

**We Create and
Extend Advantage**

Annual Report 2010

Haitian International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1882

 **TIANJIAN**
PLASTICS MACHINERY



 **HAITIAN**
PLASTICS MACHINERY



 **ZHAFIR**
PLASTICS MACHINERY





A D V A N T A G E



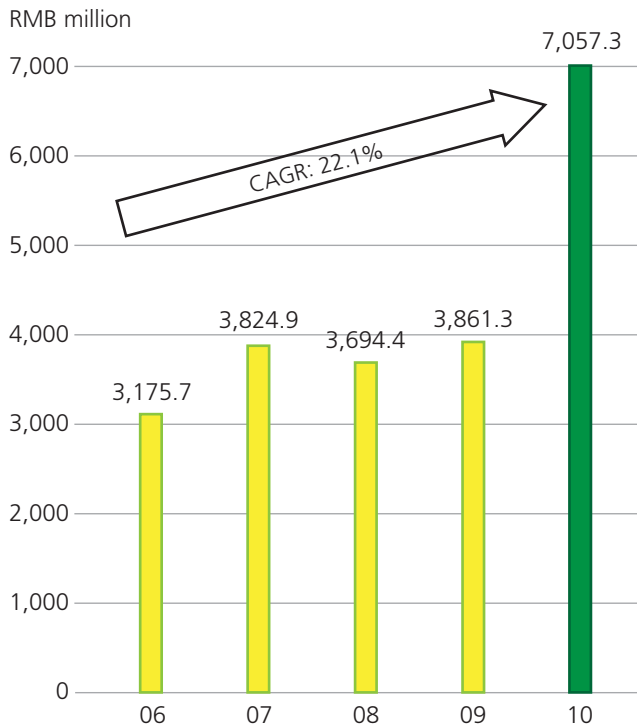


Contents

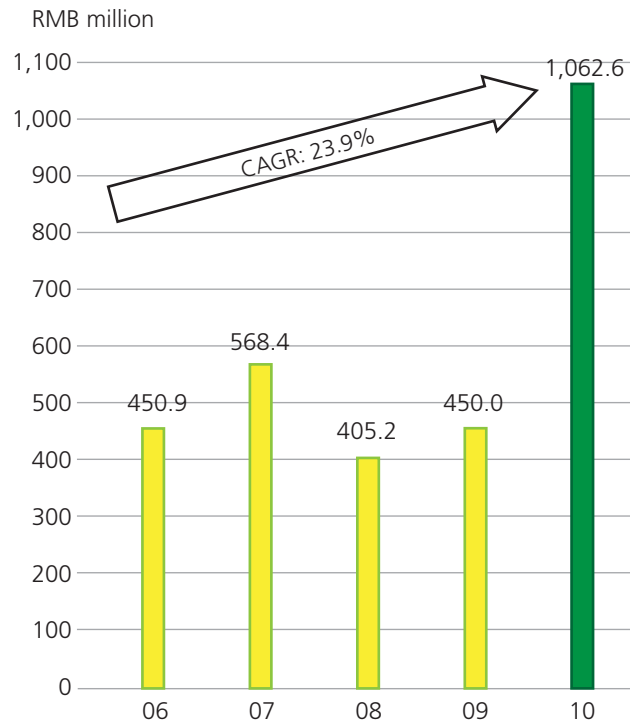
02	Financial Highlights
03	Company Profile and Corporate Information
04-11	Chairman's Statements
12-15	CEO's Report
17-23	Directors and Senior Management
25-28	Corporate Governance Report
29	Investor Information
31-40	Report of the Directors
41	Independent Auditor's Report
42-43	Consolidated Balance Sheet
44	Balance Sheet
45	Consolidated Income Statement
46	Consolidated Statement of Comprehensive Income
47	Consolidated Statement of Changes in Equity
48	Consolidated Statement of Cash Flow
49-99	Notes to the Consolidated Financial Statements
100	Financial Summary

Financial Highlights

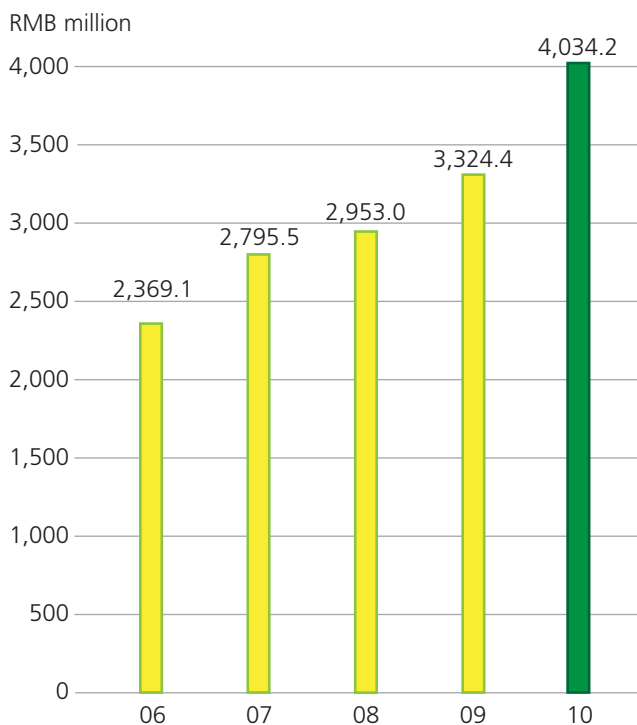
Revenue



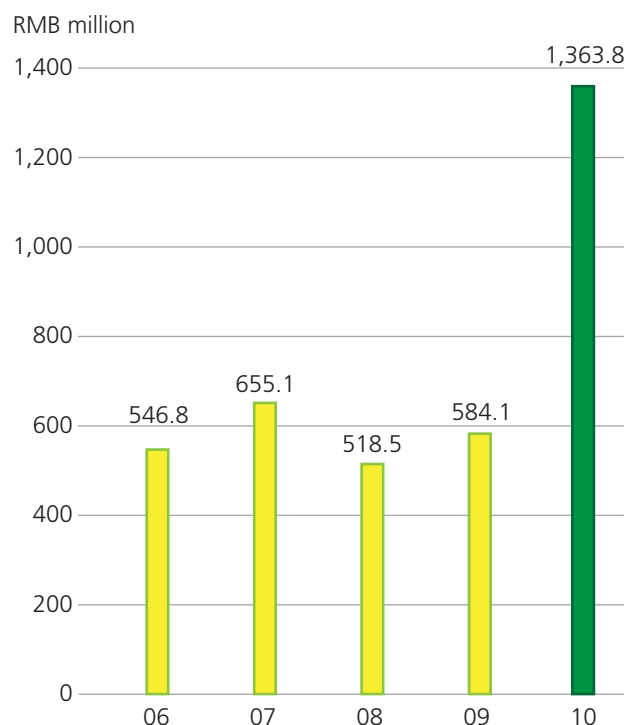
Profit attributable to the equity holders of the Company



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

Mr. SUEN Wai Yu

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
Shanghai Pudong Development Bank Co., Ltd.



Chairman's Statements

Dear Shareholders,

On behalf of Haitian International Holdings Limited, ("Haitian" 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 2010.

Business Review

2010 was a year of unprecedented growth in revenue and profit for Haitian. For the year ended 31 December 2010 (the "Reporting Period"), we achieved sales of RMB7,057.3 million and profit attributable to shareholders of RMB1,062.6 million, representing an increase of 82.8% and 136.1% when compared with RMB3,861.3 million and RMB450.0 million in 2009 respectively. The substantial increase was a result of (i) the strong recovery of the domestic economy in the PRC from the financial crisis and continuous growth in consumption in both the PRC and some overseas markets which led to an increase in capital investment in manufacturing industries, (ii) expansion of our market share in both domestic and export markets as a result of strategic measures implemented during the financial crisis and (iii) a strong growth in the sales of our energy-saving plastic injection moulding machines (PIMMs), the Mars series and our all-electric PIMMs, the Venus series.

Domestic consumption in the PRC had been strong throughout 2010 and some of our export markets are also showing signs of growing demand in the second half of 2010. Such continuous high-level of demand and consumption of plastic products led to an unprecedented high-level of demand of our PIMMs. Most of our downstream industries, including automobiles, household electrical appliances, construction materials, plastic packaging, IT and electronic products etc. had shown a strong recovery from the financial crisis and had a substantial increase in their capital investment in 2010.

Chairman's Statements

We had implemented a series of measures during the financial crisis in view of the weak demand and uncertain outlook, including strengthening our cost control, enhancing our production efficiency and increasing our after-sales servicing effort. All such measures, together with the important decision made by our management that no single production line was closed during the financial crisis, had prepared us to seize the recovery opportunity, expand our customer base and gain market share from our competitors. We have navigated through many crisis in our history of over 45 years and our management had once again demonstrated their determination to make Haitian a sustained and market-leading enterprise and their ability to explore opportunity through crisis.

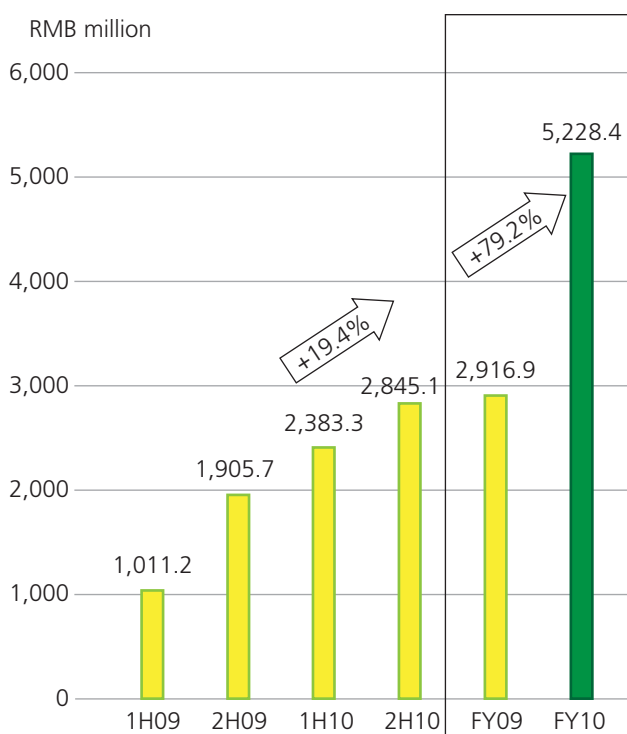
Our energy-saving PIMMs, the Mars series, generated very strong demand in 2010. Its innovative and customer-oriented energy-saving features receive overwhelming recognition in the market and its sales have been growing since its initial launch in 2006 and even during the financial crisis. The recent emphasis of environmental-friendly policy by the PRC Government further drives the demand of our Mars series PIMMs and with four years of track record and experience in servicing customers on such machines, we have already established a market-leading position in energy-saving PIMMs segment and continue to draw demand from existing and new customers.

Domestic and export sales

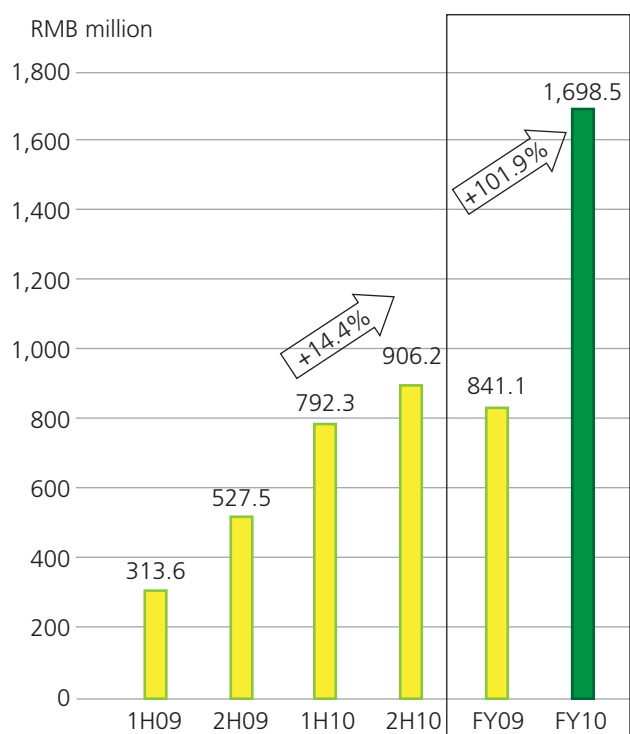
The Group's sales by geographic areas are summarized in the following table:

(RMB million)	2010		2009		2010 vs 2009		1H2010		2H2010 vs 1H2010	
		%		%					%	
Domestic Sales	5,228.4	74.1	2,916.9	75.5	+79.2%	2,383.3	73.8	2,845.1	74.4	+19.4%
Export Sales	1,698.5	24.1	841.1	21.8	+101.9%	792.3	24.5	906.2	23.7	+14.4%
Parts	130.4	1.8	103.3	2.7	+26.2%	55.9	1.7	74.5	1.9	+33.3%
Total	7,057.3	100.0	3,861.3	100.0	+82.8%	3,231.5	100.0	3,825.8	100.0	+18.4%

Domestic Sales Analysis



Export Sales Analysis



Chairman's Statements

The Group's domestic sales had recorded strong growth in 2010, rising 79.2% from RMB2,916.9 million in 2009 to RMB5,228.4 million in 2010. The growth is remarkable for a mature heavy machinery industry such as the PIMM manufacturing industry and it reflected the strong domestic consumption and demand for plastic products in the PRC. Despite the recent austerity measures of the PRC Government to restrict the liquidity in the financial market and control the rising inflation, we remain optimistic about the domestic consumption growth in the PRC in view of the rising purchasing power of the public and the PRC Government's continuous support for related industries.

The Group's export sales had also expanded substantially in 2010 from RMB841.1 million in 2009 to RMB1,698.5 million in 2010, representing a growth of 101.9% and exceeding our pre-financial-crisis record of RMB1,343.5 million in 2008 by 26.4%. We believe that there are still spaces for future growth in export sales as many developed economies in our current and potential overseas markets still have not returned to the pre-financial crisis growth rate and we will continue to expand our export coverage to broaden our reach to regions and countries where we can boost the sales of our PIMMs.

Small and medium-to-large tonnage sales

The Group's sales by small tonnage and medium-to-large tonnage PIMMs are summarized in the following table:

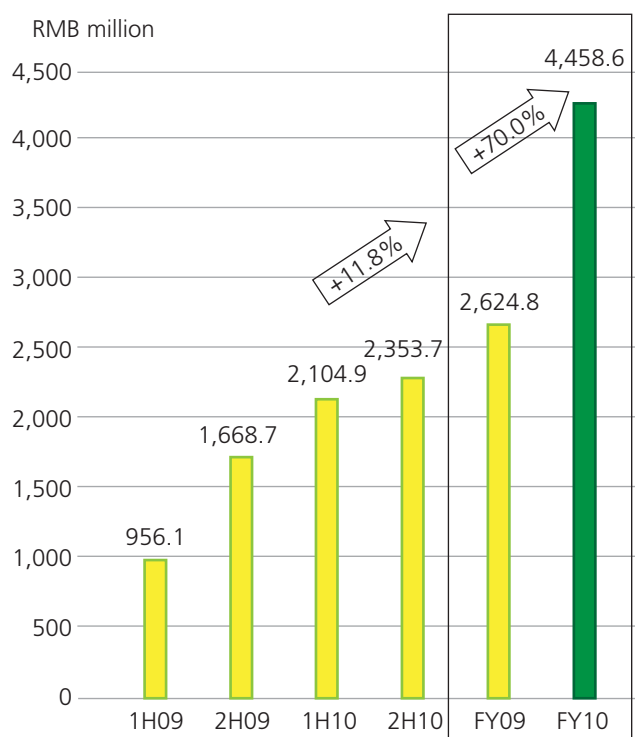
(RMB million)	2010	%	2009	%	2010 vs 2009	1H2010	%	2H2010	%	2H2010 vs 1H2010
Small tonnage*	4,458.6	63.2	2,624.8	68.0	+70.0%	2,104.9	65.2	2,353.7	61.5	+11.8%
Medium-to-large tonnage*	2,468.3	35.0	1,133.2	29.3	+117.8%	1,070.7	33.1	1,397.6	36.5	+30.5%
Parts	130.4	1.8	103.3	2.7	+26.2%	55.9	1.7	74.5	2.0	+33.3%
Total	7,057.3	100.0	3,861.3	100.0	+82.8%	3,231.5	100.0	3,825.8	100.0	+18.4%

* Small tonnage: PIMM with clamping force of less than 530 tonnes. Medium-to-large tonnage: PIMM with clamping force of 530 tonnes or more.

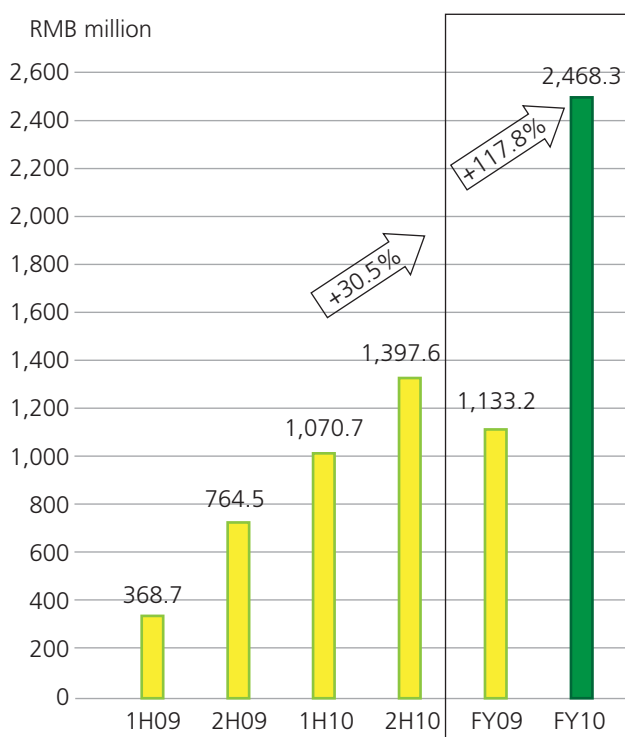
The Group's small tonnage PIMM sales in 2010 amounted to RMB4,458.6 million, representing a growth of 70.0% compared with RMB2,624.8 million in 2009 while our medium-to-large tonnage PIMM sales in 2010 amounted to RMB2,468.3 million, representing a growth of 117.8% compared with RMB1,133.2 million in 2009. The sales of medium-to-large tonnage PIMMs generally respond slower to change in economy and therefore had achieved a higher growth rate in 2010 when the market further recovered from the financial crisis.

Chairman's Statements

Small Tonnage PIMM Analysis



Medium-to-large Tonnage PIMM Analysis



Mars and Venus series

The Group's sales of Mars series PIMMs (which are our Group's PIMMs with strong energy saving features) in 2009 and 2010 are summarized in the following table:

(RMB million)	Percentage to total sales 2010		2009	Percentage to total sales 2009		2010 vs 2009	1H2010	Percentage to total sales 2H2010		2H2010 vs 1H2010
Mars	4,830.2	68.4%	2,082.0	53.9%	+132.0%	2,098.4	64.9%	2,731.8	71.4%	+30.2%

Our energy-saving PIMMs, the Mars series, have continuously increased its penetration into the market and built our leadership in the new era of environmental-friendly machineries. Its innovative and customer-oriented energy-saving features are well-recognized in the market and it receives further support from the government's environmental-friendly policy which is one of the main focus in the PRC Government's next five-year plan. We recorded sales of Mars series PIMMs in the amount of RMB4,830.2 million in 2010, representing a growth of 132.0% compared with RMB2,082.0 million in 2009 and Mars series PIMMs accounted for 68.4% of our total sales in 2010. With a view to match the PRC Government's emphasis of energy-saving and environmental protection, we had completed modification to our production process and facilities and target that our domestic sales of hydraulic PIMMs in 2011 will comprise only Mars series PIMMs and PIMMs with Mars series energy-saving features.

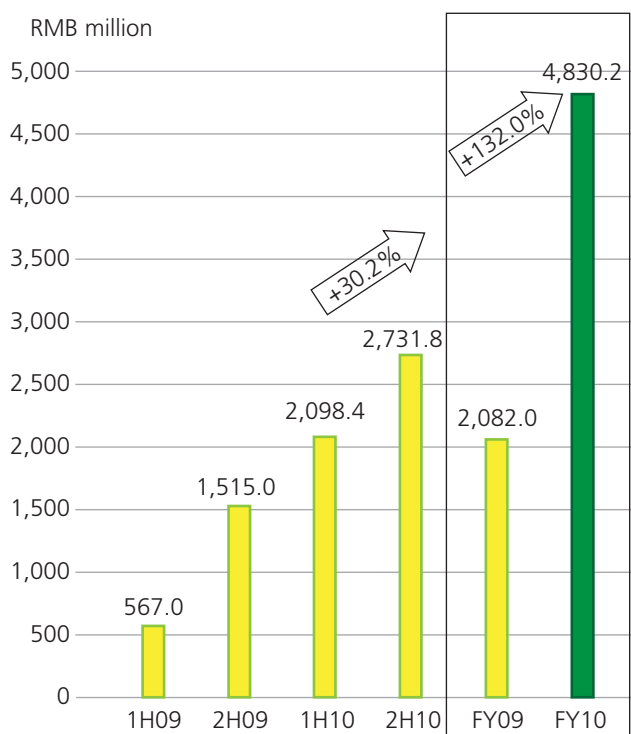
Chairman's Statements

The Group's sales of Venus series PIMMs (which are our Group's all-electric PIMMs) in 2009 and 2010 are summarized in the following table:

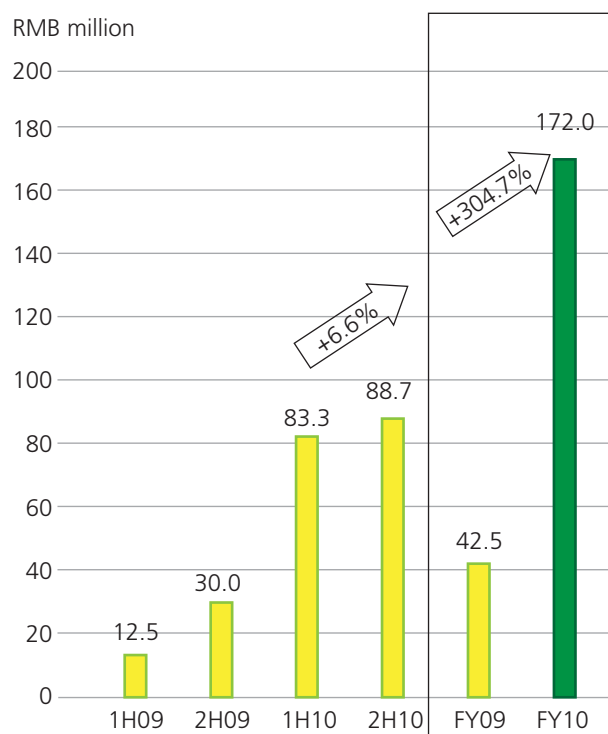
(RMB million)	Percentage to total sales		2009	Percentage to total sales	2010 vs 2009	1H2010	Percentage to total sales	Percentage to total sales	
	2010	2010						2H2010	2H2010 vs 1H2010
Venus	172.0	2.4%	42.5	1.1%	+304.7%	83.3	2.6%	88.7	2.3%

Only in the second year after its launch, our Group's first all-electric PIMMs, the Venus series, had recorded a very encouraging sales, amounting to RMB172.0 million and representing an increase of 304.7% compared with RMB42.5 million in 2009. All-electric PIMMs are required for manufacturing of high-precision plastic products which are consumed in high-tech industries such as IT & electronics, automobiles and packaging and our ability to manufacture and sell self-developed all-electric PIMMs reflects our strong research and development capability. Our Venus series PIMMs are able to compete not only with overseas branded PIMMs imported to the PRC market but also globally with other brands in different overseas markets and we believe there are substantial spaces for future growth of such products.

Mars Analysis



Venus Analysis



Chairman's Statements

Our continuous input in research and development and launch of successful new models of PIMMs, such as Mars and Venus series, with technological features which are leading in the PRC and competitive with overseas brand, has separated ourselves from local competitors which are mostly focused on cost efficiency and low-end and mid-end products. Our latest high-end all electric PIMMs, the Mercury series, with technological features which we believe are pioneer on a global scale, will further strengthen our position as a key player in the PIMM industry worldwide and attract new customers globally.

2010 marked the fifth year since our initial public offering in 2006. During these years, our management and employees had devoted their time and effort to the growth of Haitian and helped establish Haitian as a world-leading PIMM manufacturer. Our Group had recorded a compound annual growth rate of 22.1% in its revenue and 23.9% in its profit attributable to shareholders between 2006 and 2010 and we believe Haitian will continue to bring growth and value to our customers and shareholders in the future.

Prospects

The high-level of orders for our PIMMs in 2010 had continued into the first two months of 2011 during which our sales were more than 20% above the same period in 2010. We are confident that our leading position in the market, the new market share earned in 2010 and our continuous innovation in product design will continue to grow and support our performance in 2011. However, after considering the macro-economy environment in both domestic and international markets in 2011, we are also aware of the potential risk of a slow-down in growth of business in view of a number of factors, including the austerity measures implemented by the PRC Government to control liquidity and inflation, the uncertain outlook of some of our downstream industries and the volatility in raw material prices brought by the fluctuations in the commodity market. Our management will closely monitor the development of the above-mentioned risks and plan to tackle such risks with the following measures:

Strengthen export sales

In 2010, the PRC economy demonstrated a fast recovery from the financial crisis and as a result the business growth for our domestic sales surpassed our export sales growth after the financial crisis. In 2011, in contrast, the growth in overseas economy is expected to become more stable and accordingly we will strengthen our export sales effort through developing more overseas markets, expanding our product-mix for our export business, adjusting our marketing and sales strategy and increasing our production capacity for export sales (our new production facility at Vietnam is expected to commence operation in the second quarter of 2011) in order to capture the restored growth of the PIMM industry in our export markets.

Chairman's Statements

Raise operational efficiency

By the end of 2010, we had completed the upgrade of metal processing equipment in most of our existing production facilities and we plan to further upgrade and enhance our production facilities to increase their efficiency and rate of output.

Our management has formulated a new strategy to strengthen our market leading position and scale of operation with the introduction of Lean Manufacturing concept to our Group. Through a series of measures such as improving production environment, revising production flow, strengthening technology used in production linkage, reducing wastes and raising production efficiency, we intend to increase our efficiency through exploring potential in different internal aspects of our operation. This will allow us to shorten our capital cycle, reduce inventory level, enhance our response to market feed-back and raise our profit margin and ability to resist external risk in economy.

Increase research and development input

We will continue to increase our investment in the research and development of new technologies, new products and new applications of our PIMMs and target to enhance the precision, energy-saving capability, reliability and price-performance ratio of our products. We plan to launch our next generation of hydraulic-electric energy saving PIMMs, the Pallas series, in the second half of 2011 which will further strengthen our competitiveness in the market.

Our another focus in 2011 will be to increase the scale of research and development and production capacity for our high-end all-electric PIMMs and thereby raising our market share in this segment. The sales of our first all-electric PIMMs, the Venus series, have remained at a high level in the start of 2011, reflecting the general acceptance of our first high-end PIMMs among our customers and setting the platform for our future growth in high-end PIMMs. We also plan to launch our next generation of all-electric PIMMs, the Mercury series, in 2011, which have features which we believe are pioneer in the international PIMM industry.

We are also preparing to launch a new generation of energy-saving machines for our Tianjian brand PIMMs, through which we will be able to further penetrate into different spectrum of the PIMM industries.

Strengthen after-sale services

We will also strengthen our capability and quality of after-sale services to our customers. We will provide better support to our distributors and agents, reduce the response-time for our after-sale services, raise the efficiency in the delivery of parts and components to customers, strengthen technical support to customers and provide incentive schemes to our employees for after-sale services provided. We believe such measures will increase our customers' confidence in our products, enhance communication with the customers and consequently raise the brand image and value of our Haitian, Zhafir and Tianjian brands.

We believe that through the above-mentioned measures, Haitian will be able to deliver outstanding results in 2011 and bring satisfactory returns to our shareholders.

Chairman's Statements

Appreciation

Finally, on behalf of the Board of Directors, I would like to thank 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, customers, suppliers and business partners for their continued confidence in and support to our Group.

Mr. Zhang Jingzhang

Chairman

31 March 2011



CEO's Report

Highlights

	2010 RMB'million	2009 RMB'million	Change %
Sales	7,057.3	3,861.3	82.8
Profit before taxation	1,293.1	513.0	152.1
Profit attributable to equity holders of the Company	1,062.6	450.0	136.1
Basic Earnings per share (expressed in RMB per Share)	0.67	0.28	136.1
Dividend per share (expressed in HK\$ per Share)			
Proposed final	0.18	0.10	80.0
Full year (including interim)	0.33	0.13	153.8

- The high-level of sales observed in the first half of 2010 continued into the second half of 2010 and as a result the sales in 2010 recorded a growth of 82.8% compared with sales in 2009
- Gross profit margin broke previous record of 29.3% in 2007 and improved from 25.9% in 2009 to 30.2% in 2010
- With improved gross profit margin and benefiting from economy of scale, our net profit margin improved from 11.7% in 2009 to 15.1% in 2010
- Profit attributable to equity holders of the Company increased from RMB450.0 million in 2009 to RMB1,062.6 million in 2010
- A record of more than 30,000 plastic injection moulding machines sold in 2010
- The Board proposed a final dividend of HK18 cents per share, total dividend for 2010 amounted to HK33 cents which increased by 153.8% compared with 2009
- Significant increase in net cash from RMB1,597.0 million in 2009 to RMB2,025.6 million in 2010

CEO's Report



Financial Review

Sales

The strong domestic demand of PIMM industry in the PRC had continued throughout 2010 and our sales in the second half of 2010 had increased by 18.4% compared with the first half of 2010. As a result, our sales increased from RMB3,861.3 million in 2009 to RMB7,057.3 million in 2010, representing a growth of 82.8%.

Please refer to the Chairman's Statement for detailed analysis of our sales by geographical regions, tonnage and specific products.

Gross Profit

During the Reporting Period, we recorded gross profit of approximately RMB2,133.5 million, representing an increase of approximately 113.6% compared with 2009. Overall gross margin had increased from 25.9% in 2009 to 30.2% in 2010, which exceeded our previous record of 29.3% in 2007.

During the Reporting Period, the cost of raw material, especially steel and related components, had gradually increased along with general inflation which is expected to continue to rise. However, we were benefited from the followings: (i) the economy of scales as a result of the substantial increase in sales, and our export sales and sales of medium-to-large tonnage PIMMs, which recorded higher margin, had also increased by 101.9% and 117.8% in 2010 compared with 2009; and (ii) the factors which caused our low gross margin in 2009, which included the consumption of higher cost of materials and component which were purchased before the financial crisis and low utilization of plant and equipment, no longer existed. Therefore we were able to improve our gross margin back to pre-financial crisis level.

Selling and administrative expenses

The selling and administrative expenses increased by 58.3% from RMB541.0 million in 2009 to RMB856.5 million in 2010, primarily due to (i) the increase in sales commission expenses and transportation charges resulting from high level of sales during the Reporting Period, (ii) the increase in employee costs resulting from high level production during the Reporting Period and (iii) increase in research and development expenses with continuing effort for next generation products and other R&D projects.

Other income

Other income mainly consists of government subsidy and increased by 0.4% from approximately RMB23.8 million in 2009 to approximately RMB23.9 million in 2010.

Other (losses)/gain, net

We recorded other net losses of RMB29.2 million during the Reporting Period as compared with other net gains of RMB18.9 million in 2009. The net losses mainly represented exchange losses resulting from appreciation of Renminbi against foreign currencies, mainly including US dollars and Euro.

CEO's Report

Operating profit

As a result of the foregoing, the operating profit increased from RMB500.5 million in 2009 to RMB1,271.8 million in 2010.

Finance income — net

Finance income, net increased by 63.5% from RMB12.2 million in 2009 to RMB20.0 million in 2010, which is mainly contributed by increased cash balance during the Reporting Period.

Income tax expenses

Income tax expenses increased by 266.1% from RMB63.0 million in 2009 to RMB230.5 million in 2010. The substantial increase was mainly resulted from (i) the increase in operating profit, (ii) the provision of 5% dividend withholding tax for the profit to be distributed by the Chinese subsidiaries and (iii) increase in effective tax rate resulting from the expiration of tax free incentive of certain operating subsidiaries.

Research and Developments and Products

In 2010, we continued our research and development effort for our next generation of energy-saving PIMMs and all-electric PIMMs, namely the Pallas series and the Mercury series. We have been working closely with our current and potential customers to make adjustment on different features of these new series to ensure they are able to meet the high standard set by our customers. We plan to launch the Pallas series in the second half of 2011 and further increase the proportion of energy-saving PIMMs in our total sales. Our Mercury series all-electric PIMMs have unique features, which we believe are pioneer design for all-electric PIMMs. With such features it will be able to process a broad range of plastic materials, some of which in the past were not considered cost-efficient enough to be handled by PIMMs. We are also launching a new generation of energy-saving machines for our Tianjian brand PIMMs, mainly the Pluto series, in 2011.



Pallas Series



Mercury Series



Tianjian – Pluto Series

CEO's Report

Capital Expenditure

In 2010, our capital expenditure consisted of additions of property, plant and equipment and land use rights which amounted to RMB391.6 million (2009: RMB135.5 million).

Liquidity and Financial Resources

The gearing ratio is defined as total borrowings divided by shareholders' equity. As at 31 December 2010, our Group was in a strong financial position with a net cash position amounting to RMB2,025.6 million (2009: RMB1,597.0 million). Accordingly, no gearing ratio is presented.

Charges on Group Assets

As at 31 December 2010, our Group had pledged deposits of RMB354.0 million (2009: RMB138.0 million), mainly as collaterals against bank borrowings.

Foreign Exchange Risk Management

During the Reporting Period, our Group exported approximately 24.1% of its products to international markets. Such sales were denominated in US dollars or other foreign currencies, while our Group's purchases denominated in US dollars or other foreign currencies accounted for less than 10.0% of our total purchases. Our Group did not use any forward contracts or other means to hedge its foreign currency exposure. Our management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts. During the Reporting Period, our Group borrowed a US-dollar denominated bank loan amounted to RMB131.1 million and a HK-dollar denominated bank loan which amounted to RMB136.1 million to hedge the exchange risk of US-dollar denominated receivables arising from export sales.

Contingent Liabilities

As at 31 December 2010, our Group provided guarantee to banks in connection with facilities granted to the customers with an amount of RMB523.7 million (2009: RMB457.2 million).

Employees

As at 31 December 2010, our Group had a total workforce of approximately 4,300 employees. Most of our employees were located in China. We offered our staff with competitive remuneration schemes. In addition, discretionary bonuses will be paid to staff based on individual and our performance. We are committed to nurturing a learning culture in our organization. Total staff costs for 2010 amounted to RMB441.6 million, representing an increase of 53.7% compared with RMB287.4 million in 2009.

Proposed Final Dividend

The Board had resolved to recommend the payment of a final dividend of HK\$0.18 per share for the financial year ended 31 December 2010 which is expected to be paid on or before 17 May 2011 to our shareholders whose names appear on the register of members at the close of business on 9 May 2011, subject to final approval at the Annual General Meeting of the Company.

Closure of Register of Members

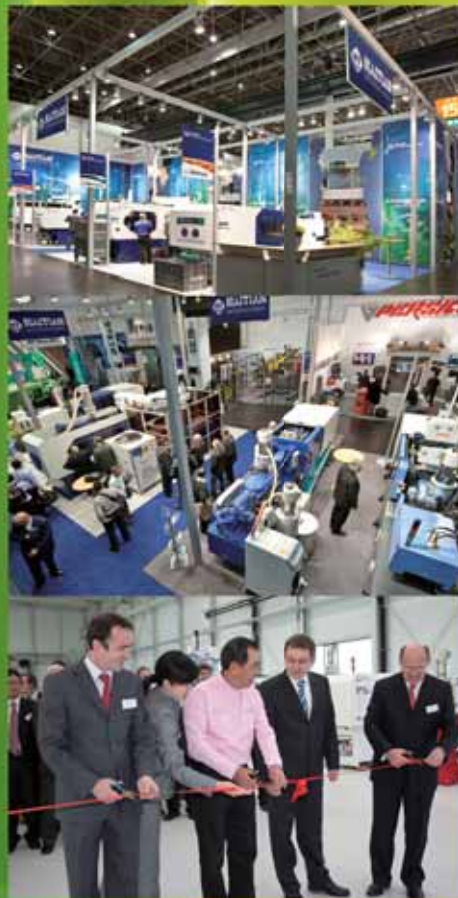
The register of members of the Company will be closed from 4 May 2011 to 9 May 2011 (both days inclusive). During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with 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 3 May 2011.

Zhang Jianming

Chief Executive Officer

31 March 2011

Directors and Senior Management



Directors and Senior Management



Executive Directors

Mr. Zhang Jingzhang (張靜章), aged 74, 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 40 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 Affairs 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) and 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.

Directors and Senior Management



Mr. Zhang Jianming (張劍鳴), aged 48, 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 61, 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.

Directors and Senior Management



Mr. Zhang Jianguo (張建國), aged 55, 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 35 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 contributed to 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 41, 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 25 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.

Directors and Senior Management



Mr. Guo Mingguang (郭明光), aged 44, 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 25 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 48, 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 42, 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.

Directors and Senior Management

Non-Executive Director

Mr. Hu Guiqing (胡桂青), aged 70, 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 65, 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 64, 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).

Directors and Senior Management

Mr. Dai Xiangbo (戴祥波), aged 48, 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 66, 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 41, 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 had been serving as the executive assistant to the chief executive officer of the Group between 2004 and 2010.

Bei Haibo (貝海波), aged 44, is the general manager of Haitian Heavywork business department. Mr. Bei joined the Group in January 1983 and has more than 25 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.

Chen Weiqun (陳蔚群), aged 39, is 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.

Directors and Senior Management

Shi Huajun (施華均), aged 39, 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.

Suen Waiyu (孫懷宇), aged 33, was appointed as the Company Secretary of the Company in November 2010. Mr. Suen graduated from the University of Hong Kong with a bachelor degree in laws in 2000 and he is a solicitor admitted to practice laws in Hong Kong. Prior to joining the Group, Mr. Suen was previously working in an international law firm advising companies on corporate transactions, capital market transactions and listing companies compliance related work.

Corporate Governance Report



Corporate Governance Report

Haitian International Holdings Limited (the “Company”) recognises the importance of good corporate governance to its healthy growth and has therefore 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 2010.

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.



Corporate Governance 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.

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 2010, 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 (<i>Chairman</i>)	4/4
Mr. Zhang Jianming	4/4
Professor Helmut Helmar Franz	4/4
Mr. Zhang Jianguo	4/4
Mr. Zhang Jianfeng	4/4
Mr. Guo Mingguang	4/4
Ms. Chen Ningning	4/4
Mr. Liu Jianbo	4/4

Non-executive Director

Mr. Hu Guiqing	2/4
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Independent Non-executive Directors

Mr. Pan Chaoyang	4/4
Mr. Gao Xunxian	4/4
Mr. Dai Xiangbo	3/4
Dr. Steven Chow	3/4

Corporate Governance Report

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 2010.

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 2010, 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 2010.

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 2010, there was one meeting held by the Remuneration Committee 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 2010, 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.

Corporate Governance Report

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 41.

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. All votings at the annual general meeting will be conducted by poll and 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

15 March 2011	—	Result Announcement of 2010
4 – 9 May 2011	—	Closure of register of members
11 May 2011	—	Annual General Meeting
17 May 2011	—	Paid date of Proposed
or before		Final dividend

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2010:
1,596,000,000 shares

Market Capitalisation as at 31 December 2010:
HK\$12,944 million

Earnings per share for 2010: RMB0.67

Dividend per share for 2010

Interim dividend HK15.0 cents

Proposed final dividend HK18.0 cents

Total HK33.0 cents

Hong Kong Share Registrar Transfer Office

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



Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2010.

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(a) to the financial statements. An 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 45. The directors declared an interim dividend of HK15.0 cents per share, totalling RMB208,853,000 which was paid on 22 September 2010. The directors recommended the payment of a final dividend of HK18.0 cents per share, totalling approximately RMB242,163,000.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 15 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to RMB1,222,000.

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 14 to the financial statements.

Report of the Directors

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB1,924.3 million as at 31 December, 2010. 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 2010 and for the previous four financial years are set out on page 100.

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 referred 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 2010, 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.

Report of the Directors

(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.

Report of the Directors

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
Prof. Helmut Helmar Franz
Mr. Zhang Jianfeng
Mr. Zhang Jianguo
Mr. Guo Mingguang
Ms. Chen Ningning
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, Prof. Helmut Helmar Franz, Ms. Chen Ningning, Mr. Hu Guiqing and Mr. Pan Chaoyang will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

Directors' Service Contracts

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

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year excepted as disclosed under Connected Transactions stated below and note 35 to the financial statements.

Report of the Directors

Biographical Details of Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 17 to 23.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2010, 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⁾	1,036,853,370	64.97%
Mr. Zhang Jianming	Corporate Interest ⁽¹⁾	1,036,853,370	64.97%
	Personal Interest	7,642,000	0.48%
Mr. Zhang Jianguo	Personal Interest	312,000	0.02%
Ms. Chen Ningning	Personal Interest	600,000	0.04%
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 1,036,853,370 shares of the Company held by Sky Treasure Capital Limited.

Report of the Directors

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 2010, Sky Treasure is the holder of 64.97% 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 14.17% and 40.64% 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 14.17% shares of Sky Treasure.

Report of the Directors

Save as disclosed above, as at 31 December 2010, 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 2010, 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	1,036,853,370 (L)	64.97%
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation ⁽¹⁾	1,036,853,370 (L)	64.97%

(L) denotes a long position

Note:

(1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 1,036,853,370 shares held by Sky Treasure Capital Limited as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, 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.

Report of the Directors

Management Contracts

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

Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year. None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these 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 2010.

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

Connected Transactions

On 8 January 2010, the Group entered into machinery equipment purchase agreement with Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, all executive Directors of the Company, pursuant to which the Group purchased certain CNC turning machines and machining centres ("CNC Machines") manufactured by Haitian Precision for an aggregate consideration of RMB99,655,000. 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 8 January 2010.

Report of the Directors

Continuing Connected Transactions

Certain related party transactions as disclosed in note 35 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant information had been disclosed in the Company's announcement dated 20 January 2009.

Purchase of servo systems

On 20 January 2009, the Group entered into the Servo System Purchase Framework Agreement with Ningbo Haitian Drive Systems Co., Ltd. (formerly known as Ningbo Haitian Electric Machinery Co., Ltd.) ("HEM") relating to the purchase of servo systems for a term commencing from the 20 January 2009 and ending on 31 December 2011, whereby the Group agreed to purchase servo system from HEM or its related companies at the price no less favourable than the terms at which HEM offers to independent third parties for the same or similar products. HEM was an associate of Mr. Zhang Jingzhang and Mr. Zhang Jianming, each of them an executive director of the Company and therefore are connected persons by virtue of Rule 14A.11(4) of the Listing Rules.

During the year, the Group's purchase of servo systems from HEM amounted to RMB437.0 million.

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his conclusions in respect of the continuing connected transactions disclosed by the Group in page 97 of the annual report in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Report of the Directors

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, 34.5% of the issued share capital of the Company was held by the public.

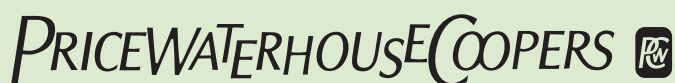
On behalf of the Board

Zhang Jianming

Chief Executive Officer

31 March 2011

Independent Auditor's Report



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 42 to 99, which comprise the consolidated and Company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 31 March 2011

Consolidated Balance Sheet

As at 31 December 2010
(Amounts expressed in RMB)

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	236,703	137,796
Property, plant and equipment	6	1,349,737	1,158,459
Intangible assets	7	3,501	5,601
Investment in an associate	9	3,074	1,589
Deferred income tax assets	20	34,498	37,131
		1,627,513	1,340,576
Current assets			
Inventories	10	1,263,230	940,162
Trade and bills receivables	11	1,697,043	1,251,591
Prepayments, deposits and other receivables	12	228,779	379,766
Pledged bank deposits	13	353,954	138,030
Cash and cash equivalents	13	2,016,748	1,696,118
		5,559,754	4,405,667
Total assets		7,187,267	5,746,243
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	14	160,510	160,510
Reserves	15	3,873,703	3,163,877
Total equity		4,034,213	3,324,387

Consolidated Balance Sheet (Continued)

As at 31 December 2010
(Amounts expressed in RMB)

	Note	2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	19	41,892	13,188
Deferred income tax liabilities	20	56,909	14,682
		98,801	27,870
Current liabilities			
Trade and bills payables	16	1,688,602	1,530,590
Accruals and other payables	17	959,163	601,076
Current income tax liabilities		61,428	25,132
Bank borrowings	18	345,060	237,188
		3,054,253	2,393,986
Total liabilities		3,153,054	2,421,856
Total equity and liabilities		7,187,267	5,746,243
Net current assets		2,505,501	2,011,681
Total assets less current liabilities		4,133,014	3,352,257

The accompanying notes on pages 42 to 99 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 31 March 2011 and were signed on its behalf by:

Zhang Jianming
Director

Chen Ningning
Director

Balance Sheet

As at 31 December 2010
(Amounts expressed in RMB)

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	8(a)	778,077	778,077
Due from subsidiaries	8(b)	919,108	950,239
		1,697,185	1,728,316
Current assets			
Due from subsidiaries	8(c)	818,081	35,303
Cash and cash equivalents	13	35	657
		818,116	35,960
Total assets		2,515,301	1,764,276
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital	14	160,510	160,510
Reserves	15	1,924,345	1,509,804
Total equity		2,084,855	1,670,314
LIABILITIES			
Current liabilities			
Due to subsidiaries	8(c)	429,681	93,180
Other payables		765	782
Total liabilities		430,446	93,962
Total equity and liabilities		2,515,301	1,764,276
Net current assets/(liabilities)		387,670	(58,002)
Total assets less current liabilities		2,084,855	1,670,314

The accompanying notes on pages 42 to 99 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 31 March 2011 and were signed on its behalf by:

Zhang Jianming
Director

Chen Ningning
Director

Consolidated Income Statement

For the year ended 31 December 2010

(Amounts expressed in RMB)

	Note	2010 RMB'000	2009 RMB'000
Revenue	21	7,057,328	3,861,341
Cost of sales	22	(4,923,817)	(2,862,617)
Gross profit		2,133,511	998,724
Selling and marketing expenses	22	(566,221)	(333,370)
General and administrative expenses	22	(290,259)	(207,639)
Other income	23	23,913	23,812
Other (losses)/gains — net	24	(29,168)	18,927
Operating profit		1,271,776	500,454
Finance income	27	27,949	21,115
Finance costs	27	(7,977)	(8,901)
Finance income — net	27	19,972	12,214
Share of profit of an associate	9	1,316	322
Profit before income tax		1,293,064	512,990
Income tax expense	28	(230,505)	(62,964)
Profit for the year		1,062,559	450,026
Attributable to:			
Equity holders of the Company		1,062,559	450,026
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
— basic	30	0.67	0.28
Dividends	31	451,016	182,547

The accompanying notes on pages 42 to 99 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Amounts expressed in RMB)

	2010 RMB'000	2009 RMB'000
Profit for the year	1,062,559	450,026
Other comprehensive income:		
Currency translation differences	(3,501)	5,743
Total comprehensive income for the year	1,059,058	455,769
Total comprehensive income attributable to:		
Equity holders of the Company	1,059,058	455,769

The accompanying notes on pages 42 to 99 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Amounts expressed in RMB)

	Note	Attributable to equity holders of the Company		Total equity RMB'000
		Share capital (Note 14) RMB'000	Reserves (Note 15) RMB'000	
Balance at 1 January 2009		160,510	2,792,492	2,953,002
Comprehensive income				
Profit for the year		—	450,026	450,026
Other comprehensive income				
Currency translation differences		—	5,743	5,743
Total comprehensive income for the year ended 31 December 2009		—	455,769	455,769
Transactions with owners				
Dividends paid				
— 2008 final		—	(42,216)	(42,216)
— 2009 interim	31	—	(42,168)	(42,168)
Total transactions with owners		—	(84,384)	(84,384)
Balance at 31 December 2009		160,510	3,163,877	3,324,387
Balance at 1 January 2010		160,510	3,163,877	3,324,387
Comprehensive income				
Profit for the year		—	1,062,559	1,062,559
Other comprehensive income				
Currency translation differences		—	(3,501)	(3,501)
Total comprehensive income for the year ended 31 December 2010		—	1,059,058	1,059,058
Transactions with owners				
Dividend paid				
— 2009 final	31	—	(140,379)	(140,379)
— 2010 interim	31	—	(208,853)	(208,853)
Total transactions with owners		—	(349,232)	(349,232)
Balance at 31 December 2010		160,510	3,873,703	4,034,213

The accompanying notes on pages 42 to 99 are an integral part of these financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December 2010

(Amounts expressed in RMB)

	Note	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	1,213,948	812,827
Interest paid		(8,802)	(5,964)
Income tax paid		(140,168)	(20,442)
Net cash generated from operating activities		1,064,978	786,421
Cash flows from investing activities			
Purchase of property, plant and equipment		(278,454)	(156,124)
Prepayment for purchase of land use rights		—	(51,299)
Purchase of land use rights		(38,433)	—
Payment for increase in investment in an associate		(169)	(625)
Interest received from banks		19,620	26,782
Interest received from other loans		5,400	1,268
Proceeds from disposal of land use rights	32(b)	—	116,137
Proceeds from disposal of property, plant and equipment	32(c)	3,960	35,027
Net cash used in investing activities		(288,076)	(28,834)
Cash flows from financing activities			
Proceeds from bank borrowings		275,227	167,355
Repayments of bank borrowings		(167,355)	(242,520)
Payment of bank deposits for securing bank borrowings		(214,912)	(137,000)
Dividends paid to the Company's equity holders	31	(349,232)	(84,384)
Net cash used in financing activities		(456,272)	(296,549)
Net increase in cash and cash equivalents		320,630	461,038
Cash and cash equivalents at beginning of year	13	1,696,118	1,235,080
Cash and cash equivalents at end of year	13	2,016,748	1,696,118

The accompanying notes on pages 42 to 99 are an integral part of these 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 Cricket Square, Hutchins Drive, PO Box 2681, 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. They have been approved for issue by the Company’s Board of Directors on 31 March 2011.

2. Summary of Significant Accounting Policies

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

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial statements 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. 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 expensed. The adoption of this revised standards has no impact on the Group and the Company financial statements, as there was no business combination for the year ended 31 December 2010.

- HKAS 27 (revised) 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. HKAS 27 (revised) has had no impact on the current year, as there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.
- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term. The adoption of HKAS 17 (amendment) has no impact to the Group and the Company financial statements.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

- (b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

		Effective for annual periods beginning on or after
HK(IFRIC) 17	Distribution of non-cash assets to owners	1 July 2009
HK(IFRIC) 18	Transfers of assets from customers	1 July 2009
HK(IFRIC) 9	Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement	1 July 2009
HK(IFRIC) 16	Hedges of a net investment in a foreign operation	1 July 2009
HKFRS 5 (amendment)	Non-current assets held for sale and discontinued operations	1 July 2009
HKAS 36 (amendment)	Impairment of assets	1 January 2010
HKAS 38 (amendment)	Intangible assets	1 January 2010
HKFRS 2 (amendment)	Group cash-settled share-based payment transactions	1 January 2010
HKAS 1 (amendment)	Presentation of financial statements	1 January 2011

- (c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
Amendments to HKAS 32	Classification of rights issues	1 February 2010
HK (IFRIC) — Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010
HKAS 24 (revised)	Related party disclosures	1 January 2011
Amendments to HK (IFRIC) — Int 14	Prepayments of a minimum funding requirement	1 January 2011
HKAS 12 (amendment)	Deferred tax : Recovery of underlying assets	1 January 2012
HKFRS 9	Financial instruments	1 January 2013

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(c) **New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted (Continued)**

Apart from the above, the HKICPA has issued the third annual improvements project (2010) in May 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wordings. The Group has not applied the following revised HKFRSs published in the third annual improvements project.

		Effective for annual periods beginning on or after
HKFRS 3 (revised)	Business combinations	1 July 2010
HKAS 27	Consolidated and separate financial statements	1 July 2010
HKFRS 1	First time adoption of International Financial Reporting Standards	1 January 2011
HKFRS 7	Financial instruments: Disclosure	1 January 2011
HKAS 1	Presentation of financial statements	1 January 2011
HKAS 34	Interim financial reporting	1 January 2011
HK (IFRIC) — Int 13	Customer loyalty programmes	1 January 2011

The Group is in the process of making assessment of the impact of those new or revised HKFRSs upon initial adoption. However, it is not expected that the adoption of these new or revised HKFRSs will have a significant impact on the Group or the Company's financial statements.

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.8 for the impairment of non-financial assets including goodwill.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions. The executive committee comprises all executive directors and top management.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

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)/gains — net'.

(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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

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.

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:

Buildings	30 years
Plant and machinery	10-15 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)/gains — 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

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 its 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;
- 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 impairment are reviewed for possible reversal of impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

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 for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.12 and 2.13).

Regular 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.

2.10 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.10 Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.11 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.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.13 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.

2.14 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.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.19 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.

2.20 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.

2.21 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.22 Revenue recognition (Continued)

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 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.

(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 and the Company'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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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. Its 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.

(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 ("USD"), Euro, Brazilian Real, Hong Kong dollars ("HKD"). The exchange rate of HKD is pegged to USD. 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.

As at 31 December 2010, if RMB had strengthened/weakened by 3.2% (2009: 0.1%) against the USD and HKD with all other variables held constant, profit before income tax would have been approximately RMB 4,046,000 (2009: RMB357,000) lower/higher mainly as a result of foreign exchange difference on translation of USD and HKD denominated trade receivables, cash and cash equivalents, trade payables and bank borrowings.

As at 31 December 2010, if RMB had strengthened/weakened by 10.1% (2009: 1.4%) against the Euro with all other variables held constant, profit before income tax would have been approximately RMB14,780,000 (2009: RMB2,145,000) lower/higher mainly as a result of foreign exchange difference on translation of Euro denominated trade receivables, cash and cash equivalents and trade payables.

The Group also has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Most of the Group's net assets of the foreign operations are denominated in Euro and Brazilian Real. As at 31 December 2010, the net assets denominated in Euro and Brazilian Real are approximately RMB111,147,175 (2009: RMB46,172,000) and RMB 159,891,962 (2009: RMB19,237,000) respectively. All translation exchanges differences are recognised as translation differences in equity.

As at 31 December 2010, if RMB had strengthened/weakened by 10.1% (2009: 1.4%) against the Euro with all other variables held constant, the translation differences would have been approximately RMB 11,225,865 (2009: RMB803,000) lower/higher.

As at 31 December 2010, if RMB had strengthened/weakened by 1.2% (2009: 34.0%) against the Brazilian Real with all other variables held constant, the translation differences would have been approximately RMB 1,948,957 (2009: RMB6,740,000) lower/higher.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Cash flow and fair value interest rate risk

Except for bank deposits and loans to distributors and suppliers, 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 2010, if interest rates on USD — denominated borrowings had been 0.20 percentage-point (2009: 1.04 percentage-point) higher/lower with all other variables held constant, profit before income tax would have been RMB273,000 (2009: RMB1,635,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2010, if interest rates on Japanese Yen — denominated borrowings had been 0.03 percentage-point (2009: 0.5 percentage-point) higher/lower with all other variables held constant, profit before income tax would have been RMB24,000 (2009: RMB127,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2010, if interest rates on HKD — denominated borrowings had been 0.03 percentage-point (2009: nil) higher/lower with all other variables held constant, profit before income tax would have been RMB25,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

The Group has policy in place to ensure credit sales are made to customers with 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, and limits the amount of credit exposure to any financial institution. As at 31 December 2010, most of the pledged bank deposits and cash and cash equivalents are placed with major financial institutions in Mainland China.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk

Prudent liquidity risk management implies maintaining 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.

	2010 Within 1 year RMB'000	2009 Within 1 year RMB'000
Borrowings (i)	348,267	238,098
Trade and other payables	2,635,634	2,120,229
	2,983,901	2,358,327

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 December 2010 and 2009, 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 2010 and 2009.

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 2010, the Group was in a net cash position (total borrowings were less than the total of pledged bank deposits and cash and cash equivalents).

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

The gearing ratio was as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Total borrowings (Note 18)	345,060	237,188
Total equity	4,034,213	3,324,387
Gearing ratio	9%	7%

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

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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.

Management judgement is required in the area of asset impairment particularly in assessing : (i) whether an event has occurred that may indicate 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

4. Critical Accounting Estimates and Judgements (Continued)

(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. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

(f) 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:

	2010 RMB'000	2009 RMB'000
At beginning of year		
Cost	150,453	259,029
Accumulated amortisation	(12,657)	(10,046)
Net book amount	137,796	248,983
Opening net book amount	137,796	248,983
Additions	103,732	—
Disposals	—	(107,701)
Amortisation	(4,825)	(3,486)
Closing net book amount	236,703	137,796
At end of year		
Cost	254,185	150,453
Accumulated amortisation	(17,482)	(12,657)
Net book amount	236,703	137,796

Majority of the Group's land use rights are located in Mainland China. As at 31 December 2010, the remaining period of land use rights ranges from 23 to 50 years (2009: 24 to 49 years).

Amortisation has been included in general and administrative expenses.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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 2009						
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
Year ended 31 December 2009						
Opening net book amount	515,957	368,045	52,781	26,847	172,268	1,135,898
Exchange differences	534	25	108	145	—	812
Additions	29,769	27,335	4,745	2,879	70,791	135,519
Transfers	106,658	58,276	—	—	(164,934)	—
Disposals	(1,400)	(120)	(627)	(3,235)	(30,357)	(35,739)
Depreciation	(19,091)	(36,788)	(15,358)	(6,794)	—	(78,031)
Closing net book amount	632,427	416,773	41,649	19,842	47,768	1,158,459
At 31 December 2009						
Cost	767,757	763,675	107,375	46,665	47,768	1,733,240
Accumulated depreciation	(135,330)	(346,902)	(65,726)	(26,823)	—	(574,781)
Net book amount	632,427	416,773	41,649	19,842	47,768	1,158,459
Year ended 31 December 2010						
Opening net book amount	632,427	416,773	41,649	19,842	47,768	1,158,459
Exchange differences	(8,453)	(79)	4	(395)	—	(8,923)
Additions	15,133	90,421	17,940	5,300	159,089	287,883
Transfers	3,383	14,636	—	3,464	(21,483)	—
Disposals	—	(2,368)	(467)	(1,066)	—	(3,901)
Depreciation	(22,828)	(42,347)	(13,312)	(5,294)	—	(83,781)
Closing net book amount	619,662	477,036	45,814	21,851	185,374	1,349,737
At 31 December 2010						
Cost	777,341	852,416	122,126	50,187	185,374	1,987,444
Accumulated depreciation	(157,679)	(375,380)	(76,312)	(28,336)	—	(637,707)
Net book amount	619,662	477,036	45,814	21,851	185,374	1,349,737

* Freehold land is located in Germany. It is stated at cost of RMB4,102,000 (2009: RMB4,564,000) and is not subject to depreciation.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

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

	2010 RMB'000	2009 RMB'000
Cost of sales	58,728	43,804
General and administrative expenses	20,542	29,241
Selling and marketing expenses	4,511	4,986
	83,781	78,031

7. Intangible Assets — Group

Intangible assets consist of technology know-how.

	2010 RMB'000	2009 RMB'000
At beginning of year		
Cost	10,501	10,501
Accumulated amortisation	(4,900)	(2,800)
Net book amount	5,601	7,701
Opening net book amount	5,601	7,701
Amortisation	(2,100)	(2,100)
Closing net book amount	3,501	5,601
At end of year		
Cost	10,501	10,501
Accumulated amortisation	(7,000)	(4,900)
Net book amount	3,501	5,601

Amortisation has been included in general and administrative expenses.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

8. Investments in and Loans to Subsidiaries — Company

(a) Investments in subsidiaries

	2010 RMB'000	2009 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 2010:

Name	Place of incorporation and kind of legal entity	Paid up capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Guo Hua Limited	British Virgin Islands (“BVI”), limited liability company	USD50,000	100%	—	Investment holding, BVI
Guo Hua Enterprises Group Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and machinery accessories, Hong Kong
Haitian Europe S.p.A	Italy, limited liability company	EURO100,000	—	100%	Sale of plastic injection moulding machines, Italy
Haitian Europe GmbH	Germany, limited liability company	EURO 25,000	—	100%	Sale of plastic injection moulding machines, Germany
Haitian Guohua (Dalian) Plastic Processing Machinery Co., Ltd. (海天國華(大連)塑料機械有限公司)	Mainland China, foreign equity joint venture	USD13,991,269	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD 779,999	—	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	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
Huayuan (Vietnam) Machinery Co., Ltd.	Vietnam, limited liability company	VND22,800,000,000	—	100%	Manufacture, processing and maintaining all kinds of plastic injection moulding machines, Vietnam
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

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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		Principal activities and place of operations
			Direct	Indirect	
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
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. ("Haitian Sales") (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 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. ("Haitian Technology") (寧波海天科技有限公司)	Mainland China, foreign equity joint venture	USD85,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Zhafir Plastics Machinery Co., Ltd. ("Ningbo Zhafir") (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 2010 (2009: 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.

In January 2011, Haitian Heavywork, Haitian Sales, Haitian Shili and Haitian Technology, were merged with Haitian Plastic Machinery, after which, Haitian Heavywork, Haitian Sales, Haitian Shili and Haitian Technology, have been dissolved.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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, non-interest bearing and denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
HKD	915,436	907,969
USD	3,672	42,270
	919,108	950,239

(c) Due from/(to) subsidiaries

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

Due to subsidiaries are all denominated in HKD and due from subsidiaries are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
HKD	785,000	400
Euro	32,404	33,530
USD	677	1,373
	818,081	35,303

9. Investment in an Associate — Group

	2010 RMB'000	2009 RMB'000
Beginning of the year	1,589	642
Acquisition of additional interest	169	625
Share of profit	1,316	322
End of the year	3,074	1,589

Investment in an associate at 31 December 2010 includes goodwill of RMB186,000 (2009: RMB225,000).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

9. Investment in an Associate — Group (Continued)

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

	2010 RMB'000	2009 RMB'000
Assets	3,699	2,297
Liabilities	811	933
Sales	4,934	2,011
Profit for the year	1,316	322

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

Name	Place of incorporation and kind of legal entity	Paid up capital	Attributable indirect equity interest to the Company	Principal activities and place of operation
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang") (杭州科强智能控制系统有限公司)	Mainland China, limited liability company	RMB1,735,000	49% (2009: 44%)	Manufacture and sale of intelligence control system in Mainland China

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. Inventories — Group

	2010 RMB'000	2009 RMB'000
Raw materials	653,008	496,656
Work-in-progress	153,168	182,107
Finished goods	457,054	261,399
	1,263,230	940,162

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB4,910,671,000 (2009: RMB2,841,929,000).

In 2010, the Group recorded reversal of write-down of inventories of approximately RMB6,277,000 (2009: provision for write-down of inventories of RMB20,688,000). This amount has been included in cost of sales.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

11. Trade and Bills Receivables — Group

	2010 RMB'000	2009 RMB'000
Trade and bills receivables	1,726,094	1,266,028
Less: provision for impairment	(29,051)	(14,437)
	1,697,043	1,251,591

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

As at 31 December 2010, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivables (2009: 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 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:

	2010 RMB'000	2009 RMB'000
Up to 6 months	1,520,486	1,148,360
6 months to 1 year	136,837	67,523
1 year to 2 years	51,293	38,744
Over 2 years	17,478	11,401
	1,726,094	1,266,028

As at 31 December 2010, trade receivables of RMB 7,246,000 (2009: RMB5,115,000) 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 ageing analysis of these trade receivables is as follows:

	2010 RMB'000	2009 RMB'000
Up to 6 months	3,530	2,043
6 months to 1 year	207	—
1 year to 2 years	1,263	848
Over 2 years	2,246	2,224
	7,246	5,115

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

11. Trade and Bills Receivables — Group (Continued)

As at 31 December 2010, trade receivables of approximately RMB58,114,000 (2009: RMB26,103,000) were impaired, with the amount of the related provision of RMB29,051,000 (2009:RMB14,437,000). The individually impaired receivables mainly relate to customers with different credit history. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2010 RMB'000	2009 RMB'000
Up to 6 months	616	217
6 months to 1 year	—	6
1 year to 2 years	42,266	16,703
Over 2 years	15,232	9,177
	58,114	26,103

Trade and bills receivables are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
RMB	1,272,627	996,136
USD	271,213	186,101
Brazilian Real	120,152	54,748
Euro	58,317	22,978
Others	3,785	6,065
	1,726,094	1,266,028

Movements of the provision for impairment of trade receivables are:

	2010 RMB'000	2009 RMB'000
At 1 January	14,437	19,948
Provision for trade receivables	16,110	3,297
Written off as uncollectible	(1,496)	(8,808)
At 31 December	29,051	14,437

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

11. Trade and Bills Receivables — Group (Continued)

The creation 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.

As at 31 December 2010, the maximum exposure to credit risk is the fair value of trade and bills receivables.

12. Prepayments, Deposits and Other Receivables — Group

	2010 RMB'000	2009 RMB'000
Loans to distributors	—	2,800
Loans to suppliers	—	12,000
Advances to construction contractors	—	10,000
Advances to customers (i)	954	4,692
Prepayments and deposits		
— for purchases of raw materials	173,277	241,768
— for purchases of land use rights	—	65,299
— others	6,907	4,218
Value Added Tax recoverable	12,461	15,860
Prepaid current income tax	411	3,642
Receivables from employees	24,899	6,347
Interest receivables	6,781	3,852
Due from related parties	2,157	1,341
Others	932	7,947
	228,779	379,766

Note:

(i) 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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

13. Pledged Bank Deposits and Cash and Cash Equivalents

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Pledged bank deposits	353,954	138,030	—	—
Cash at bank and in hand	1,443,233	1,056,242	35	657
Short-term bank deposits	573,515	639,876	—	—
Cash and cash equivalents	2,016,748	1,696,118	35	657
	2,370,702	1,834,148	35	657

Pledged bank deposits are related to the secured bank borrowings (Note 18), the banking facilities granted by banks to certain customers, and the finance facilities for issuing 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 2010, the weighted average effective interest rate on pledged bank deposits and cash and cash equivalents of the Group is 1.1% (2009: 1.0%) per annum.

The pledged bank deposits have maturities of 12 months at inception (2009: 12 months). The short-term bank deposits have maturities of ranging from 7 days to 12 months at inception (2009: ranging from 7 days to 12 months).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

13. 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	2,193,354	1,534,036	—	—
USD	109,903	232,073	—	624
Euro	50,141	54,360	1	—
HKD	3,166	1,355	34	33
Brazilian Real	13,437	12,287	—	—
Others	701	37	—	—
	2,370,702	1,834,148	35	657

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.

14. Share Capital

	Authorised share capital		
	Number of shares '000	Amount HKD'000	RMB'000
As at 31 December 2009 and 2010 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

	Issued and fully paid up		
	Number of shares '000	Amount HKD'000	RMB'000
As at 31 December 2009 and 2010 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

15. Reserves

Group

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 <i>(note i)</i>	Translation differences RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2009	1,331,913	152,573	263,466	(11,369)	1,055,909	2,792,492
Profit for the year	—	—	—	—	450,026	450,026
Appropriations	—	—	1,132	—	(1,132)	—
Effect of liquidation of a subsidiary	—	—	(14,267)	—	14,267	—
Dividend paid						
— 2008 final	—	—	—	—	(42,216)	(42,216)
— 2009 interim <i>(Note 31)</i>	—	—	—	—	(42,168)	(42,168)
Currency translation differences	—	—	—	5,743	—	5,743
At 31 December 2009	1,331,913	152,573	250,331	(5,626)	1,434,686	3,163,877
Profit for the year	—	—	—	—	1,062,559	1,062,559
Appropriations	—	—	20,115	—	(20,115)	—
Dividend paid						
— 2009 final <i>(Note 31)</i>	—	—	—	—	(140,379)	(140,379)
— 2010 interim <i>(Note 31)</i>	—	—	—	—	(208,853)	(208,853)
Currency translation differences	—	—	—	(3,501)	—	(3,501)
At 31 December 2010	1,331,913	152,573	270,446	(9,127)	2,127,898	3,873,703

(i) 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 the rate of 10% of net profit, or at the discretion of the board of directors of the respective subsidiaries.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

15. Reserves (Continued)

Group (Continued)

(i) 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 2009	41,220	556	123,534	98,156	263,466
Additions	1,132	—	—	—	1,132
Effect of liquidation of a subsidiary	(14,267)	—	—	—	(14,267)
At 31 December 2009	28,085	556	123,534	98,156	250,331
Additions	1,047	—	19,068	—	20,115
At 31 December 2010	29,132	556	142,602	98,156	270,446

Company

	Share premium RMB'000	Contributed surplus RMB'000 (note ii)	(Accumulated losses)/retained earning RMB'000	Total RMB'000
At 1 January 2009	1,331,913	399,173	(134,779)	1,596,307
Loss for the year	—	—	(2,119)	(2,119)
Dividend paid				
— 2008 final	—	(42,216)	—	(42,216)
— 2009 interim (Note 31)	—	(42,168)	—	(42,168)
At 31 December 2009	1,331,913	314,789	(136,898)	1,509,804
Profit for the year	—	—	763,773	763,773
Dividend paid				
— 2009 final (Note 31)	—	—	(140,379)	(140,379)
— 2010 interim (Note 31)	—	—	(208,853)	(208,853)
At 31 December 2010	1,331,913	314,789	277,643	1,924,345

(ii) 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 subject to a solvency test.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

16. Trade and Bills Payables — Group

	2010 RMB'000	2009 RMB'000
Trade payables	887,987	543,793
Bills payable	699,760	938,963
Trade and bills payables	1,587,747	1,482,756
Due to related parties (<i>Note 35(b)</i>)	100,855	47,834
	1,688,602	1,530,590

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

	2010 RMB'000	2009 RMB'000
Up to 6 months	1,686,195	1,527,373
6 months to 1 year	350	2,289
1 year to 2 years	1,637	570
Over 2 years	420	358
	1,688,602	1,530,590

Trade and bills payables are denominated in the following currencies:

	2010 RMB'000	2009 RMB'000
RMB	1,638,384	1,481,414
USD	19,391	15,735
EURO	28,706	31,163
HKD	802	2,156
Others	1,319	122
	1,688,602	1,530,590

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

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

17. Accruals and Other Payables — Group

	2010 RMB'000	2009 RMB'000
Welfare payables	88,817	90,044
Salaries, wages and bonus payables	77,718	50,189
Sales commission and after-sales service expenses payables	303,112	208,946
Customers deposits	406,297	192,633
Payable for purchase of property, plant and equipment and land use rights	16,603	7,174
Accrued operating expenses	13,902	10,639
Value Added Tax payables	23,382	13,907
Deferred income — current portion (Note 19)	12,131	11,437
Other payables	17,201	16,107
	959,163	601,076

The fair values of accruals and other payables approximate their carrying amounts, as the impact of discounting is not significant.

18. Bank Borrowings — Group

	2010 RMB'000	2009 RMB'000
At floating rate in USD	131,129	137,355
At floating rate in HKD	136,149	—
At floating rate in Japanese Yen	77,782	69,833
At fixed rate in RMB	—	30,000
	345,060	237,188

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

	2010	2009
USD	2.1%	1.3%
HKD	2.1%	—
Japanese Yen	1.4%	1.4%
RMB	—	2.8%

The fair values of short-term borrowings approximate their carrying amounts.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

18. Bank Borrowings — Group (Continued)

As at 31 December 2010, bank borrowings of approximately RMB 345,060,000 were secured by the pledged bank deposits of RMB351,912,000 (2009: RMB 137,355,000 secured by the pledged bank deposits of RMB 137,000,000)(Note 13).

As at 31 December 2009, bank borrowings of approximately RMB69,833,000 were guaranteed by the Company, and of RMB30,000,000 were secured by commercial acceptance bills.

19. Deferred Income — Group

	2010 RMB'000	2009 RMB'000
Deferred government grants	54,023	24,625
Less: Current portion included in current liabilities (Note 17)	(12,131)	(11,437)
	41,892	13,188

Movements are as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	24,625	22,650
Granted during the year	31,516	3,756
Amortised as income (Note 23)	(2,118)	(1,781)
At 31 December	54,023	24,625

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

20. Deferred Income Tax — Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2010 RMB'000	2009 RMB'000
Deferred income tax assets to be recovered within 12 months	34,498	37,131
Deferred income tax liabilities to be settled after more than 12 months	48,233	8,676
Deferred income tax liabilities to be settled within 12 months	8,676	6,006
	56,909	14,682

The movements in deferred income tax assets during the year 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 2009	22,691	3,387	7,413	210	33,701
Recognised in the consolidated income statement	2,562	(384)	1,146	106	3,430
At 31 December 2009	25,253	3,003	8,559	316	37,131
Recognised in the consolidated income statement	(2,380)	(3,003)	2,925	(175)	(2,633)
At 31 December 2010	22,873	—	11,484	141	34,498

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 RMB31,318,000 (2009: RMB23,015,000) in respect of losses amounting to RMB120,365,000 (2009: RMB91,482,000) that can be carried forward against future taxable income. Cumulative tax losses of RMB99,792,000 (2009: RMB66,481,000) can be carried forward indefinitely; while cumulative tax losses of RMB20,573,000 (2009: RMB25,001,000) will expire within five years.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

20. Deferred Income Tax — Group (Continued)

The movements in deferred income tax liabilities during the year are as follows:

	Withholding tax RMB'000	Temporary differences in respect of receivables RMB'000	Total RMB'000
At 1 January 2009	—	—	—
Recognised in the consolidated income statement	11,004	3,210	14,214
Exchange differences	—	468	468
At 31 December 2009	11,004	3,678	14,682
Recognised in the consolidated income statement	46,402	1,775	48,177
Transferred to tax payable	(6,006)	—	(6,006)
Exchange differences	—	56	56
At 31 December 2010	51,400	5,509	56,909

Withholding tax is levied on dividends to be declared to foreign investors from the foreign investment enterprises established in Mainland China, in respect of earnings after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, a company incorporated in Hong Kong and accordingly is subject to 5% withholding tax.

As at 31 December 2010, deferred income tax liabilities of RMB54,670,000 (2009: RMB43,069,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are expected to be permanently reinvested in Mainland China. Unremitted earnings totaled RMB1,093,398,000 at 31 December 2010 (2009: RMB861,387,000).

21. Sales and Segment Information

	2010 RMB'000	2009 RMB'000
Sales of plastic injection moulding machines and related products	7,057,328	3,861,341

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and senior management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker has determined that no segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines, and over 90% of the Group's productions and operating assets are located in Mainland China, which is considered as one segment with similar risks and returns.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

21. Sales and Segment Information (Continued)

The Group is domiciled in Mainland China. Analysis of its sales to external customers in different countries, based on the customers' locations is as follows:

	2010 RMB'000	2009 RMB'000
Mainland China	5,332,069	3,003,365
Hong Kong and overseas countries	1,725,259	857,976
	7,057,328	3,861,341

The total of non-current assets other than deferred income tax assets located in different countries are as follows:

	2010 RMB'000	2009 RMB'000
Total non-current assets other than deferred tax assets		
— Mainland China	1,484,253	1,196,615
— Hong Kong and overseas countries	108,762	106,830
Deferred income tax assets	34,498	37,131
	1,627,513	1,340,576

22. Expenses by Nature

	2010 RMB'000	2009 RMB'000
Depreciation and amortisation (Notes 5, 6 and 7)	90,706	83,617
Changes in inventories of finished goods and work in progress	(163,918)	49,996
Raw materials and consumables used	4,717,041	2,530,984
Operating lease for buildings	5,099	5,942
Sales commission and after-sales service expenses	414,675	220,259
Provision for impairment of trade receivables (Note 11)	16,110	3,297
(Reversal of)/provision for write-down of inventories	(6,277)	20,688
Employment costs (Note 25)	441,637	287,419
Freight charges	54,627	28,161
Utilities	59,560	41,891
Travelling expenses	15,473	14,084
Auditor's remuneration	2,780	2,780
Others	132,784	114,508
Total cost of sales, selling and marketing expenses and general and administrative expenses	5,780,297	3,403,626

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

23. Other Income

	2010 RMB'000	2009 RMB'000
Government grants (i)	21,795	22,031
Amortisation of deferred income (Note 19)	2,118	1,781
	23,913	23,812

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

24. Other (Losses)/Gains — Net

	2010 RMB'000	2009 RMB'000
Net exchange (losses)/gains	(32,663)	9,547
Gain/(loss) on disposals of property, plant and equipment, net	59	(712)
Gain on disposal of land use rights, net	—	8,436
Others	3,436	1,656
	(29,168)	18,927

25. Employment Costs

	2010 RMB'000	2009 RMB'000
Salaries, wages and bonus	362,901	234,063
Pension cost — defined contribution plan (note i)	16,831	14,384
Other benefits (note ii)	61,905	38,972
	441,637	287,419

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

25. Employment Costs (Continued)

(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 12% to 20% 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.

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.

(ii) Other benefits

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 7% to 11% and 8% to 10% of employees' basic salary to medical and housing plans, respectively.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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	Pension cost RMB'000	Other benefits RMB'000	Total RMB'000
2010					
Executive directors					
— Mr. Zhang Jingzhang	—	700	—	7	707
— Mr. Zhang Jianming	—	730	8	14	752
— Mr. Zhang Jianfeng	—	500	8	14	522
— Mr. Zhang Jianguo	—	450	8	14	472
— Mr. Guo Mingguang	—	420	8	14	442
— Ms. Chen Ningning	—	400	8	14	422
— Mr. Liu Jianbo	—	400	8	14	422
— Professor Helmut Helmar Franz	—	680	—	—	680
	—	4,280	48	91	4,419
Non-executive director					
— Mr. Hu Guiqing	—	50	—	—	50
Independent non-executive directors					
— Mr. Pan Chaoyang	64	—	—	—	64
— Mr. Gao Xunxian	64	—	—	—	64
— Mr. Dai Xiangbo	64	—	—	—	64
— Dr. Steven Chow	87	—	—	—	87
	279	—	—	—	279
	279	4,330	48	91	4,748

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

(a) Directors' emoluments (Continued)

Name of Director	Fees RMB'000	Salaries RMB'000	Pension cost RMB'000	Other benefits RMB'000	Total RMB'000
2009					
Executive directors					
— Mr. Zhang Jingzhang	—	700	—	6	706
— Mr. Zhang Jianming	—	730	7	13	750
— Mr. Zhang Jianfeng	—	500	7	13	520
— Mr. Zhang Jianguo	—	450	7	13	470
— Mr. Guo Mingguang	—	420	7	13	440
— Ms. Chen Ningning	—	400	7	13	420
— Mr. Liu Jianbo	—	400	7	13	420
— Professor Helmut Helmar Franz	—	680	—	—	680
	—	4,280	42	84	4,406
Non-executive director					
— Mr. Hu Guiqing	—	50	—	—	50
Independent non-executive directors					
— Mr. Pan Chaoyang	64	—	—	—	64
— Mr. Gao Xunxian	64	—	—	—	64
— Mr. Dai Xiangbo	64	—	—	—	64
— Dr. Steven Chow	88	—	—	—	88
	280	—	—	—	280
	280	4,330	42	84	4,736

None of the directors waived any emoluments during the year ended 31 December 2010 (2009: Nil).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group did not include any (2009: none) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (2009: five) highest paid individuals are as follows:

	2010 RMB'000	2009 RMB'000
Salaries	5,308	5,551
Pension cost	8	7
Other benefits	198	209
	5,514	5,767

The emoluments fall within the following bands:

	Number of individuals	
	2010	2009
Nil — HKD1,000,000 (equivalent to approximately RMB 851,000)	1	1
HKD1,000,001 (equivalent to approximately RMB851,000) — HKD1,500,000 (equivalent to approximately RMB1,276,000)	3	3
HKD1,500,001 (equivalent to approximately RMB1,276,000) — HKD2,000,000 (equivalent to approximately RMB1,702,000)	1	1

- (c) During the year ended 31 December 2010, 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 (2009: Nil).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

27. Finance Income/Costs

	2010 RMB'000	2009 RMB'000
Finance costs:		
Interest expense	(7,218)	(8,072)
Net foreign exchange losses on borrowings	(759)	(829)
	(7,977)	(8,901)
Finance income:		
Interest income on pledged bank deposits and cash and cash equivalents	22,549	19,847
Interest income on loans to distributors and suppliers	5,400	1,268
	27,949	21,115
Finance income, net	19,972	12,214

28. Income Tax Expense

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

	2010 RMB'000	2009 RMB'000
Current income tax		
— Mainland China enterprise income tax	179,084	47,992
— Overseas tax	611	4,188
Deferred taxation (<i>Note 20</i>)	50,810	10,784
	230,505	62,964

Haitian Shili, Wuxi Haitian and Haitian Technology were entitled for a reduced tax rate of 12.5% for the year 2010. Haitian Huayuan and Ningbo Zhafir were entitled for a reduced tax rate of 11% for the year 2010.

Haitian Beihua, Haitian Plastic Machinery and Haitian Heavywork were certified as High and New Technology Enterprises in 2008 or 2009 and were entitled to a reduced tax rate of 15% for three years commencing from 1 January 2008 or 2009. They are entitled to re-apply for preferential tax treatment when the preferential tax period expires.

Daxie Haitian's enterprise income tax rate would gradually increase to 22% for the year 2010, 24% for the year 2011 and 25% for the year 2012.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

28. Income Tax Expense (Continued)

Other major operating subsidiaries in Mainland China are subject to enterprise income tax rate of 25% for the year 2010.

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 2010 (2009: 16.5%).

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.

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:

	2010 RMB'000	2009 RMB'000
Profit before income tax, after excluding share of profit of an associate	1,291,748	512,668
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	335,804	127,836
Expenses not deductible for tax purpose	2,390	5,018
Tax losses for which no deferred income tax assets was recognised	8,303	7,598
Effect of tax concession	(162,394)	(88,492)
Effect of withholding tax at 5% on certain unremitted profits of subsidiaries in Mainland China	46,402	11,004
Income tax expense	230,505	62,964
The weighted average applicable tax rate	17.8%	12.3%

Share of income tax expense of an associate for the year ended 31 December 2010 amounting to RMB28,000 (2009: RMB9,000) was included in the consolidated income statement for the share of profit of an associate.

For the year ended 31 December 2010, there was no tax charge relating to components of other comprehensive income (2009: Nil).

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

29. Profit/(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 RMB763,773,000 (2009: loss of RMB2,119,000).

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 RMB1,062,559,000 (2009: RMB450,026,000) and on the weighted average number of approximately 1,596,000,000 (2009: 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

	2010 RMB'000	2009 RMB'000
Interim dividend paid of HKD15.0 cents (2009: HKD3.0 cents) per ordinary share	208,853	42,168
Proposed final dividend of HKD18.0 cents (2009: HKD10.0 cents) per ordinary share	242,163	140,379
	451,016	182,547

The Company's Board of Directors has recommended payment of a final dividend of HKD18.0 cents per share for the year ended 31 December 2010 (2009: 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 2011.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

32. Notes to Consolidated Statement of Cash Flow

(a) Cash generated from operations

	2010 RMB'000	2009 RMB'000
Profit before income tax	1,293,064	512,990
Adjustments for:		
— share of profit of an associate (Note 9)	(1,316)	(322)
— amortisation of land use rights (Note 5)	4,825	3,486
— depreciation of property, plant and equipment (Note 6)	83,781	78,031
— amortisation of intangible assets (Note 7)	2,100	2,100
— amortisation of deferred income (Note 19)	2,118	1,781
— (gain)/loss on disposal of property, plant and equipment (Note 24)	(59)	712
— gain on disposal of land use rights (Note 24)	—	(8,436)
— provision for impairment of trade receivables (Note 22)	16,110	3,297
— (reversal of)/provision for write-down of inventories (Note 22)	(6,277)	20,688
— finance expense (Note 27)	7,977	8,901
— finance income (Note 27)	(27,949)	(21,115)
	1,374,374	602,113
Changes in working capital:		
— (increase)/decrease in pledged bank deposits	(1,012)	1,343
— increase in trade and other receivables	(376,176)	(597,613)
— increase in inventories	(316,791)	(64,555)
— increase in trade and bills payables	158,012	254,487
— increase in accruals and other payables	375,541	617,052
Cash generated from operations	1,213,948	812,827

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

	2010 RMB'000	2009 RMB'000
Net book amount (Note 5)	—	107,701
Gain on disposal of land use rights (Note 24)	—	8,436
Proceeds from disposal of land use rights	—	116,137

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

32. Notes to Consolidated Statement of Cash Flow (Continued)

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

	2010 RMB'000	2009 RMB'000
Net book amount (Note 6)	3,901	35,739
Gain/(Loss) on disposal of property, plant and equipment (Note 24)	59	(712)
Proceeds from disposal of property, plant and equipment	3,960	35,027

33. Commitments

- (a) Capital commitments

	2010 RMB'000	2009 RMB'000
Acquisition of property, plant and equipment — Contracted but not provided for	99,173	7,456

- (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:

	2010 RMB'000	2009 RMB'000
Not later than 1 year	636	2,529
Later than 1 year and not later than 5 years	230	880
	866	3,409

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

34. Contingent Liabilities

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

	2010 RMB'000	2009 RMB'000
Guarantee given to the banks in connection with banking facilities granted to customers	523,681	457,218

35. 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 64.97% 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
Ningbo Anson CNC Technique Co., Ltd. ("Ningbo Anson") (寧波安信數控技術有限公司)	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
Ningbo Haitian Property Co., Ltd. ("Haitian Property") (寧波海天置業有限公司)	Controlled by directors of the Group

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

(a) Transactions with related parties:

The following material transactions were carried out with related parties:

	2010 RMB'000	2009 RMB'000
(i) Sales of land use rights and property, plant and equipment to:		
Haitian Precision	—	46,334
(ii) Purchases of goods from:		
Ningbo Anson	436,977	195,394
Hangzhou Keqiang	10,850	6,041
Haitian Precision	427	—
	448,254	201,435
(iii) Purchase of equipment from:		
Haitian Precision	78,936	13,568

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.

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2010 and 2009:

	2010 RMB'000	2009 RMB'000
Due from related parties		
Trade related		
— Hangzhou Keqiang	—	1,000
Non-trade related		
— Haitian Precision	1,745	—
— Mr. Zhang Jianming	174	192
— Mr. Zhang Jianfeng	155	149
— Haitian Property	83	—
	2,157	341
Due to related parties		
Trade related		
— Ningbo Anson	98,399	46,706
— Hangzhou Keqiang	2,456	1,128
	100,855	47,834

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

Notes to the Consolidated Financial Statements (Continued)

(All amounts in RMB unless otherwise stated)

35. Related Party Transactions (Continued)

(b) Balances with related parties: (Continued)

Maximum balance outstanding for amounts due from/to related parties for the year ended 31 December 2010 and 2009 were as follows:

	2010 RMB'000	2009 RMB'000
Due from related parties		
Trade related		
— Hangzhou Keqiang	1,000	1,000
Non-trade related		
— Haitian Precision	37,500	—
— Mr. Zhang Jianming	291	336
— Mr. Zhang Jianfeng	261	363
— Haitian Property	83	—
	38,135	699
Due to related parties		
Trade related		
— Ningbo Anson	117,099	68,497
— Hangzhou Keqiang	3,105	2,080
	120,204	70,577
Non-trade related		
— Haitian Precision	23,950	—

(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:

	2010 RMB'000	2009 RMB'000
Salaries and bonus	7,584	7,768
Other benefits	204	205
	7,788	7,973

Financial Summary

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

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Results					
Revenue	7,057,328	3,861,341	3,694,370	3,824,850	3,175,732
Profit before income tax	1,293,064	512,990	442,028	600,116	483,636
Income tax expenses	(230,505)	(62,964)	(36,781)	(31,948)	(21,863)
Minority interests	—	—	—	255	(10,906)
Profit attributable to shareholders	1,062,559	450,026	405,247	568,423	450,867
Assets					
Non-current assets	1,627,513	1,340,576	1,426,925	1,155,046	813,514
Current assets	5,559,754	4,405,667	3,135,138	3,649,418	3,341,760
Total assets	7,187,267	5,746,243	4,562,063	4,804,464	4,155,274
Liabilities					
Non-current liabilities	(98,801)	(27,870)	(22,369)	—	(150,000)
Current liabilities	(3,054,253)	(2,393,986)	(1,586,692)	(2,007,902)	(1,634,909)
Total liabilities	(3,153,054)	(2,421,856)	(1,609,061)	(2,007,902)	(1,784,909)
Total equity	4,034,213	3,324,387	2,953,002	2,796,562	2,370,365
Minority interests	—	—	—	(1,060)	(1,308)
Capital and reserves attributable to equity holders of the Company	4,034,213	3,324,387	2,953,002	2,795,502	2,369,057

Note: 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.



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