputy section head of the second division of the Audit Bureau in Zhejiang (浙江省審計局二處) from 1984 to 1997, the deputy director of the Audit Bureau in Xianju County, Zhejiang (浙江仙居縣審計局) from 1992 to 1994 and the deputy head of the legal system division of Audit Office in Zhejiang (浙江省審計局法制處) 1994 to 1997. Mr. Dai has been a director on the boards of the following listed public companies: Shenzhou International Group Holdings Limited and Eastcompeace Smart Card Co., Ltd.

Dr. Steven Chow (**周志文**), aged 64, joined the Group in September 2007 as an independent non-executive director. He is a licensed investment advisor and has over 30 years of experience in banking and investment. He received his Bachelor of Science Degree from Bishop's University and his Master's Degree in Business Administration and PhD degree (in Economics) from Boston University. Dr. Chow is a senior representative for a European bank as well as a managing director of its local company providing wealth management services for high net worth clients in Asia. Dr. Chow serves as independent non-executive director of CNT Group Ltd. and C.Y. Foundation Group Limited, which shares are listed on the Main Board of the Stock Exchange. He has been a member of the Chinese People's Political Consultative Commission, Ningbo since 1989.

Senior Management

Yu Wenxian (**虞文賢**), aged 39, is a vice president of human resources and administration of the Group. Mr. Yu graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in mechanical engineering in 1991. He joined the Group in May 1993 as an engineer. Since 1997, Mr. Yu has been working in the areas of administration and human resources and served various managerial roles in those areas. He has been appointed as the vice president of human resources and administration of the Group since 2003 and has been serving as the executive assistant to the chief executive officer of the Group since 2004.

Bei Haibo (**貝海波**), aged 42, is the general manager of Haitian Heavywork and a deputy general manager of Haitian Sales. Mr. Bei joined the Group in January 1983 and has more than 20 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales services in 1997 and was promoted to deputy general manager of the Group's sales department in 1998. He currently serves as the general manager of Haitian Heavywork and a deputy general manager of Haitian Sales responsible for the Group's domestic sales.

Chen Weiqun (**陳蔚群**), aged 37, is a deputy general manager of Haitian Sales and the general manager of Haitian Huayuan. Mr. Chen graduated from Huadong Yejin College (華東冶金學院) with a bachelor's degree in mechanics in August 1993. In 2005, he obtained a master's degree in business administration from the University of Zhejiang. He joined the research and development department of the Group in 1993. In 1994, he joined the international sales team of the sales department. He was appointed as an assistant to the chief executive officer in 2000 and as the deputy general manager of international sales in 2003. He has been appointed as the deputy general manager of Haitian Sales responsible for the Group's international sales since 2004. He was also appointed as the general manager of Haitian Huayuan in 2004.

Mr. Lo Chi Chiu (盧志超), aged 35, is the Group's Chief Financial Officer and joined the Group in August 2006. Mr. Lo graduated from the University of Hong Kong with a bachelor's degree in business administration. He is a member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Prior to joining the Group, he has obtained over 10 years of auditing, accounting and financing experience including six years with major international accounting firms and four years in senior accounting positions in various industries. Mr. Lo also is the Group's Company Secretary and qualified accountant.

Shi Huajun (施華均), aged 37, was appointed as the Group's Investor Relations Manager in July 2006. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 10 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

Strategy and Development Committee

Besides the Board has a balance of skill and experience and a balanced composition of Executive and Non-Executive Directors to formulate overall strategy of the Group, the Company has established a strategy and development committee. The primary duties of the strategy and development committee is to advise the Board on the Company's strategy for business development and future prospects in the international market for plastic injection moulding machines. It is intended that members of this committee shall consist of domestic and international experts in plastic processing machinery industry and other related industries. The initial members of this committee consist of Professor Helmut Helmar Franz, Mr. Wang Xingtian and Mr. Ma Mingdao and the chairman of this committee will be Professor Helmut Helmar Franz.

Corporate Governance Report

Haitian International Holdings Limited (the "Company") recognises the importance of good corporate governance to its healthy growth, thus has devoted much efforts into formulating the best corporate governance practices that agree with its business needs. The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. The directors of the Company ("Directors") consider that the Company has complied with the code provisions of the CG Code throughout the year ended 31 December 2008.

Board of Directors

The board of Directors (the "Board") comprises 8 Executive Directors, 1 Non-executive Director and 4 Independent Non-executive Directors. The Board has a balance of skill and experience and a balanced composition of Executive and Non-Executive Directors and is responsible to formulate overall strategy of the Group, monitor its operational and financial performance and oversight of the management of the Company's business and affairs. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company. The biographies and relevant relationships amongst them are set out in the Directors and Senior Management Section of this annual report.

The Chairman and the Chief Executive Officer of the Company are Mr. Zhang Jingzhang and Mr. Zhang Jianming respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

The Non-executive Directors, with diversified industry expertise but not involved in the day-to-day management of the Group, serve the important function of advising the management on strategic development, and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances for safeguarding the interests of the Company and the shareholders of the Company as a whole. The Company has received annual confirmations of independence from all existing Independent Non-executive Directors and considers them independent, in accordance with the Rule 3.13 of the Listing Rules. All Directors have a term of office of three years, with ten commenced on 22 December 2006 and three commenced on 13 September 2007 respectively.

Board Meetings

It is intended that the Board should meet regularly for at least four times a year, i.e. at approximately quarterly intervals. Special meetings of the Board will be convened if the situation requires so. For the year ended 31 December 2008, the Board convened a total of 4 Board meetings and the individual attendance record of the Directors is tabulated as follows:

Attendance

Executive Directors	
Mr. Zhang Jingzhang *(Chairman)*	4/4
Mr. Zhang Jianming	4/4
Mr. Zhang Jianguo	4/4
Mr. Zhang Jianfeng	4/4
Mr. Guo Mingguang	4/4
Ms. Chen Ningning	4/4
Professor Helmut Helmar Franz	4/4
Mr. Liu Jianbo	4/4
Non-executive Director	
Mr. Hu Guiqing	4/4
Independent Non-executive Directors	
Mr. Pan Chaoyang	4/4
Mr. Gao Xunxian	4/4
Mr. Dai Xiangbo	3/4
Dr. Steven Chow	4/4

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that the Directors complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

Relationship of the Directors

Among the members of the Board, Mr. Zhang Jingzhang, the Chairman, is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng and the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are executive directors of the Company. Mr. Zhang Jianming is also the Chief Executive Officer of the Company.

Nomination of Directors

The Company has not set up any nomination committee. In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates.

Audit Committee

The Audit Committee was established to review the Group's financial reporting, internal controls and corporate governance issues and to make relevant recommendations to the Board. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Dai Xiangbo (Chairman of the Committee), Mr. Pan Chaoyang and Mr. Gao Xunxian. All committee members possess appropriate industry and financial expertise to advise on the above matters. The Audit Committee shall meet at least twice a year and the senior management and a representative of the external auditor of the Company shall normally be invited to attend the meetings to discuss the significant internal and external audit findings, the audit plans, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the financial statements before recommending them to the Board for approval). During the year ended 31 December 2008, there were two meetings held by the Audit committee with an attendance rate of 100%. The Audit Committee reviewed the Group's result for the year ended 31 December 2008.

Remuneration Committee

The Remuneration Committee comprises the chief executive officer, Mr. Zhang Jianming (Chairman of the Committee) and Independent Non-executive Directors, namely Mr. Pan Chaoyang and Mr. Gao Xunxian. During the year ended 31 December 2008, there was one meeting held by the Remuneration Committee on 25 March 2008 with an attendance rate of 100%. Remuneration Committee is responsible to review the policy for remuneration of the Directors and other senior management of the Group. The Group's policy for remuneration (including basic salary and performance bonus) of the Directors and other senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice.

Internal Control

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control. In 2008, the Board has conducted a review with the management of the effectiveness of the system of internal control of the Company and its subsidiaries and considered that the internal control system is effective.

Directors' and Auditor's Acknowledgement

The Board acknowledge their responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on page 37.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB2,780,000 for audit services.

Investor Relations and Shareholders' Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 business days before the meeting and will also be made available on the Stock Exchange's website. The Directors will answer questions on the Company's business at the meeting. External auditors will also attend the annual general meeting. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are provided for in the Articles. Details of such rights and procedures are included in the relevant circulars to shareholders and will be explained during the proceedings of meetings where appropriate. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained. Poll results will be posted on the website of the Stock Exchange on the business day following the shareholders' meeting. As a channel to further promote effective communication, the Company maintains a website (www.haitianinter.com) to disseminate the Company's announcements and other relevant financial and non-financial information electronically on a timely basis.

Investor Information

Listing Information

Listing:	Hong Kong Stock Exchange
Stock code:	1882

Key Dates

1 April 2009	—	Result Announcement of 2008
26–28 May 2009	—	Closure of register of members
29 May 2009	—	Annual General Meeting
3 June 2009 or before	—	Paid date of Proposed Final dividend

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2008:
1,596,000,000 shares

Market Capitalisation as at 31 December 2008:
HK$1,660 million

Earnings per share for 2008:	RMB0.25
Dividend per share for 2008	
Interim dividend	HK6.5 cents
Proposed final dividend	HK3.0 cents
Total	HK9.5 cents

Share Registrar Transfer Offices

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Enquires Contact

Investor Relations Department

Tel :	86-574-86182786
Fax:	86-574-86182787
E-mail:	andy@mail.haitian.com
Address:	No. 32, Jiangnan Road Central, Beilun District, Ningbo, Zhejiang Province, China
Postal code:	315821

Website

http://www.haitianinter.com or
http://www.haitian.com

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2008.

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 8 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 21 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 41. The directors declared an interim dividend of HK6.5 cents per share, totalling RMB94,516,000 which was paid on 30 September 2008. The directors recommended the payment of a final dividend of HK3.0 cents per share, totalling approximately RMB42,225,000.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 16 to the financial statements.

Donations

The Group donated RMB2,900,000 during the year.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 15 to the financial statements.

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated losses which in aggregate amounted to RMB1,596.3 million as at 31 December, 2008. 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 2008 and for the previous four financial years are set out on page 92.

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") on 25 October 2007 after approval of the shareholders in an extraordinary general meeting held on the same day.

(i) Purpose

The purpose of the Scheme is to provide incentives or rewards to Eligible Person (as defined below) for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group or any entity in which the Group holds any equity interest.

(ii) Qualifying participants

Any employee or proposed employee of any member of the Group including director, manager and officer of the Group, any business partner, agent, consultant or representative of the Group (collectively refererd to as "Eligible Person") and any associates (as defined in the Listing Rules) of an Eligible Person.

(iii) Maximum number of shares

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes must not exceed 30% of the shares in issue from time to time. Subject to the aforesaid limit, the total number of shares available for issue under options which may be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the shares in issue.

As at 31 December 2008, the number of shares available for issue under the Scheme is 159,600,000 shares representing 10% of the issued share capital of the Company and no share options were granted and remained outstanding.

(iv) Limit for each participant

No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

(v) Option period

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The Board has the authority to determine the minimum period for which an option must be held before it can be exercised. The Scheme itself does not specify any minimum holding period.

(vi) Payment on application and acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 30 days from the date of offer (or such other period as the Board may specify in the offer and acceptance letter). HK$1 is payable by the grantee to the Company on acceptance of the offer.

(vii) Exercise price

The exercise price shall be decided by the Board in its absolute discretion but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

(viii) Remaining life of the scheme

The Board may at any time within 10 years commencing on 25 October 2007 make offers for the grant of options under the Scheme.No share option was granted or outstanding during the year ended.

Directors

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

Executive Directors
Mr. Zhang Jingzhang
Mr. Zhang Jianming
Mr. Zhang Jianfeng
Mr. Zhang Jianguo
Mr. Guo Mingguang
Ms. Chen Ningning
Prof. Helmut Helmar Franz
Mr. Liu Jianbo

Non-executive Director
Mr. Hu Guiqing

Independent Non-executive Directors
Mr. Pan Chaoyang
Mr. Gao Xunxian
Mr. Dai Xiangbo
Dr. Steven Chow

In accordance with Article 87(1) and Article 86(3) of the Company's Bye-laws, Articles of Association, Mr. Zhang Jingzhang, Mr. Zhang Jianguo, Mr. Zhang Jianfeng, Mr. Pan Chaoyang and Mr. Dai Xiangbo 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 Connected Transactions stated below and note 36 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 14 to 21.

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

As at 31 December 2008, 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	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest[1]	1,091,424,600	68.39%
Mr. Zhang Jianming	Corporate Interest[1]	1,091,424,600	68.39%
	Personal Interest	7,642,000	0.48%
Mr. Zhang Jianfeng	Personal Interest	1,600,000	0.10%
Prof. Helmut Helmar Franz	Personal Interest	206,000	0.01%

Note:

(1) Mr. Zhang Jingzhang and Mr. Zhang Jianming are deemed under the SFO to be interested in 1,091,424,600 shares of the Company held by Sky Treasure Capital Limited.

Long position in shares and underlying shares of associated corporations of the Company

Name of Director	Name of association corporation[1]	Capacity/Nature of interest	Approximate percentage of shareholding in the associated corporations
Mr. Zhang Jingzhang	Sky Treasure Capital Limited ("Sky Treasure")	Corporate[2]	14.08%
		Corporate[3]	54.81%
Mr. Zhang Jianming	Sky Treasure	Corporate[2]	9.55%
		Corporate[3]	54.81%
Mr. Hu Guiqing	Sky Treasure	Corporate[2]	6.92%
Mr. Zhang Jianguo	Sky Treasure	Corporate[2]	5.72%
Mr. Zhang Jianfeng	Sky Treasure	Corporate[2]	5.37%
Ms. Chen Ningning	Sky Treasure	Corporate[2]	2.98%
Mr. Guo Mingguang	Sky Treasure	Beneficiary under a trust[4]	1.79%
Prof. Helmut Helmar Franz	Sky Treasure	Corporate[2]	0.55%
	Zhafir Plastics Machinery GmbH ("Zhafir")	Personal	9%
Mr. Liu Jianbo	Sky Treasure	Beneficiary under a trust[4]	1.49%

Notes:

(1) As at 31 December 2008, Sky Treasure is the holder of 68.39% of the issued share capital of the Company and Zhafir is a non-wholly owned subsidiary of the Company and both are associated corporations under the SFO.

(2) Such Directors are deemed under the SFO to be interested in shares of Sky Treasure which are held by their wholly-owned investment holding companies.

(3) Mr. Zhang Jingzhang and Mr. Zhang Jianming are separately entitled to exercise or control the exercise of one third or more voting power in the general meetings of Cambridge Management Consultants (PTC) Ltd. and Premier Capital Management (PTC) Ltd. which are respectively the trustee of the Haitian Employee Fixed Equity Trust and Haitian Employee Discretionary Equity Trust which are interested in 13.97% and 40.84% shares in Sky Treasure respectively. Accordingly, they are deemed under SFO to be interested in such shares in Sky Treasure.

(4) Such Directors are beneficiaries under a trust which is interested in 13.97% shares of Sky Treasure.

Save as disclosed above, as at 31 December 2008, 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 2008, 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	1,091,424,600 (L)	68.39%
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation(1)	1,091,424,600 (L)	68.39%
Atlantis Investment Management Ltd	Investment Manager	96,404,000 (L)	6.04%

(L) denotes a long position

Note:

(1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 1,091,424,600 shares held by Sky Treasure Capital Limited as at 31 December 2008

Save as disclosed above, as at 31 December 2008, 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 snd 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

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 2008.

Each member of the Haitian Management has confirmed to the Company that he/she has complied with the non-competiton undertaking as disclosed in the prospectus of the Company dated 11 December 2006.

Connected Transactions

On 31 October 2008, the Group entered into machinery equipment purchase agreements with Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming and Mr. Zhang Jianfeng, all executive Directors of the Company and associates of each other due to their family relationships, pursuant to which the Group purchased certain CNC turning machines and machining centres ("CNC Machines") manufactured by Haitian Precision for an aggregate consideration of RMB8,262,200. During the year, no CNC Machines had been delivered to the Group. The CNC Machines purchased are used for processing of parts and components for the manufacture of plastic injection moulding machines by the Group.

The nature and reasons for the above connected transaction had previously been disclosed in the Company's announcement dated 31 October 2008.

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 reappointment.

Public Float

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, 31.62% 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 2009

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 91, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 April 2009

Consolidated Balance Sheet

As at 31 December 2008
(Amounts expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	**248,983**	141,564
Property, plant and equipment	6	**1,135,898**	960,554
Intangible assets	7	**7,701**	9,801
Investment in an associate	9	**642**	481
Deferred income tax assets	10	**33,701**	18,146
Deposits and other receivables	13	**—**	24,500
		1,426,925	1,155,046
Current assets			
Inventories	11	**896,295**	992,109
Trade and bills receivables	12	**865,048**	1,032,955
Prepayments, deposits and other receivables	13	**136,342**	126,548
Pledged bank deposits	14	**2,373**	6,221
Cash and cash equivalents	14	**1,235,080**	1,491,585
		3,135,138	3,649,418
Total assets		**4,562,063**	4,804,464
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	**160,510**	160,510
Reserves	16	**2,792,492**	2,634,992
		2,953,002	2,795,502
Minority interest		**—**	1,060
Total equity		**2,953,002**	2,796,562

Consolidated Balance Sheet (Continued)

As at 31 December 2008
(Amounts expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	*20*	**22,369**	—
Current liabilities			
Trade and bills payables	*17*	**793,059**	1,294,215
Accruals and other payables	*18*	**479,131**	554,921
Current income tax liabilities		**2,149**	—
Bank borrowings	*19*	**312,353**	158,766
		1,586,692	2,007,902
Total liabilities		**1,609,061**	2,007,902
Total equity and liabilities		**4,562,063**	4,804,464
Net current assets		**1,548,446**	1,641,516
Total assets less current liabilities		**2,975,371**	2,796,562

Approved by the Board of Directors on 20 April 2009 and signed on behalf of the Board by:

Zhang Jianming
Director

Chen Ningning
Director

The accompanying notes are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2008
(Amounts expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*8(a)*	**778,077**	778,077
Due from subsidiaries	*8(b)*	**950,580**	1,296,681
		1,728,657	2,074,758
Current assets			
Due from subsidiaries	*8(c)*	**120,819**	—
Cash and cash equivalents	*14*	**307**	968
		121,126	968
Total assets		**1,849,783**	2,075,726
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	*15*	**160,510**	160,510
Reserves	*16*	**1,596,307**	1,905,100
Total equity		**1,756,817**	2,065,610
LIABILITIES			
Current liabilities			
Due to subsidiaries	*8(c)*	**91,874**	9,294
Other payables		**1,092**	822
Total liabilities		**92,966**	10,116
Total equity and liabilities		**1,849,783**	2,075,726
Net current assets/(liabilities)		**28,160**	(9,148)
Total assets less current liabilities		**1,756,817**	2,065,610

Approved by the Board of Directors on 20 April 2009 and signed on behalf of the Board by:

Zhang Jianming
Director

Chen Ningning
Director

The accompanying notes are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2008
(Amounts expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
Sales	*21*	**3,694,370**	3,824,850
Cost of sales	*22*	**(2,708,606)**	(2,704,001)
Gross profit		**985,764**	1,120,849
Selling and marketing expenses	*22*	**(386,212)**	(362,137)
General and administrative expenses	*22*	**(194,192)**	(162,244)
Other income	*23*	**26,554**	23,374
Other losses — net	*24*	**(14,963)**	(44,076)
Operating profit		**416,951**	575,766
Finance income	*27*	**29,982**	31,189
Finance costs	*27*	**(5,066)**	(6,845)
Finance income — net	*27*	**24,916**	24,344
Share of profit of an associate	*9*	**161**	6
Profit before income tax		**442,028**	600,116
Income tax expense	*28*	**(36,781)**	(31,948)
Profit for the year		**405,247**	568,168
Attributable to:			
Equity holders of the Company		**405,247**	568,423
Minority interest		**—**	(255)
		405,247	568,168
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
— basic	*30*	**0.25**	0.36
Dividends	*31*	**136,741**	284,288

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Amounts expressed in RMB)

		Attributable to equity holders of the Company			
		Share capital	Reserves	Minority interest	Total equity
		(Note 15)	*(Note 16)*		
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007		160,510	2,208,547	1,308	2,370,365
Profit for the year		—	568,423	(255)	568,168
Minority interest recognised upon the acquisition of a subsidiary		—	—	7	7
Dividend paid — 2007 interim	*31*	—	(139,403)	—	(139,403)
Currency translation differences		—	(2,575)	—	(2,575)
Balance at 31 December 2007		160,510	2,634,992	1,060	2,796,562
Balance at 1 January 2008		160,510	2,634,992	1,060	2,796,562
Contribution from minority interest	*16(i)*	—	1,060	(1,060)	—
Profit for the year		—	405,247	—	405,247
Dividend paid					
— 2007 final	*31*	—	(144,885)	—	(144,885)
— 2008 interim	*31*	—	(94,516)	—	(94,516)
Currency translation differences		—	(9,406)	—	(9,406)
Balance at 31 December 2008		160,510	2,792,492	—	2,953,002

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Amounts expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**284,175**	397,341
Interest paid		**(7,681)**	(6,845)
Income tax paid		**(53,678)**	(61,160)
Net cash generated from operating activities		**222,816**	329,336
Cash flows from investing activities			
Purchase of land use rights		**(138,911)**	(23,352)
Purchase of property, plant and equipment		**(292,211)**	(271,934)
Acquisition of a subsidiary, net of cash acquired	*35*	**—**	(55,687)
Interest received from banks		**17,133**	32,286
Interest received from other loans		**2,073**	237
Proceeds from disposal of land use rights	*32(b)*	**16,426**	—
Proceeds from disposal of property, plant and equipment	*32(c)*	**1,983**	5,622
Net cash used in investing activities		**(393,507)**	(312,828)
Cash flows from financing activities			
Share issuance costs		**—**	(15,188)
Proceeds from bank borrowings		**312,353**	8,766
Repayments of bank borrowings		**(158,766)**	(91,195)
Dividends paid to Company's equity holders	*31*	**(239,401)**	(139,403)
Net cash used in financing activities		**(85,814)**	(237,020)
Net decrease in cash and cash equivalents		**(256,505)**	(220,512)
Cash and cash equivalents at beginning of year	*14*	**1,491,585**	1,712,097
Cash and cash equivalents at end of year	*14*	**1,235,080**	1,491,585

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

1. General Information

Haitian International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and distribution of plastic injection moulding machines.

The Company was incorporated in Cayman Islands on 13 July 2006, as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Sky Treasure Capital Limited, 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 since 22 December 2006.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 20 April 2009.

2. Summary of Significant Accounting Policies

These consolidated financial statements comprise the consolidated and the Company's balance sheets as at 31 December 2008, and the consolidated income statements, the consolidated statement of changes in equity and the consolidated cash flow statements for the year ended, and a summary of significant accounting policies and other explanatory notes.

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

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of events and actions, actual results ultimately may differ from those estimates.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

(a) Amendments effective in 2008 and relevant to the Group

HKAS 39, "Financial instruments: Recognition and measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. These amendments are effective for annual period starting prospectively from 1 July 2008. These amendments do not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(b) Interpretations effective in 2008 but not relevant for the Group's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group's operations:

- HK(IFRIC)-Int 11, "HKFRS 2 — Group and treasury share transactions"
- HK(IFRIC)-Int 12, "Service Concession arrangements"
- HK(IFRIC)-Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction"

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of financial statements" (effective for annual period starting from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and consolidated statement of comprehensive income will be presented as performance statements.

- HKAS 23 (Revised), "Borrowing costs" (effective for annual period starting from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKAS 27 (Revised), "Consolidated and separate financial statements" (effective for annual period starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 3 (Revised), "Business combinations" (effective for annual period starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are to be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, "Operating segments" (effective for annual period starting from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have any material impact on number of reportable segments as well as the manner in which the segments are reported.

- HKICPA's improvements to HKFRS published in October 2008

  - ▶ HKAS 23 (Amendment), "Borrowing costs" (effective for annual period starting from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 "Financial instruments: Recognition and measurement". This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply HKAS 23 (Amendment) from 1 January 2009 but it is not expected to have any significant impact on the Group's financial statements.

  - ▶ HKAS 36 (Amendment), "Impairment of assets" (effective for annual period starting from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

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

- HKICPA's improvements to HKFRS published in October 2008 (Continued)

  ▶ There are a number of amendments to HKFRS 5, "Non-current assets held for sale and discontinued operations", HKFRS 7, "Financial instruments: Disclosures", HKAS 1, "Presentation of financial statements", HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue", HKAS 19, "Employee benefits", HKAS 28, "Investments in associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial instruments: Disclosures"), HKAS 34, "Interim financial reporting", HKAS 38, "Intangible assets" and HKAS 39, "Financial instruments: Recognition and measurement" which are not addressed above. These amendments are unlikely to have any significant impact on the Group's financial statements and have therefore not been analysed in detail.

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

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are currently not relevant for the Group's operations:

- HKAS 32 (Amendment), "Financial instruments: Presentation", and HKAS 1 (Amendment), "Presentation of financial statements" — "Puttable financial instruments and obligations arising on liquidation" (effective for annual period starting from 1 January 2009).

- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" (effective for annual period starting from 1 January 2009).

- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" — "Eligible hedged items" (effective for annual period starting from 1 July 2009).

- HKFRS 1 (Amendment), "First-time adoption of HKFRS" and HKAS 27 "Consolidated and separate financial statements" (effective for annual period starting from 1 July 2009).

- HKFRS 2 (Amendment), "Share-based payment" (effective for annual period starting from 1 January 2009).

- HK(IFRIC)-Int 13, "Customer loyalty programmes" (effective for annual period starting from 1 July 2008).

- HK(IFRIC)-Int 15, "Agreements for construction of real estate" (effective for annual period starting from 1 January 2009).

- HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation" (effective for annual period starting from 1 October 2008).

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

(d) Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

- HK(IFRIC)-Int 17 — "Distributions of non-cash assets to owners" (effective for annual period starting from 1 July 2009).

- HK(IFRIC)-Int 18 — "Transfers of assets from customers" (effective for annual period starting from 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008

  - ▶ HKAS 16 (Amendment), "Property, plant and equipment" (and consequential amendment to HKAS 7, "Statement of cash flows") (effective for annual period starting from 1 January 2009).

  - ▶ HKAS 20 (Amendment), "Accounting for government grants and disclosure of government assistance" (effective for annual period starting from 1 January 2009).

  - ▶ HKAS 27 (Amendment), "Consolidated and separate financial statements" (effective for annual period starting from 1 January 2009).

  - ▶ HKAS 29 (Amendment), "Financial reporting in hyperinflationary economies" (effective for annual period starting from 1 January 2009).

  - ▶ HKAS 31 (Amendment), "Interests in joint ventures" (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual period starting from 1 January 2009).

  - ▶ HKAS 40 (Amendment), "Investment property" (and consequential amendments to HKAS 16) (effective for annual period starting from 1 January 2009).

  - ▶ HKAS 41 (Amendment), "Agriculture" (effective for annual period starting from 1 January 2009).

2. Summary of Significant Accounting Policies (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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 in the consolidated financial statements 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 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Minority interests

Minority interests represent the interest of outside shareholders in the operating results and net assets of the subsidiaries.

Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

2. Summary of Significant Accounting Policies (Continued)

2.2 Consolidation (Continued)

(c) 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 using 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 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.

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.

2.3 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 production of products within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements 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 the Group's presentation currency.

(b) 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 consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other losses" — net.

2. Summary of Significant Accounting Policies (Continued)

2.4 Foreign currency translation (Continued)

(c) 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:

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

(ii) income and expenses for each consolidated 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

(iii) 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 are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 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.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

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 consolidated income statement during the financial period in which they are incurred.

2. Summary of Significant Accounting Policies (Continued)

2.5 Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss (if any) of the assets, other than freehold land and construction in progress, to their residual value over their estimated useful lives, 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 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses" — net, in the consolidated income statement.

2.6 Land use rights

The up-front prepayments made for land use rights are accounted for as operating leases. They are expensed in the income statement on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is expensed in the income statement.

2.7 Intangible asset

(a) Technology know-how

Technology know-how acquired in a business combination is identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such Technology know-how is their fair value at the acquisition date.

Technology know-how has a definite useful life of 5 years and is carried at cost less accumulated amortisation and impairment loss if any, subsequent to initial recognition. Technology know-how is amortised over estimated useful life using straight-line method.

(b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;

2. Summary of Significant Accounting Policies (Continued)

2.7 Intangible asset (Continued)

(b) Research and development (Continued)

- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

Assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

2.9 Financial assets — loans and receivables

The Group's financial assets are 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 are included in current assets, except those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as trade and bill receivables and other receivables in the balance sheet (Note 2.11).

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. 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. Impairment testing of trade and other receivables is described in Note 2.11.

2.10 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 design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of Significant Accounting Policies (Continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "general and administrative costs". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against "general and administrative costs" in the consolidated income statement.

2.12 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.

2.13 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.

2.14 Trade payables

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

2.15 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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.

2.16 Borrowing costs

Borrowing costs are expensed as incurred.

2. Summary of Significant Accounting Policies (Continued)

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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 only 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 is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

Group companies operate various defined contribution retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Summary of Significant Accounting Policies (Continued)

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 rate 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.

2.20 Warranty provision

The Group recognises a provision for repairs of machines sold which are still under warranty at the balance sheet date. The amount of provision takes into account the Group's recent experience of the level of repairs.

2.21 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 liabilities as deferred income and are recognised in the consolidated income statement on a straight-line basis over periods and in the proportions in which depreciation on these assets is charged.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

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.

2. Summary of Significant Accounting Policies (Continued)

2.22 Revenue recognition (Continued)

(b) Sale of services

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.

(c) Interest income

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

2.23 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.

2.24 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.

2.25 Contingent liabilities

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 consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The ongoing global financial crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have led to bank failures and bank rescues in the United States of America ("USA"), Western Europe and elsewhere. The global financial crisis has also led to current or potential recession in major economies. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk

The Group mainly operates in Mainland China. The functional currency of the Company and most of its subsidiaries is RMB. Most of the Group's transactions, assets and liabilities are denominated in RMB, United States dollars, Euro and Hong Kong dollars ("HKD"). The exchange rate of HKD is pegged to United States dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, such as trade receivables, cash and cash equivalents, trade payables and borrowings. The Group has not used any financial instrument to hedge foreign exchange risk.

As at 31 December 2008, if RMB had strengthened/weakened by 6% (2007: 6%) against the United States dollars and HKD with all other variables held constant, profit before income tax would have been approximately RMB4,913,000 higher/lower (2007: RMB18,692,000 lower/higher) mainly as a result of foreign exchange gains/losses on translation of Untied State dollars and Hong Kong dollars denominated trade receivables, cash and cash equivalents, trade payables and bank borrowings.

As at 31 December 2008, if RMB had strengthened/weakened by 9.5% (2007: 3.9%) against the Euro with all other variables held constant, profit before income tax for the each year would have been approximately RMB4,074,000 (2007: RMB721,000) lower/higher mainly as a result of foreign exchange difference on translation of Euro denominated trade receivables, cash and cash equivalents and trade payables.

(b) Cash flow and fair value interest rate risk

Except for bank deposits and loans to distributors, the Group has no interest-bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any financial instruments to hedge its exposure to cash flow and fair value interest rate risk.

As at 31 December 2008, if the interest rates on bank borrowings had been 2.2 percentage-points (2007: 1.3 percentage-points) higher/lower respectively with all other variables held constant, profit before income tax would have been approximately RMB3,638,000 (2007: RMB1,058,000) lower/higher mainly as a result of higher/lower interest expenses on bank borrowings.

(c) Credit risk

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

Majority of trade and bills receivables are with customers having an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement made with insurance from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 24 months.

The Group provides guarantee to certain banks in connection with banking facilities granted to certain customers in connection with their purchases of the Group's plastic injection moulding machines. These customers are introduced by the Group's major distributors, which have provided the Group with counter guarantees.

The Group has policies to place its cash and cash equivalents only with major financial institutions. As at 31 December 2008, most of the pledged bank deposits and cash and cash equivalents are placed with major financial institutions in Mainland China.

(d) Liquidity risk

Prudent liquidity risk management implies maintain sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows.

	2008 Within 1 year RMB'000	2007 Within 1 year RMB'000
Borrowings *(i)*	**317,662**	161,037
Trade and other payables	**1,271,909**	1,849,136
	1,589,571	2,010,173

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 December 2008 and 2007, without taking into account any subsequent changes in the amount of borrowings. Floating rate interest is based on current interest rate as at 31 December 2008 and 2007.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

As at 31 December 2008, the Group was in a net cash position (total borrowings were less than the total of pledged bank deposits and cash and cash equivalents).

3. Financial Risk Management (Continued)

3.2 Capital risk management (Continued)

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

The gearing ratio was as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Total borrowings *(Note 19)*	**312,353**	158,766
Total equity	**2,953,002**	2,796,562
Gearing ratio	**11%**	6%

The increase in the gearing ratio resulted primarily from increase in borrowings to finance working capital.

4. 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 to 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.

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

The Group determines the estimated useful lives and residual values and consequently the 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.

(b) 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.

4. Critical Accounting Estimates and Judgements (Continued)

(b) Impairment of property, plant and equipment and land use rights (Continued)

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 asset value 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 consolidated income statement.

(c) 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 sheet date.

(d) Net realisable value of inventories

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 technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(e) Income taxes and deferred income tax

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 income 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.

(f) Warranty

The Group generally offers one to two years warranties for its products and undertakes to repair items that fail to perform satisfactorily. Management estimates the related provision for future warranty based on recent experience of the level of repairs. As the Group is continually upgrading its product design and launching new models, it is possible that the recent claim experience may differ from future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect warranty expense in the future periods.

4. Critical Accounting Estimates and Judgements (Continued)

(g) Provision for loss on guarantees

The Group provides guarantees for loans granted by PRC banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer default on a loan, the Group is obliged to settle the payable amounts. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different judgments or estimates could significantly affect the provision amounts and materially impact the results of operations.

5. Land Use Rights — Group

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2008 **RMB'000**	2007 RMB'000
At beginning of year		
Cost	**149,120**	112,842
Accumulated amortisation	**(7,556)**	(6,108)
Net book amount	**141,564**	106,734
Opening net book amount	**141,564**	106,734
Additions	**126,335**	36,278
Disposals	**(16,426)**	—
Amortisation	**(2,490)**	(1,448)
Closing net book amount	**248,983**	141,564
At end of year		
Cost	**259,029**	149,120
Accumulated amortisation	**(10,046)**	(7,556)
Net book amount	**248,983**	141,564

All land use rights are located in Mainland China. As at 31 December 2008, the remaining period of land use rights was ranging from 25 to 50 years (2007: 26 to 50 years).

Amortisation has been included in general and administrative expenses.

6. Property, Plant and Equipment — Group

	*Freehold land and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2007						
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
Year ended 31 December 2007						
Opening net book amount	314,582	292,921	36,822	19,367	31,956	695,648
Additions	6,726	72,422	26,200	13,654	185,667	304,669
Acquisition of a subsidiary	37,494	481	2,310	4,064	272	44,621
Transfer	46,092	44,182	—	159	(90,433)	—
Disposals	(12)	(4,482)	(2,554)	(131)	—	(7,179)
Depreciation	(18,131)	(41,190)	(12,765)	(5,119)	—	(77,205)
Closing net book amount	386,751	364,334	50,013	31,994	127,462	960,554
At 31 December 2007						
Cost	480,151	625,320	87,805	52,396	127,462	1,373,134
Accumulated depreciation	(93,400)	(260,986)	(37,792)	(20,402)	—	(412,580)
Net book amount	386,751	364,334	50,013	31,994	127,462	960,554
Year ended 31 December 2008						
Opening net book amount	386,751	364,334	50,013	31,994	127,462	960,554
Exchange differences	(4,364)	(79)	—	(861)	(294)	(5,598)
Additions	618	15,823	18,712	4,574	240,722	280,449
Transfer	155,912	39,575	—	135	(195,622)	—
Disposals	(28)	(1,328)	(141)	(1,060)	—	(2,557)
Depreciation	(22,932)	(50,280)	(15,803)	(7,935)	—	(96,950)
Closing net book amount	515,957	368,045	52,781	26,847	172,268	1,135,898
At 31 December 2008						
Cost	632,166	679,211	104,494	48,311	172,268	1,636,450
Accumulated depreciation	(116,209)	(311,166)	(51,713)	(21,464)	—	(500,552)
Net book amount	515,957	368,045	52,781	26,847	172,268	1,135,898

* *Freehold land is located in Germany. It is stated at cost of RMB4,499,000 (2007: RMB4,813,000) and is not subject to depreciation.*

6. Property, Plant and Equipment — Group (Continued)

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

	2008 RMB'000	2007 RMB'000
Cost of sales	**69,153**	60,979
General and administrative expenses	**22,472**	14,516
Selling and marketing expenses	**5,325**	1,710
	96,950	77,205

7. Intangible Assets — Group

Intangible assets consist of technology know-how.

	2008 RMB'000	2007 RMB'000
At beginning of year		
Cost	**10,501**	—
Accumulated amortisation	**(700)**	—
Net book amount	**9,801**	—
Opening net book amount	**9,801**	—
Acquisition of a subsidiary	**—**	10,501
Amortisation	**(2,100)**	(700)
Closing net book amount	**7,701**	9,801
At end of year		
Cost	**10,501**	10,501
Accumulated amortisation	**(2,800)**	(700)
Net book amount	**7,701**	9,801

Amortisation has been included in general and administrative expenses.

8. Investments in and Loans to Subsidiaries — Company

(a) Investments in subsidiaries

	2008 RMB'000	2007 RMB'000
Investments, at cost:		
— Unlisted shares	**778,077**	778,077

The following is a list of the principal subsidiaries, which are unlisted, at 31 December 2008:

Name	Place 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 operations
Guo Hua	British Virgin Islands ("BVI"), limited liability company	USD50,000	100%	—	Investment holding, BVI
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and machinery accessories, Hong Kong
Guangzhou Haitian Guohua Machinery Co., Ltd. (廣州海天國華機械有限公司)	Mainland China, foreign equity joint venture	USD20,000,000	—	100%	Manufacture and sale of accessories of plastic injection moulding machines, Mainland China
Haitian Europe S.p.A	Italy, limited liability company	EURO100,000	—	100%	Sale of plastic injection moulding machines, Italy
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and machinery accessories, Hong Kong
Haitian Huayuan Middle East Makina Dis Ticaret Limited Sirketi	Turkey, limited liability company	LIRA500,000	—	100%	Sale of plastic injection moulding machines, Turkey
Haitian Huayuan South America Com. De MAQS. Ltd.	Brazil, limited liability company	BRAZILIAN REAL5,360,000	—	100%	Sale of plastic injection moulding machines, Brazil
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. (海天塑料機械（廣州）有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. ("Daxie Haitian") (寧波大榭開發區海天機械有限公司)	Mainland China, foreign equity joint venture	USD1,550,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. ("Haitian Beihua") (寧波海天北化科技有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China

8. Investments in and Loans to Subsidiaries — Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company Direct	Indirect	Principal activities and place of operations
Ningbo Haitian Heavywork Machinery Co., Ltd. ("Haitian Heavywork") (寧波海天重工機械有限公司)	Mainland China, foreign equity joint venture	USD39,800,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Huayuan Co., Ltd. ("Haitian Huayuan") (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD18,000,000	—	100%	Manufacture and sale of plastic injection moulding machines to foreign countries, Mainland China
Ningbo Haitian Logistic Co., Ltd. (寧波海天物流有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Machinery Sales Co., Ltd. (寧波海天機械銷售有限公司)	Mainland China, limited liability company	RMB18,000,000	—	100%	Sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Ningshing Machinery Co., Ltd. (寧波海天寧興機械有限公司)	Mainland China, foreign equity joint venture	USD2,500,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Plastic Machinery Group Limited ("Haitian Plastic Machinery") (寧波海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD97,500,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Shili Machinery Co., Ltd. ("Haitian Shili") (寧波海天實力機械有限公司)	Mainland China, foreign equity joint venture	USD12,000,000	—	100%	Manufacture and sale of accessories of plastic injection moulding machines, Mainland China
Ningbo Haitian Technology Co., Ltd. (寧波海天科技有限公司)	Mainland China, foreign equity joint venture	USD65,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Zhafir Plastics Machinery Co., Ltd. (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD6,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") (無錫海天機械有限公司)	Mainland China, foreign equity joint venture	USD25,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Zhafir Plastics Machinery GmbH ("Zhafir Plastics")	Germany, limited liability company	DM100,000	—	91%	Research and development, manufacture, sale of plastic injection moulding machines, Germany

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2008 (2007: None).

The English names of certain subsidiaries represent the best effort by the Group's management to translate their Chinese names as they do not have official English names.

8. Investments in and Loans to Subsidiaries — Company (Continued)

(b) Due from subsidiaries — non-current

Due from subsidiaries represent equity funding by the Company to the subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing.

(c) Due from/(to) subsidiaries

These balance are unsecured, non-interest bearing without fixed repayment terms.

9. Investment in an Associate — Group

	2008 RMB'000	2007 RMB'000
Beginning of the year	**481**	475
Share of profit	**161**	6
End of the year	**642**	481

The Group's shares of the assets, liabilities, sales and results of the associate are as follows:

	2008 RMB'000	2007 RMB'000
Assets	**1,034**	701
Liabilities	**392**	220
Sales	**1,105**	1,055
Profit for the year	**161**	6

Particulars of the associate, which is unlisted, are as follows:

Name	**Place of incorporation and kind of legal entity**	**Paid up capital**	**Attributable equity interest to the Company**	**Principal activities and place of operation**
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang") (杭州科強智能控制系統有限公司)	Mainland China, limited liability company	RMB1,735,000	30% (Indirect)	Manufacture and sale of intelligence control system

The English name of the associate represents the best effort by the management of the Group to translate the Chinese name as it does not have an official English name.

10. Deferred Income Tax Assets — Group

	2008 RMB'000	2007 RMB'000
Deferred income tax asset to be recovered within 12 months	**33,701**	18,146

Movements of deferred income tax assets are as follows:

	Temporary differences in respect of provisions and accruals RMB'000	**Tax losses** RMB'000	**Unrealised profit on inventories** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2007	9,319	—	—	1,338	10,657
Recognised in the consolidated income statement *(Note 28)*	8,429	—	—	(940)	7,489
At 31 December 2007	17,748	—	—	398	18,146
Recognised in the consolidated income statement *(Note 28)*	4,943	3,387	7,413	(188)	15,555
At 31 December 2008	22,691	3,387	7,413	210	33,701

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB20,001,000 (2007: RMB12,382,000) in respect of losses amounting to RMB71,186,000 (2007: RMB45,215,000) that can be carried forward against future taxable income. Cumulative tax losses of RMB40,706,000 (2007: RMB21,505,000) can be carried forward indefinitely; while cumulative tax losses of RMB30,480,000 (2007: RMB23,710,000) will expire within five years.

11. Inventories — Group

	2008 RMB'000	2007 RMB'000
Raw materials	**398,562**	391,163
Work-in-progress	**86,270**	192,305
Finished goods	**411,463**	408,641
	896,295	992,109

11. Inventories — Group (Continued)

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB2,693,280,000 (2007: RMB2,678,552,000).

In 2008, the Group has recorded write-down of inventories of approximately RMB15,326,000 (2007: RMB25,449,000). This amount has been included in the cost of sales.

12. Trade and Bills Receivables — Group

	2008 **RMB'000**	2007 RMB'000
Trade and bills receivables		
— third parties	**884,996**	1,055,621
— related parties	**—**	198
	884,996	1,055,819
Less: provision for impairment	**(19,948)**	(22,864)
	865,048	1,032,955

The fair values of trade and bills receivables approximate their carrying amounts.

As at 31 December 2008, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivables (2007: None). There was no concentration of credit risk with respect to the Group's trade and bills receivables.

Majority of trade and bills receivables are with customers having an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangements made with insurance from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 24 months. The ageing analysis of trade and bills receivables is as follows:

	2008 **RMB'000**	2007 RMB'000
Up to 6 months	**728,784**	884,228
6 months to 1 year	**97,448**	97,510
1 year to 2 years	**42,536**	52,424
Over 2 years	**16,228**	21,657
	884,996	1,055,819

12. Trade and Bills Receivables — Group (Continued)

As at 31 December 2008, trade receivables of RMB3,837,000 (2007: RMB940,000) were past due but considered not to be impaired. These relate to a number of customers for whom there is no recent history of default. The past due ageing analysis of these trade receivables is as follows:

	2008 RMB'000	2007 RMB'000
Up to 6 months	2,752	641
6 months to 1 year	880	102
1 year to 2 years	205	197
	3,837	940

As at 31 December 2008, trade receivables of approximately RMB19,948,000 (2007: RMB22,864,000) were impaired and had been fully provided for. These receivables relate to a number of customers, including customers in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2008 RMB'000	2007 RMB'000
Up to 6 months	97	52
6 months to 1 year	2,724	—
1 year to 2 years	4,692	4,117
Over 2 years	12,435	18,695
	19,948	22,864

Trade and bills receivables are denominated in the following currencies:

	2008 RMB'000	2007 RMB'000
RMB	653,752	730,383
United States dollars	211,171	318,745
Euro	19,617	2,763
Hong Kong dollars	—	3,266
Others	456	662
	884,996	1,055,819

12. Trade and Bills Receivables — Group (Continued)

Movements of the provision for impairment of trade receivables are:

	2008 RMB'000	2007 RMB'000
At 1 January	**22,864**	28,118
(Reversal of)/new provision for impairment	**(1,665)**	7,876
Written off as uncollectible	**(1,251)**	(13,130)
At 31 December	**19,948**	22,864

The creation and reversal of provision for impaired receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of trade and bills receivables.

13. Prepayments, Deposits and other Receivables — Group

	2008 RMB'000	2007 RMB'000
Non-current		
Loans to distributors *(i)*	**—**	10,000
Deposit for purchase of land use rights	**—**	14,500
	—	24,500
Current		
Loans to distributors *(i)*	**32,800**	36,600
Advances to customers *(ii)*	**6,804**	5,459
Prepayments and deposits		
— for purchases of raw materials	**21,533**	25,832
— others	**16,639**	2,262
Value Added Tax recoverable	**23,841**	39,931
Prepaid current income tax	**12,397**	8,906
Receivables from employees	**4,521**	3,491
Interest receivables	**10,787**	11
Due from related parties	**1,698**	—
Others	**5,322**	4,056
	136,342	126,548
	136,342	151,048

13. Prepayments, Deposits and other Receivables — Group (Continued)

Notes:

(i) As at 31 December 2008, loans to distributors of RMB30,000,000 (2007: RMB40,000,000) bore interest at an effective rate of 7.5% (2007: 4.6%) per annum. The remaining balance of loans to distributor was non-interest bearing. All these loans are unsecured.

(ii) Advances to customers are secured by guarantees provided by the relevant distributors.

The fair values of prepayments, deposits and other receivables approximate their carrying amounts.

14. Pledged Bank Deposits and Cash and Cash Equivalents

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**2,373**	6,221	**—**	—
Cash at bank and in hand	**688,038**	1,044,751	**307**	47
Short-term bank deposits	**547,042**	446,834	**—**	921
	1,235,080	1,491,585	**307**	968
	1,237,453	1,497,806	**307**	968

Pledged bank deposits are collaterals for banking facilities granted by banks. These facilities relate to trade finance facilities for letters of credit by banks.

The maximum exposure to credit risk at the reporting date approximates the carrying value of the pledged bank deposits and cash and cash equivalents.

As at 31 December 2008, the weighted average effective interest rate on pledged bank deposits and cash and cash equivalents of the Group is 1.9% (2007: 1.3%) per annum.

The pledged bank deposits have maturities of ranging from 12 to 18 months at inception (2007: ranging from 12 to 24 months). The short term bank deposits have maturities of ranging from 3 to 6 months at inception (2007: ranging from 1 to 3 months).

14. Pledged Bank Deposits and Cash and Cash Equivalents (Continued)

Pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**1,117,922**	1,277,342	**—**	—
United States dollars	**67,007**	167,857	**162**	921
Euro	**40,260**	51,502	**—**	—
Hong Kong dollars	**590**	722	**145**	47
Brazilian real	**11,463**	—	**—**	—
Others	**211**	383	**—**	—
	1,237,453	1,497,806	**307**	968

Majority of the pledged bank deposits and cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China Government.

15. Share Capital

	Authorised share capital		
	Number of shares	**Amount**	
	'000	HKD'000	RMB'000
As at 31 December 2007 and 2008 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

	Issued and fully paid up		
	Number of shares	**Amount**	
	'000	HKD'000	RMB'000
As at 31 December 2007 and 2008 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

16. Reserves

Group

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 *(note ii)*	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	1,331,913	151,513	185,581	612	538,928	2,208,547
Profit for the year	—	—	—	—	568,423	568,423
Appropriations	—	—	1,160	—	(1,160)	—
Dividend paid						
— 2007 interim *(Note 31)*	—	—	—	—	(139,403)	(139,403)
Currency translation differences	—	—	—	(2,575)	—	(2,575)
At 31 December 2007	1,331,913	151,513	186,741	(1,963)	966,788	2,634,992
Contribution from minority interest *(note i)*	—	1,060	—	—	—	1,060
Profit for the year	—	—	—	—	405,247	405,247
Appropriations	—	—	76,725	—	(76,725)	—
Dividend paid						
— 2007 final *(Note 31)*	—	—	—	—	(144,885)	(144,885)
— 2008 interim *(Note 31)*	—	—	—	—	(94,516)	(94,516)
Currency translation differences	—	—	—	(9,406)	—	(9,406)
At 31 December 2008	1,331,913	152,573	263,466	(11,369)	1,055,909	2,792,492

(i) Contribution from minority interest

In 2008, a minority shareholder of a subsidiary transferred its entire interests in Haitian Beihua to the Company at no cost. After the transfer, Haitian Beihua has become a wholly owned subsidiary of the Company.

(ii) Statutory reserves

Subsidiaries in Mainland China are required to transfer certain percentages of their after-tax profit after offsetting accumulated losses from prior years to statutory reserves, namely statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund, before the corresponding subsidiaries can distribute any dividend to their 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 subsidiaries.

16. Reserves (Continued)

Group (Continued)

(ii) Statutory reserves (Continued)

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses, or to increase capital of the relevant subsidiaries, and cannot be distributed to equity holders of the subsidiaries. Movements in the statutory reserves are as follows:

	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Enterprise expansion fund RMB'000	Discretionary reserve fund RMB'000	Total RMB'000
At 1 January 2007	1,110	556	85,759	98,156	185,581
Additions	928	—	232	—	1,160
At 31 December 2007	2,038	556	85,991	98,156	186,741
Additions	39,182	—	37,543	—	76,725
At 31 December 2008	41,220	556	123,534	98,156	263,466

Company

	Share premium RMB'000	Contributed surplus RMB'000 *(note iii)*	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2007	1,331,913	777,977	22,858	2,132,748
Loss for the year	—	—	(88,245)	(88,245)
Dividend paid				
— 2007 interim *(Note 31)*	—	(139,403)	—	(139,403)
At 31 December 2007	1,331,913	638,574	(65,387)	1,905,100
Loss for the year	—	—	(69,392)	(69,392)
Dividend paid				
— 2007 final *(Note 31)*	—	(144,885)	—	(144,885)
— 2008 interim *(Note 31)*	—	(94,516)	—	(94,516)
At 31 December 2008	1,331,913	399,173	(134,779)	1,596,307

16. Reserves (Continued)

Company (Continued)

(iii) Contributed surplus

Contributed surplus arose when the Company issued shares in exchange for the shares of subsidiaries being acquired in connection with a reorganisation of the Group prior to the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired. Contributed surplus is distributable to equity holders according to Companies Law of Cayman Islands.

17. Trade and Bills Payables — Group

	2008 RMB'000	2007 RMB'000
Trade payables	**325,789**	744,155
Bills payable	**467,270**	550,060
	793,059	1,294,215

The ageing analysis of the trade and bills payables is as follows:

	2008 RMB'000	2007 RMB'000
Up to 6 months	**791,390**	1,291,274
6 months to 1 year	**605**	2,796
1 year to 2 years	**1,064**	145
	793,059	1,294,215

Trade and bills payables are denominated in the following currencies:

	2008 RMB'000	2007 RMB'000
RMB	**777,477**	1,246,152
United States dollars	**4,694**	30,267
EURO	**4,628**	10,934
Hong Kong dollars	**5,902**	6,862
Others	**358**	—
	793,059	1,294,215

The fair values of trade and bills payables approximate their carrying amounts.

18. Accruals and other Payables — Group

	2008 RMB'000	2007 RMB'000
Welfare payables	**97,175**	97,318
Salaries, wages and bonus payables	**35,118**	42,993
Sales commission payables	**138,133**	147,083
Customers deposits	**139,823**	173,850
Due to related parties — non-trade	**—**	26,940
Payable for purchase of property, plant and equipment and land use rights	**22,891**	20,289
Provision for warranty	**13,948**	9,802
Accrued operating expenses	**7,130**	8,244
Value Added Tax payables	**10,144**	12,042
Deferred income — current portion *(Note 20)*	**281**	—
Other payables	**14,488**	16,360
	479,131	554,921

19. Bank Borrowings — Group

	2008 RMB'000	2007 RMB'000
At floating rate in United Stated dollars	**268,258**	—
At floating rate in Hong Kong dollars	**44,095**	—
At fixed rates in RMB	**—**	150,000
At fixed rates in United Stated dollars	**—**	8,766
	312,353	158,766

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

	2008	2007
RMB	**—**	4.6%
Hong Kong dollars	**2.1%**	—
United Stated dollars	**3.0%**	6.6%

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant.

As at 31 December 2008, bank borrowings of approximately RMB29,047,000 were guaranteed by one subsidiary (2007: RMB8,766,000), while bank borrowings of approximately RMB239,211,000 were guaranteed by the Company (2007: Nil).

As at 31 December 2007, bank borrowings of RMB150,000,000 was guaranteed by a bank.

20. Deferred Income — Group

	2008 RMB'000	2007 RMB'000
Deferred government grants	**22,650**	—
Less: Current portion included in current liabilities	**(281)**	—
	22,369	—

Movements are as follows:

	2008 RMB'000	2007 RMB'000
At beginning of the year	**—**	—
Granted during the year	**23,789**	—
Amortised as income *(Note 23)*	**(1,139)**	—
At end of the year	**22,650**	—

21. Sales and Segment Information

	2008 RMB'000	2007 RMB'000
Sales of plastic moulding injection machine and related products	**3,694,370**	3,824,850

The Group is principally engaged in manufacturing and distribution of plastic injection moulding machines. Substantially all of the Group's operations and its assets are located in Mainland China. Therefore no business segment or geographical segment is presented.

22. Expenses by Nature

	2008 RMB'000	2007 RMB'000
Depreciation and amortisation *(Notes 5, 6 and 7)*	**101,540**	79,353
Changes in inventories of finished goods and work in progress	**112,447**	(191,947)
Raw materials and consumables used	**2,314,177**	2,646,710
Operating lease for buildings	**5,278**	3,884
Sales commission	**252,622**	242,036
(Reversal of)/provision for impairment of trade receivables	**(1,665)**	7,876
Provision for write-down of inventories	**15,326**	25,449
Employee costs *(Note 25)*	**283,283**	248,815
Freight charges	**33,684**	33,242
Utilities	**32,180**	31,182
Warranty expenses	**13,001**	13,361
Travelling expenses	**13,743**	12,940
Research and development expenses	**9,243**	2,164
Auditors' remuneration	**2,780**	2,780
Others	**101,371**	70,537
Total cost of sales, selling and marketing expenses and general and administrative expenses	**3,289,010**	3,228,382

23. Other Income

	2008 RMB'000	2007 RMB'000
Government grants *(i)*	**25,415**	23,137
Amortisation of deferred income *(Note 20)*	**1,139**	—
Others	**—**	237
	26,554	23,374

(i) Government grants mainly represent subsidies and assistance received from local municipal government in connection with the Group's achievements in developing innovative and high technology plastic injection moulding machines.

24. Other Losses — Net

	2008 RMB'000	2007 RMB'000
Net exchange loss	**(14,689)**	(43,506)
Loss on disposals of property, plant and equipment, net	**(574)**	(1,557)
Others	**300**	987
	(14,963)	(44,076)

25. Employee Costs

	2008 RMB'000	2007 RMB'000
Salaries, wages and bonus	**229,611**	200,369
Pension cost — defined contribution plan *(note i)*	**15,376**	13,452
Other benefits	**38,296**	34,994
	283,283	248,815

(i) Pension cost — defined contribution plan

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of their basic salary, while the Group contributes 11% to 22% of employees' basic salary and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition, the Group's employees in Mainland China participate in state-sponsored employee social security plans, including medical, housing and other welfare benefits. The Group contributes 8% and 10% of employees' basic salary to medical and housing plans, respectively.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund 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 monthly contributions of each of the employer and the employee are subject to a cap of HK$1,000 and thereafter contributions are voluntary. The Group has no further obligations for post-retirement benefits beyond the contributions.

26. Directors and Senior Management's Emoluments

(a) Directors' emoluments

The emoluments of individual director are set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Other benefits RMB'000	Total RMB'000
2008				
Executive directors				
— Mr. Zhang Jingzhang	—	700	6	706
— Mr. Zhang Jianming	—	730	15	745
— Mr. Zhang Jianfeng	—	450	15	465
— Mr. Zhang Jianguo	—	450	15	465
— Mr. Guo Mingguang	—	400	15	415
— Ms. Chen Ningning	—	380	15	395
— Mr. Liu Jianbo	—	380	15	395
— Professor Helmut Helmar Franz	—	680	—	680
	—	4,170	96	4,266
Non-executive director				
— Mr. Hu Guiqing	—	50	—	50
Independent non-executive directors				
— Mr. Pan Chaoyang	60	—	—	60
— Mr. Gao Xunxian	60	—	—	60
— Mr. Dai Xiangbo	60	—	—	60
— Dr. Steven Chow	91	—	—	91
	271	—	—	271
	271	4,220	96	4,587

26. Directors and Senior Management's Emoluments (Continued)

(a) Directors' emoluments (Continued)

Name of Director	Fees RMB'000	Salaries RMB'000	Other benefits RMB'000	Total RMB'000
2007				
Executive directors				
— Mr. Zhang Jingzhang	—	700	6	706
— Mr. Zhang Jianming	—	730	25	755
— Mr. Zhang Jianfeng	—	500	25	525
— Mr. Zhang Jianguo	—	450	25	475
— Mr. Guo Mingguang	—	420	25	445
— Ms. Chen Ningning	—	400	25	425
— Mr. Liu Jianbo	—	375	25	400
— Professor Helmut Helmar Franz	—	680	—	680
	—	4,255	156	4,411
Non-executive director				
— Mr. Hu Guiqing	—	36	—	36
Independent non-executive directors				
— Mr. Pan Chaoyang	60	—	—	60
— Mr. Gao Xunxian	60	—	—	60
— Mr. Dai Xiangbo	60	—	—	60
— Dr. Steven Chow	32	—	—	32
	212	—	—	212
	212	4,291	156	4,659

None of the directors waived any emoluments during the year ended 31 December 2008 (2007: Nil).

26. Directors and Senior Management's Emoluments (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included two (2007: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: four) individuals is as follows:

	2008 RMB'000	2007 RMB'000
Salaries	2,531	3,681
Other benefits	969	1,249
	3,500	4,930

The emoluments fall within the following bands:

	Number of individuals 2008	2007
Nil — HKD1,000,000 (equivalent to approximately RMB909,000)	—	1
HKD1,000,001 (equivalent to approximately RMB909,000) — HKD1,500,000 (equivalent to approximately RMB1,364,000)	3	3

(c) During the year ended 31 December 2008, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

27. Finance Income/Costs

	2008 RMB'000	2007 RMB'000
Finance costs:		
Interest expense on borrowings	(7,681)	(6,845)
Net foreign exchange gains on borrowings	2,615	—
	(5,066)	(6,845)
Finance income:		
Interest income on pledged bank deposits and cash and cash equivalents	27,909	31,189
Interest income on loans to distributors	2,073	—
	29,982	31,189
Finance income, net	24,916	24,344

28. Income Tax Expense

The amount of income tax charged to the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
Current income tax		
— Mainland China enterprise income tax	52,104	39,437
— Overseas tax	232	—
Deferred taxation *(Note 10)*	(15,555)	(7,489)
	36,781	31,948

Haitian Shili and Wuxi Haitian (subsidiaries) were entitled for a reduced tax rate of 12.5% for the year 2008.

Haitian Beihua, Haitian Plastic Machinery, Haitian Heavywork and Haitian Huayuan (subsidiaries) were certified as High and New Technology Enterprises in 2008 and were entitled to a reduced tax rate of 15% for three years commencing from 1 January 2008. They are entitled to re-apply for preferential tax treatment when the preferential tax period expires.

Daxie Haitian (subsidiary)'s enterprise income tax rate would gradually increase to 18% for the year 2008, 20% for the year 2009, 22% for the year 2010, 24% for the year 2011 and 25% for the year 2012.

Other major operating subsidiaries in Mainland China are subject to enterprise income tax rate of 25% for the year 2008.

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2008 (2007: 17.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the countries in which the Group operates.

28. Income Tax Expense (Continued)

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 entities as follows:

	2008 RMB'000	2007 RMB'000
Profit before income tax, after excluding share of profit of an associate	**441,867**	600,110
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	**108,567**	135,953
Expenses not deductible for tax purpose	**3,826**	3,318
Tax losses for which no deferred income tax assets was recognised	**7,619**	2,901
Effect of tax concession	**(83,231)**	(110,224)
Income tax expense	**36,781**	31,948
The weighted average applicable tax rate	**24.6%**	22.7%

Increase in the weighted average tax rate is mainly due to expiration of tax concession of certain subsidiaries.

Share of income tax expense of an associate for the year ended 31 December 2008 amounting to RMB40,000 (2007: RMB2,000) was included in the consolidated income statement for the share of profit of an associate.

29. Loss 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 a loss of approximately RMB69,392,000 (2007: RMB88,245,000).

30. 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 RMB405,247,000 (2007: RMB568,423,000) and on the weighted average number of approximately 1,596,000,000 (2007: 1,596,000,000) ordinary shares in issue during the year.

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

31. Dividends

	2008 RMB'000	2007 RMB'000
Interim dividend paid of HKD6.5 cents (2007: HKD9.0 cents) per ordinary share	**94,516**	139,403
Proposed final dividend of HKD3.0 cents (2007: HKD10.0 cents) per ordinary share	**42,225**	144,885
	136,741	284,288

The Company's Board of Directors has recommended payment of a final dividend of HKD3.0 cents per share for the year ended 31 December 2008 (2007: HKD10.0 cents per share), which is subject to the approval by the Company's shareholders at the upcoming Annual General Meeting. The proposed dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings during the year ending 31 December 2009.

32. Notes to Consolidated Cash Flow Statements

(a) Cash generated from operations

	2008 RMB'000	2007 RMB'000
Profit before income tax	**442,028**	600,116
Adjustments for:		
— share of results of associates *(Note 9)*	**(161)**	(6)
— amortisation of land use rights *(Note 5)*	**2,490**	1,448
— depreciation of property, plant and equipment *(Note 6)*	**96,950**	77,205
— amortisation of intangible assets *(Note 7)*	**2,100**	700
— amortisation of deferred income *(Note 20)*	**1,139**	—
— loss on disposal of property, plant and equipment *(Note 24)*	**574**	1,557
— (reversal of)/provision for impairment of trade receivables *(Note 22)*	**(1,665)**	7,876
— provision for write-down of inventories *(Note 22)*	**15,326**	25,449
— interest income from other loans	**—**	(237)
— finance income — net *(Note 27)*	**(24,916)**	(24,344)
	533,865	689,764
Changes in working capital:		
— decrease in pledged bank deposits	**3,848**	20,956
— decrease/(increase) in trade and other receivables	**198,543**	(234,909)
— decrease/(increase) in inventories	**80,489**	(365,909)
— (decrease)/increase in trade and bills payable and accruals and other payables	**(532,570)**	287,439
Cash generated from operations	**284,175**	397,341

32. Notes to Consolidated Cash Flow Statements (Continued)

(b) In the cash flow statement, proceeds from sale of land use rights comprise:

	2008 RMB'000	2007 RMB'000
Net book amount *(Note 5)*	**16,426**	—
Loss on disposal of land use rights	**—**	—
Proceeds from disposal of land use rights	**16,426**	—

(c) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008 RMB'000	2007 RMB'000
Net book amount *(Note 6)*	**2,557**	7,179
Loss on disposal of property, plant and equipment *(Note 24)*	**(574)**	(1,557)
Proceeds from disposal of property, plant and equipment	**1,983**	5,622

33. Commitments

(a) Capital commitments

	2008 RMB'000	2007 RMB'000
Acquisition of property, plant and equipment		
— Contracted but not provided for	**91,059**	121,222

33. Commitments (Continued)

(b) Operating lease commitments

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

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

	2008 **RMB'000**	2007 RMB'000
Not later than 1 year	**2,623**	2,788
Later than 1 year and not later than 5 years	**1,896**	1,564
	4,519	4,352

34. Contingent Liabilities

Contingent liabilities not provided for in the consolidated financial statements is as follows:

	2008 **RMB'000**	2007 RMB'000
Guarantee given to the banks in connection with banking facilities granted to customers	**309,221**	221,088

35. Business Combinations — Group

On 22 August 2007, the Group acquired 91% of equity interest in Zhafir Plastics. The consideration comprised cash payment of Euro3 (equivalent to approximately RMB31) and repayment of a loan due to a then shareholder, Mr. Zhang Jianming, and related interest of Euro6,569,437 (equivalent to approximately RMB67,876,000).

Details of net assets acquired and negative goodwill were as follows:

	Fair value RMB'000	**Acquiree's carrying amount** RMB'000
Purchase consideration settled in cash		
Cash paid	—	
Repayment of a loan due to a then shareholder	67,876	
Fair value of net assets acquired:		
Cash and cash equivalents	12,189	12,189
Freehold land *(Note 6)*	4,813	4,813
Property, plant and equipment *(Note 6)*	39,808	37,746
Technology know-how *(Note 7)*	10,501	—
Trade and other receivables	2,257	2,257
Trade and other payables	(1,617)	(984)
Net assets	67,951	56,021
Minority interests (9%)	(7)	
Net assets acquired	67,944	
Negative goodwill	(68)	
Purchase consideration settled in cash		67,876
Cash and cash equivalents in subsidiary acquired		(12,189)
Cash outflow on acquisition		55,687

Negative goodwill was recognised as other gains immediately in the consolidated income statement.

36. 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.

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 68.39% of the Company's shares. The Company's directors regard Sky Treasure as being the ultimate holding company.

The following companies are considered to be related parties of the Group:

Company name	**Relationships**
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") (寧波海天精工機械有限公司)	Controlled by directors of the Group
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang") (杭州科強智能控制系統有限公司)	Associate of the Group
Haitian South American Industry and Machinery Commerce Limited ("Haitian Brazil")	Controlled by directors of the Group
Sea Sky Plastic Machines Import Export Limited Liability Company ("Haitian Turkey")	Controlled by directors of the Group

(a) Transactions with related parties

The following material transactions were carried out with related parties:

	2008 RMB'000	2007 RMB'000
(i) Sales of goods to:		
Haitian Turkey	**—**	8,301
Haitian Brazil	**—**	27,969
	—	36,270

	2008 RMB'000	2007 RMB'000
(ii) Purchases of goods from:		
Hangzhou Keqiang	**3,718**	2,782
Haitian Brazil	**1,330**	—
	5,048	2,782

36. Related Party Transactions (Continued)

(a) Transactions with related parties (Continued)

	2008 RMB'000	2007 RMB'000
(iii) Purchase of equipment from:		
Haitian Precision	—	70,026

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(b) Balances with related parties

The Group had the following significant balances with its related parties as at 31 December 2008 and 2007:

	2008 RMB'000	2007 RMB'000
Due from related parties:		
Trade related		
— Hangzhou Keqiang	1,500	198

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

(c) Key management compensation

Key management includes directors, general managers of certain subsidiaries, Chief Financial Officer, Investment Relations Manager and the Head of Human Resources and Administration. The compensation paid or payable to key management for employee services is shown below:

	2008 RMB'000	2007 RMB'000
Salaries and bonus	7,291	7,375
Other benefits	160	286
	7,451	7,661

Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Results					
Revenue	**3,694,370**	3,824,850	3,175,732	2,577,589	2,594,074
Profit before income tax	**442,028**	600,116	483,636	351,389	312,631
Income tax expenses	**(36,781)**	(31,948)	(21,863)	(22,056)	(22,420)
Minority interests	**—**	255	(10,906)	(22,435)	(27,936)
Profit attributable to shareholders	**405,247**	568,423	450,867	306,898	262,275
Assets					
Non-current assets	**1,426,925**	1,155,046	813,514	1,054,998	864,128
Current assets	**3,135,138**	3,649,418	3,341,760	2,209,268	2,043,035
Total assets	**4,562,063**	4,804,464	4,155,274	3,264,266	2,907,163
Liabilities					
Non-current liabilities	**(22,369)**	—	(150,000)	—	(100,000)
Current liabilities	**(1,586,692)**	(2,007,902)	(1,634,909)	(1,711,491)	(1,557,823)
Total liabilities	**(1,609,061)**	(2,007,902)	(1,784,909)	(1,711,491)	(1,657,823)
Total equity	**2,953,002**	2,796,562	2,370,365	1,552,775	1,249,340
Minority interests	**—**	(1,060)	(1,308)	(102,810)	(83,396)
Capital and reserves attributable to equity holders of the Company	**2,953,002**	2,795,502	2,369,057	1,449,965	1,165,944

Notes:

1. *The Company was incorporated on 13 July 2006 in Cayman Islands and became the holding company of the Group with effect from 5 December 2006 upon completion of the Reorganisation as set out in the Company's prospectus dated 11 December 2006.*

2. *The results of the Group for the years ended 31 December 2004 and the balance sheets of the Group as at 31 December 2004 have been prepared using the merger accounting and are extracted from the Company's prospectus dated 11 December 2006.*

RFP Design and produced: iOne (Regional) Financial Press Limited website: www.ioneregional.com

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