

GOOD FRIEND INTERNATIONAL HOLDINGS INC. 友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2398

Annual Report 2011



Contents

Corporate Information	2
Financial Highlights	4
Chairman’s Statement	6
Management Discussion and Analysis	10
Biographical Details of Directors and Senior Management	15
Report of the Directors	18
Corporate Governance Report	31
Independent Auditor’s Report	37
Consolidated Statement of Comprehensive Income	39
Consolidated Balance Sheet	40
Company Balance Sheet	42
Consolidated Statement of Changes in Equity	44
Consolidated Statement of Cash Flows	45
Notes to the Consolidated Financial Statements	46
Five-Year Financial Summary	104

Corporate Information

BOARD OF DIRECTORS

Executive Directors

CHU Chih-Yaung (*Chairman*)
CHEN Hsiang-Jung (*Chief Executive Officer*)
CHEN Min-Ho
WEN Chi-Tang
CHIU Rung-Hsien

Independent Non-Executive Directors

KOO Fook Sun, Louis
CHIANG Chun-Te
YU Yu-Tang

COMPANY SECRETARY

LO Tai On

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
CHIU Rung-Hsien

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDIT COMMITTEE

KOO Fook Sun, Louis (*Chairman of the Committee*)
CHIANG Chun-Te
YU Yu-Tang

REMUNERATION COMMITTEE

KOO Fook Sun, Louis (*Chairman of the Committee*)
CHIANG Chun-Te
CHEN Hsiang-Jung

NOMINATION COMMITTEE

KOO Fook Sun, Louis (*Chairman of the Committee*)
CHIANG Chun-Te
CHEN Hsiang-Jung

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2003, 20th Floor
Kai Tak Commercial Building
317-319 Des Voeux Road Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 120 Shixin North Road
Xiaoshan Economic and Technological
Development Zone
Xiaoshan District
Hangzhou City
Zhejiang Province
The PRC

PRINCIPAL BANKERS

Bank of China
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Industrial Bank of Taiwan
Mega International Commercial Bank
Yuanta Bank
Bank Sinopac

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

STOCK CODE

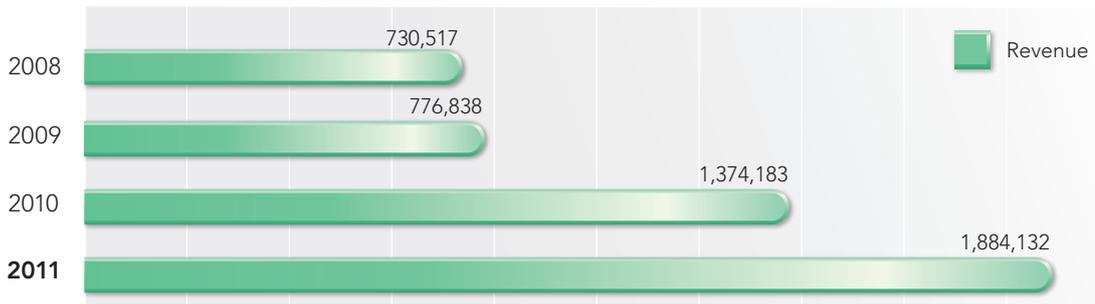
2398

WEBSITE

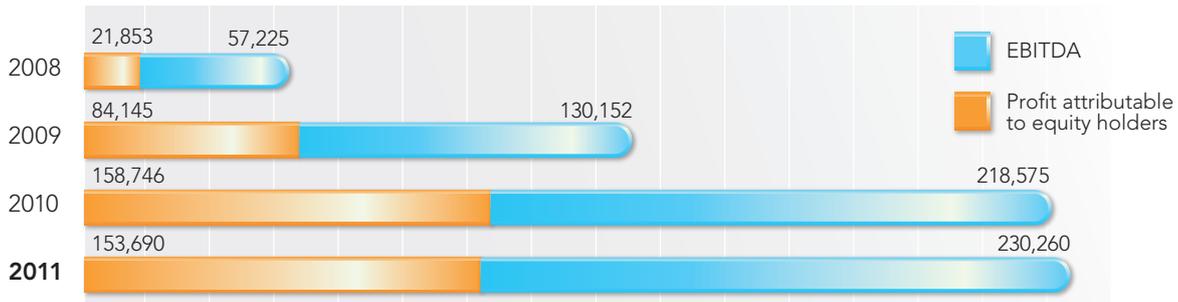
<http://www.goodfriend.hk>

Financial Highlights

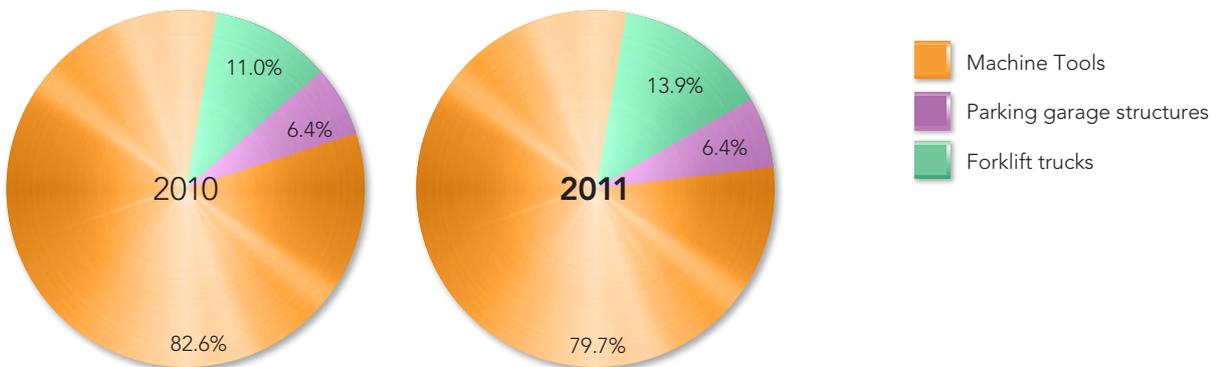
REVENUE (RMB'000)



PROFIT (RMB'000)



BUSINESS SEGMENTS (In terms of revenue)



Financial Highlights

TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2011 RMB'000	2010 RMB'000	Change (%)
Revenue	1,884,132	1,374,183	37.1%
Gross profit	439,216	355,535	23.5%
EBITDA	230,260	218,575	5.3%
Profit attributable to equity holders	153,690	158,746	-3.2%
Shareholders' equity	682,368	618,363	10.4%
Total assets	1,732,408	1,309,110	32.3%
Earnings per share – basic (RMB)	0.38	0.41	-7.3%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2011	2010	Change (%)
Gross profit margin ^{Note 1}	23.3%	25.9%	-10.0%
Net profit margin ^{Note 2}	8.2%	11.6%	-29.3%
Inventory turnover days ^{Note 3}	134.6	122.5	9.9%
Debtors' turnover days ^{Note 4}	102.7	93.4	10.0%
Creditors' turnover days ^{Note 5}	76.4	59.9	27.5%
Current ratio (Times) ^{Note 6}	1.3	1.5	-13.3%
Quick ratio (Times) ^{Note 7}	0.8	1.0	-20.0%
Gearing ratio (%) ^{Note 8}	21.0%	13.4%	56.7%
EBITDA/Finance costs (Times) ^{Note 9}	26.10	63.15	-58.7%
Return on equity (%) ^{Note 10}	22.5%	25.7%	-12.5%

Note 1: Gross profit margin is calculated as gross profit divided by revenue.

Note 2: Net profit margin is calculated as profit attributable to equity holders divided by revenue.

Note 3: Inventory turnover days is calculated as the ending inventory divided by cost of revenue and multiplied by 365 days.

Note 4: Debtors' turnover days is calculated as the ending trade debtors divided by revenue and multiplied by 365 days.

Note 5: Creditors' turnover days is calculated as the ending trade creditors divided by cost of sales and multiplied by 365 days.

Note 6: Current ratio is calculated as total current assets divided by total current liabilities at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 7: Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 8: Gearing ratio is calculated as total debts divided by total assets at the end of the year. Total debts refer to total interest bearing liabilities at the end of the year.

Note 9: EBITDA/Finance costs is calculated as earnings before finance costs, taxation, depreciation and amortization divided by finance costs for the year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 10: Return on equity is calculated as profit attributable to equity holders divided by total shareholders' equity at the end of the corresponding year.

Chairman's Statement



Chu Chih-Yaung
Chairman

I am pleased to present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the report on the results of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011 (the "year").

FINANCIAL PERFORMANCE

For the year ended 31 December 2011, the Group's revenue scored a new high. During the year, the Group recorded revenue of approximately RMB1,884.13 million, representing an increase of approximately 37.1% compared to the previous

year. Whilst profit attributable to equity holders for the year amounted to approximately RMB153.69 million, representing a decrease of approximately 3.2% compared to RMB158.75 million in 2010. In the previous year, the Group's income statement included an exceptional gain of RMB19.01 million arising from valuation on those Rambaudi assets acquired in 2010 (pursuant to the relevant Hong Kong accounting standard). Excluding this one-off exceptional gain, the net profit for 2010 became RMB139.74 million. Accordingly, the year on year growth for the net profit was approximately 10.0%.

Chairman's Statement

FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 25 May 2012, a final dividend out of the share premium account of the Company of RMB0.10 (equivalent to approximately HK\$0.123 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China at the date on 27 March 2012) per share for the year ended 31 December 2011, amounting to RMB40.32 million (equivalent to approximately HK\$49.59 million) payable to shareholders whose names appear on the register of members of the Company on Thursday, 7 June 2012. The payment date of the final dividend will be announced later.

BUSINESS REVIEW

Notwithstanding the tight monetary policy implemented by the Chinese Government during 2011, the gross domestic product (GDP) of the mainland China was RMB47.1 trillion in 2011, representing a growth of 9.2% over 2010. The economy of China still maintained its good momentum of development and had driven the country's fixed assets investment to leap by 23.8% year-on-year in 2011. Also consumption of machine tools in China amounted to approximately US\$39.1 billion in 2011 (2010: approximately US\$29.4 billion), still maintaining an encouraging growth.

The Group's mainstream product, CNC machine tools, focuses mainly on the China market. That business was therefore benefited by the sustainable growth in the economy of China, coupled with the Group's advantage in the comprehensive sales services provided by its existing sales network in China. For the year ended 31 December 2011, sales volume and sales revenue of the Group's CNC machine tools business amounted to 3,542 units and approximately RMB1,501.75 million respectively (2010: 2,546 units and approximately RMB1,135.470 million), both representing encouraging growth when compared with 2010. This is also a testimonial to the good acceptance of the Group's products by the customers. On the other hand, the Group's phase one production base in Jiangdong, Hangzhou (owned by Hangzhou Glory Friend Machinery Technology Co., Ltd) had already commenced production in May 2011. This could further provide a solid backup for the Group's CNC machine tools business.

Chairman's Statement



Chairman's Statement

PROSPECTS

The global economic environment remains volatile in 2012. In respect of the economy of China, the Chinese Government is trying to strike balance amongst growth, inflation and economic transition. Chinese Government's tight monetary policy inevitably undermines the demand of corporate capital investments. Nevertheless, China is the largest machine tools consuming country. The formulation of the 12th Five-Year Plan (2011-2015) by the central government of China would stimulate the demand for machine tools from the industries of high-speed railway, aerospace, motor vehicle and energy especially demand of those hi-tech CNC machine tools. Moreover, due to increasing labor shortage in China, manufacturers are prompted to use more automatic equipment such as CNC machines in order to raise production efficiency. This in turn will benefit the Group's CNC machine tools business. On the other hand, the Group will continue to strengthen the R&D capabilities and enhance the product mix of its CNC machine tools products, in order to provide high quality CNC machine tools to the customers as well as maintain the Group's competitive edge in the China market.

Looking ahead, the possible slower economic growth and continued tight monetary policy in China will pose challenge to the business of the Group. Despite that, the management believes that with its extensive sales network, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continues to strengthen its market position. The management will strive to strengthen the cost control and production efficiency for achieving better results, in order to bring favorable returns to the shareholders of the Company.

ACKNOWLEDGEMENT

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to the shareholders of the Company, the Group's customers and suppliers for their continued support. I would also like to thank my fellow directors and all staff for their considerable contributions to the Group.

Chu Chih-Yaung

Chairman

Hong Kong, 27 March 2012

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2011, the Group recorded revenue of approximately RMB1,884.13 million, representing an increase of approximately 37.1% as compared with that in 2010. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 3,542 units, 8,121 units and 4,161 units respectively (2010: 2,546 units, 5,861 units and 2,064 units). CNC machine tools remained the major source of the Group's revenue. The number of CNC machine tools sold increased from 2,546 units in 2010 to 3,542 units this year. Sales of the product rose from approximately RMB1,135.47 million in 2010 to RMB1,501.75 million this year, an increase of approximately 32.3% and representing approximately 79.7% of the Group's total revenue. CNC machine tools focuses mainly on China, with the major customers of the product being those automobile and mechanical manufacturers. The machine tools industry in China maintained its increasing trend in 2011. Sales revenue of the Group's CNC machine tools business in 2011 therefore recorded encouraging growth. Amongst this, sales revenue of double column machining centre (manufactured at factory in Hangzhou) and milling centre (manufactured at Rambaudi factory in

Italy) amounted to approximately RMB179.37 million for this year, accounted for approximately 12.0% of sales revenue of the Group's CNC machine tools, whilst selling price of the Rambaudi milling centre is approximately 9 times or more the average selling price of the Group's CNC machine tools products. The operating gross profit margin for CNC machine tools during the year was approximately 27.1%.

On the other hand, driven by robust demand in China, sales revenue of the Group's forklift trucks business increased by approximately 73.2% from RMB150.65 million in 2010 to RMB261.00 million this year, representing an increase to approximately 13.9% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB121.39 million during the year, representing an increase of approximately 37.8% as compared to 2010 and accounted for approximately 6.4% of the total revenue of the Group.

Gross profit and margin

For the year ended 31 December 2011, gross profit of the Group amounted to approximately RMB439.22 million (2010: RMB355.54 million). Overall gross profit margin of the Group was approximately 23.3% (2010: 25.9%). The gross profit margin of CNC machine tools during the year decreased as compared to the last year. As a result, the overall gross profit margin for the year decreased.

Management Discussion and Analysis

Distribution and selling expenses

Distribution and selling expenses increased by approximately 35.5% from approximately RMB110.40 million in 2010 to approximately RMB149.60 million for the year. Such increase was mainly due to the increase in the sales revenue of the Group's major product CNC machine tools during the year. The relevant expenditures including costs of sales staff, transportation costs therefore increased accordingly. During the year, distribution and selling expenses as a percentage of the Group's revenue was approximately 7.9% (2010: 8.0%).

Administrative expenses

Administrative expenses increased by approximately 30.3% from approximately RMB84.54 million in 2010 to approximately RMB110.13 million for the year. During the year, the relevant research & development expenses amounted to approximately RMB57.78 million (2010: RMB39.43 million). Such increase was in line with the increase in the sales revenue of CNC machine tools (the Group's major product) during the year. Despite that, general administrative expenses increased by approximately 16.0%. This was mainly attributable to the increase in the depreciation charges and the staff costs etc. deriving from the Group's operation in the mainland China.

Finance costs

During the year ended 31 December 2011, finance costs increased to approximately RMB8.82 million (2010: RMB3.46 million). The increase was primarily due to the increase in the average bank borrowings of the Group during the year, as well as the increase in the interest rate for bank borrowings in the mainland China during the year.

Exceptional gain

Pursuant to Hong Kong Financial Reporting Standard 3 (Revised) "Business combinations", the Group has to perform valuation on the Rambaudi assets (including inventories etc.) in Italy acquired in June 2010, and to be recorded at fair values. Since discounting (in particular inventories) was offered upon the acquisition of those Rambaudi assets, accordingly the fair values after valuation were greater than the book values as at acquisition. The resulting difference amounted to approximately Euro2.18 million or RMB19.01 million was properly accounted for in the Group's income statement of the previous year (2010) in accordance with the relevant accounting standard.

Management Discussion and Analysis

Profit attributable to the equity holders of the Company

During the year ended 31 December 2011, the Company's profit attributable to equity holders of the Company amounted to approximately RMB153.69 million, representing a decrease of approximately 3.2% as compared to the previous year. Excluding the one-off exceptional gain of RMB19.01 million in 2010, the net profit for 2011 then represented an increase of approximately 10.0% as compared to that of 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had net current assets of approximately RMB332.24 million (2010: RMB318.50 million), shareholders' fund of approximately RMB682.37 million (2010: RMB618.36 million) and short-term bank borrowings of approximately RMB364.16 million (2010: RMB169.18 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Cash and cash equivalents as at 31 December 2011 amounted to approximately RMB140.48 million (2010: RMB161.05 million). The current ratio (ratio of total current assets to total current liabilities) of the

Group was approximately 1.3 times (2010: 1.5 times). The gearing ratio (ratio of total debts to total assets) was approximately 21.0% (2010: 13.4%), indicating that the Group continued to maintain solid financial position.

CAPITAL STRUCTURE AND TREASURY POLICIES

The share capital of the Company as at 31 December 2011 was HK\$4,032,000 divided into 403,200,000 shares of HK\$0.01 each (at 31 December 2010: HK\$4,032,000 divided into 403,200,000 shares of HK\$0.01 each).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As of 31 December 2011, the total outstanding short-term borrowings stood at approximately RMB364.16 million (2010: RMB169.18 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year.

SIGNIFICANT INVESTMENT

The Group had no significant investment held for the year ended 31 December 2011.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2011.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2011 are set out in note 5 to the consolidated financial statements.

STAFF AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed a total of 1,900 (2010: 1,600) full-time employees in Hong Kong, China and Italy. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB166.50 million (2010: RMB99.96 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

The Company also holds a share option scheme, for the purpose of providing incentive and rewards to eligible participants for their contributions to the Group. No share option was granted by the Group since its adoption of the share option scheme.

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year under review, the Group contributed approximately RMB 6.98 million (2010: RMB4.10 million) to the said schemes.

CAPITAL COMMITMENTS AND CONTINGENCIES

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB6.50 million (2010: RMB27.10 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2011 (2010: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2011, restricted bank deposits with an amount of approximately RMB35.21 million (2010: RMB29.16 million) represented guarantee deposit in banks for the purpose of bidding contracts.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB38.39 million (2010: RMB39.76 million) to secure general banking facilities granted to them.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2011. However, the Group will continue to seek new business development opportunities.

FOREIGN EXCHANGE RISK

The Group mainly operates in China. During the year ended 31 December 2011, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group has no hedging activities as it is considered that their impact on the Group is insignificant.

Renminbi currently is not a freely convertible currency. A portion of the Group's Renminbi revenue or profit must be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chu Chih-Yaung (朱志洋先生), aged 65, was appointed as an executive Director in September 2005 and Chairman of the Board. He is responsible for the Group's overall strategic planning, management, business development, and the formulation of the Group's corporate policies. Mr. Chu has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. Mr. Chu is also a director of Hangzhou Global Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co., Ltd., both are wholly-owned subsidiaries of the Company.

Mr. Chen Hsiang-Jung (陳向榮先生), aged 66, was appointed as an executive Director in December 2005 and chief executive officer. He is also a member of the remuneration committee and the nomination committee of the Company. He is responsible for general management of the Group. Mr. Chen has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. Mr. Chen joined the Group in 1993.

Mr. Chen Min-Ho (陳明河先生), aged 61, was appointed as an executive Director in December 2005. He is responsible for the overall business operation of the Group. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Rich Friend (Shanghai) Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. He joined the Group in 1993.

Mr. Wen Chi-Tang (溫吉堂先生), aged 47, was appointed as an executive Director in December 2005. He was the vice general manager of machine tools division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the general manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Wen has more than 26 years of experience in the machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. He joined the Group in 2003.

Mr. Chiu Rung-Hsien (邱榮賢先生), aged 54, was appointed as an executive Director in December 2005. He was the manager of the parking garage structures division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the senior manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Chiu has more than 27 years of experience in the mechanics and manufacturing industry. He joined the Group in 2001.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis (顧福身先生), aged 55, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He is the founder and managing director of Hercules Capital Limited, a corporate finance advisory firm. He has more than 20 years of experience in investment banking and professional accounting. Mr. Koo currently act as an independent non-executive director of Weichai Power Co., Ltd., Li Ning Company Limited, Midland Holdings Limited, Xingda International Holdings Limited and Richfield Group Holdings Limited, which are companies listed on the Main Board of the Stock Exchange. He is a certified public accountant.

From June 2005 to June 2008, Mr. Koo served as an independent non-executive director of Midland IC&I Limited, which is listed on the Main Board of the Stock Exchange. In 2009, Mr. Koo retired (i) as vice chairman, treasurer, principal accounting officer and chief financial officer of 2020 ChinaCap Acquirco, Inc., a company listed on the NYSE Euronext; and (ii) as independent non-executive director of China Communications Construction Company Limited, which is a company listed on the Main Board of the Stock Exchange.

Mr. Chiang Chun-Te, (江俊德先生) aged 51, was appointed as an independent non-executive Director in December 2005. He is also a member of the audit committee, the remuneration and the nomination committee of the Company. He is the general manager of Istra Corporation and is also served as the president with effect from 2000. He was the 16th Representative of the Importers and Exporters Association of Taipei and then now served as the director.

He is the president and general manager of PK Investment Corp, and the director of Long Chen Paper Co., Ltd.

In 2011, he was appointed as a director of Chinatrust Commercial Bank (listed on the Taiwan Stock Exchange Corporation) and an independent director of Swancor Ind. Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). In 2009, he was appointed as an independent director of Feng Sheng Technology Co., Ltd. (listed on the Taiwan Stock Exchange Corporation).

From 2003 to February 2010, Mr. Chiang served as the director of Premier Capital Management Corp. and Premier Venture Capital Corp. From 2006 to June 2009, he served as the independent director of Yin King Industrial Co., Ltd., which is a listed company at over-the-counter market on the Taiwan Stock Exchange Corporation.

Mr. Yu Yu-Tang (余玉堂先生), aged 75, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee of the Company. He was a consultant of the Taiwan Hsin Chu County Government (台灣新竹縣政府) and the Provincial Government.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chiang Chia-Shin (強家鑫先生), aged 53, was appointed as the marketing manager of Hangzhou Global Friend and is responsible for the business of forklifts trucks in Mainland China. Mr. Chiang graduated from mechanical engineering department of Taiwan Fushin Institute Technology School (台灣復興工業專科學校) in 1979. He joined the Group in April 2006 and has over 26 years of experience in the design, manufacturing and production of the motor vehicle parts and forklifts trucks.

Mr. Wu Li-Chen (吳立城先生), aged 50, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend. He joined the Group in October 2000 and has over 27 years of experience in the machine tools industry.

Mr. Yeh Ming-Pin (葉明彬先生), aged 44, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Yeh graduated from Tamkang University, Taiwan (台灣淡江大學) in 1994 with a degree in Accounting. Before he joined the Group in January 2007, Mr. Yeh worked in TNS CPA firm in Taiwan from 1994 to 1998 and has over 14 years of experience in the fields of auditing, accounting and finance.

Mr. Yip Sai Keung, Esmond (葉世強先生), aged 46, was appointed as the financial controller of the Company and is responsible for the finance and accounting functions of the Group. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yip joined the Group in November 2007 and has over 20 years of experience in the fields of corporate finance, auditing and accounting.

Report of the Directors

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the design and production of CNC machine tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2011 is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 39 to 103.

The Directors declared an interim dividend of RMB0.12 (equivalent to approximately HK\$0.146) per share to those shareholders whose names appear on the register of members on 19 September 2011, amounted to approximately RMB48.38 million (equivalent to approximately HK\$58.87 million) which was paid on 29 September 2011.

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 25 May

2012, a final dividend out of the share premium account of the Company of RMB0.10 (equivalent to approximately HK\$0.123 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 27 March 2012) per share for the year ended 31 December 2011, amounting to RMB40.32 million (equivalent to approximately HK\$49.59 million) payable to shareholders whose names appear on the register of members of the Company on Thursday, 7 June 2012. The payment date of the final dividend will be announced later.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22 May 2012 to Friday, 25 May 2012, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attendance and voting at the forthcoming annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 21 May 2012.

The register of members will be closed from Tuesday, 5 June 2012 to Thursday, 7 June 2012, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 4 June 2012.

Report of the Directors

RESERVES

Movements in the reserves of the Company during the year are set out in the consolidated statement of changes in equity on page 44.

ANNUAL GENERAL MEETING

The 2012 annual general meeting will be held on Friday, 25 May 2012. Shareholders should refer to details regarding the 2012 annual general meeting in the circular of the Company of 17 April 2012 and the notice of annual general meeting and form of proxy accompanying thereto.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2011 are set out in note 26 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2011 are set out in note 30 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

Mr. Chu Chih-Yaung (*Chairman*)
Mr. Chen Hsiang-Jung (*Chief Executive Officer*)
Mr. Chen Min-Ho
Mr. Wen Chi-Tang
Mr. Chiu Rung-Hsien

Independent Non-Executive Directors

Mr. Koo Fook Sun, Louis
Mr. Chiang Chun-Te
Mr. Yu Yu-Tang

In accordance with article 87(1) of the articles of association of the Company ("Articles"), Messrs. Chiu Rung-Hsien, Chiang Chun-Te and Yu Yu-Tang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all independent non-executive Directors are independent.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 11 January 2012 with the Company for a term of three years commencing from 11 January 2012 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the independent non-executive Directors entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of two years commencing from 11 January 2006. A new service agreement has been entered into between each of the independent non-executive Directors and the Company for a fixed term of 2 years commencing from 10 January 2012, and may be terminated by not less than three months' notice in writing served by either party to the other.

Report of the Directors

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as those set out in note 35 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2011, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 22 December 2005. The purpose of the Scheme is to motivate eligible persons to optimise their future contributions to the Group, to reward them for their past contributions, to attract and maintain on-going relationships with such eligible persons who contribute to the performance, growth or success of the Group. Eligible persons of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entity that provides research, development or other technological support to the Group, any minority shareholder in the Company's subsidiaries, and adviser to business development of the Group and an associate of any of the foregoing persons.

Report of the Directors

The principal terms of the Scheme are summarised as follows:

(a) The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group must not exceed 10% of issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange, i.e. 11 January 2006 (which were 280,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

As at the date of this report, the total number of shares available for issue under the Scheme is 28,000,000 shares, which represents 10% of the issued shares as at the date of listing of the Company's shares on the Stock Exchange.

(b) The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued shares from time to time.

(c) The subscription price for the shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares.

(d) An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme ("Commencement Date") and expiring on such date of the expiry of the option as the Board of Directors may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

Report of the Directors

- (e) Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.
- (f) The Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Scheme, i.e. 22 December 2005.

No option has been granted since the adoption of the Scheme.

DIRECTORS' INTEREST IN SHARES

As at 31 December 2011, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company 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 Companies ("Model Code"), are set out below:

1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited) ("Taiwan FF")	Beneficial owner	24,403,347 shares	15.50%
Mr. Chu Chih-Yaung (Note 1)	Taiwan FF	Spouse interest	4,441,925 shares	2.82%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	4,480,841 shares	2.85%
Mr. Chu Chih-Yaung	友迦工業股份有限公司 (Fairseq (Taiwan) Co., Ltd.) (Note 3)	Beneficial owner	21,988 shares	0.22%

Report of the Directors

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung (Note 2)	友迦工業股份有限公司 (Fairseq (Taiwan) Co., Ltd.) (Note 3)	Spouse interest	21,988 shares	0.22%
Mr. Chu Chih-Yaung	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 3)	Beneficial owner	1,000 shares	0.01%
Mr. Chu Chih-Yaung (Note 4)	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 3)	Spouse interest	1,000 shares	0.01%
Mr. Chu Chih-Yaung (Note 5)	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 3)	Spouse interest	14,700 shares	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 3)	Beneficial owner	2,940 shares	0.12%
Mr. Chu Chih-Yaung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 3)	Beneficial owner	750 shares	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 3)	Beneficial owner	750 shares	0.03%

Report of the Directors

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung ("Mr. Chu"), held 2.82% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
2. Ms. Wang held 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.
3. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO.
4. Ms. Wang held 0.01% of the issued share capital of Yu Thai Xin Ent. Co., Ltd.. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Yu Thai Xin Ent. Co., Ltd. under the SFO.
5. Ms. Wang held 0.59% of the issued share capital of Decaview Asia Corporation. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Decaview Asia Corporation under the SFO.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2011, none of the Directors or chief executive of the Company had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are set out below:

Report of the Directors

1. Aggregate long position in the shares and underlying shares of the Company

Name of shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Beneficial owner	232,000,000 shares (Note)	57.54%
Taiwan FF	Interest of controlled corporation	232,000,000 shares (Note)	57.54%

Note: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF. Accordingly, Taiwan FF was deemed to be interested in 232,000,000 shares of the Company held by Hong Kong GF under the SFO.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2011.

Report of the Directors

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standards set out in the Model Code.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the Scheme are set out in the section headed "Share Option Scheme" above.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 8 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 35 to the consolidated financial statements. Details of any related party transaction which also constitute connected transaction or continuing connected transaction not exempted under Rule 14A.31 or Rule 14A.33 of the Listing Rules are disclosed below. The Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of such transactions.

Non-exempt continuing connected transaction(s)

As disclosed in the announcement of the Company of 21 May 2008 and circular of the Company of 3 June 2008, the Company had on 21 May 2008 entered into a conditional framework agreement (the "Former Framework Agreement") with Fair Friend Enterprise Company Limited ("Taiwan FF"), the indirect controlling shareholder and connected person of the Company (such terms as defined in the Listing Rules), pursuant to which the Group shall supply CKD components and CNC machine tools to Taiwan FF (and/or permitted designates) and Taiwan FF (and/or permitted designates) shall supply CKD components to the Group, for a term of three years commencing from 23 June 2008.

Report of the Directors

The resolution approving the Former Framework Agreement, the transactions contemplated thereunder and the relevant annual caps was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 23 June 2008.

The Former Framework Agreement expired on 22 June 2011.

As disclosed in the announcement of the Company on 19 May 2011 and circular of the Company on 24 May 2011, the Company had on 19 May 2011 entered into: (a) a components agreement (the "**Components Agreement**") with Taiwan FF, pursuant to which the Company (and/or permitted designates) (the "**GF Parties**") shall supply CKD components to Taiwan FF (and/or permitted designates) (the "**FF Parties**") and the FF Parties shall supply CKD components to the GF Parties for a period of three years from 23 June 2011; and (b) a machine tools agreement (the "**Machine Tools Agreement**") with Taiwan FF, pursuant to which the GF Parties can purchase from the FF Parties for a period of three years from 15 June 2011, and has the rights to sell in the PRC, Hong Kong and Macau Special Administrative Region (the "**Sales Region**") on an exclusive basis, and upon the request of the Company, the FF Parties shall supply to and authorize the GF Parties to sell the designated CNC machine tools in the Sales Region on an exclusive basis.

The resolutions approving the Components Agreement and the Machine Tools Agreement, the transactions contemplated thereunder and the annual caps thereof were duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 15 June 2011.

The transactions under the Former Framework Agreement, the Components Agreement and the Machine Tools Agreement constituted continuing connected transactions subject to reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed the Former Framework Agreements, the Components Agreement and the Machine Tools Agreement and the transactions thereunder conducted during the year and confirmed that they were:-

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;
- (iii) in accordance with the respective terms of the Former Framework Agreement, the Components Agreement and the Machine Tools Agreement and on terms which were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

Report of the Directors

- (iv) the aggregate transactions amount for the year was within the relevant annual caps.

The auditors of the Company have undertaken to report their factual findings to the board of directors of the Company in accordance with Rule 14A.38 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 8.0% of the Group's total turnover for the year and the largest customer accounted for approximately 3.5% of the Group's total turnover. The five largest suppliers accounted for approximately 33.4% of the Group's total purchases for the year and the largest supplier accounted for approximately 16.9% of the Group's total purchases.

None of the Directors or their associates has interests in any of the aforesaid customers and suppliers.

Save that Hong Kong GF and Taiwan FF were among the aforesaid five largest suppliers of the Group, to the knowledge of the Directors, none of the shareholders owning more than 5% of the Company's shares had any interest in the aforesaid customers and suppliers of the Group during the year.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") on 22 December 2005 with written terms of reference in compliance with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the audited consolidated financial statements of the Group for the year ended 31 December 2011.

Report of the Directors

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 31 to 36.

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 104.

AUDITORS

The financial statements for the year ended 31 December 2011 have been audited by the auditors of the Company, PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the 2012 annual general meeting.

On behalf of the Board

Good Friend International Holdings Inc.

Chu Chih-Yaung

Chairman

Hong Kong, 27 March 2012

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard through a solid and efficient framework to promote the integrity, transparency and quality of disclosure in order to enhance shareholders' value.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted its own code of corporate governance practices which meets the code provisions in the CG Code as set out in Appendix 14 to the Listing Rules. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance. During the year under review, the Company has complied with the code provisions set out in the CG Code except for the deviations from code provision E.1.2 of the CG Code which stipulates that the chairman of the board should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting held on 20 May 2011 due to his business trip and Mr. Chen Hsiang-Jung as executive Director took the chair pursuant to the Articles.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2011, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's budget, significant policies and transactions, financial results, businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the various board committees referred to below. Further details of these committees are set out in this report.

The Board currently consists of eight Directors including five executive Directors and three independent non-executive Directors:

Executive Directors

Mr. CHU Chih-Yaung (*Chairman*)
Mr. CHEN Hsiang-Jung (*Chief Executive Officer*)
Mr. CHEN Min-Ho
Mr. WEN Chi-Tang
Mr. CHIU Rung-Hsien

Corporate Governance Report

Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis

Mr. CHIANG Chun-Te

Mr. YU Yu-Tang

Such balanced board composition is formed to ensure a strong independent objectivity exists across the Board and has adhered to the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors is set out on pages 15 to 17 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Chairman and Chief Executive Officer

The positions and roles of Chairman of the Board and Chief Executive Officer of the Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman,

being Mr. CHU Chih-Yaung, is in-charge of the leadership of the Board and strategies planning of the Group. The Chief Executive Officer, being Mr. CHEN Hsiang-Jung, is responsible for the day-to-day management of the Group's business.

Independent non-executive Directors

The three Directors serving the non-executive role are all independent and are appointed as the independent non-executive Directors.

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting and finance. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Amongst them, Mr. Koo Fook Sun, Louis has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules. Each independent non-executive Director has provided an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

The three independent non-executive Directors are appointed for a specific term of two years and are subject to retirement by rotation, at least once every three years, in accordance with the Articles.

Corporate Governance Report

Frequency of Board Meetings and Attendance

Board meetings are held at least four times a year and the Board meets as and when required. During the financial year ended 31 December 2011, the Board convened a total of four regular meetings and the attendances of the Directors at these Board meetings are as follows:

Directors	Number of attendance
Mr. CHU Chih-Yaung	4/4
Mr. CHEN Hsiang-Jung	4/4
Mr. CHEN Min-Ho	2/4
Mr. WEN Chi-Tang	2/4
Mr. CHIU Rung-Hsien	4/4
Mr. KOO Fook Sun, Louis	4/4
Mr. CHIANG Chun-Te	2/4
Mr. YU Yu-Tang	3/4

The Directors received details of agenda items for decision and minutes of Board meetings in advance of each Board meeting.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Appropriate insurance cover has been arranged in respect of relevant actions against its Directors.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 22 December 2005 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman), Mr. CHIANG Chun-Te and Mr. YU Yu-Tang.

The role of the Audit Committee is to monitor the establishment and maintenance of an adequate system of internal control and compliance with such system.

The chief responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of the internal control system of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited financial statements of the Company for the six months ended 30 June 2011. The audited financial statements of the Company for the year ended 31 December 2011 has also been reviewed by the Audit Committee.

Corporate Governance Report

The Audit Committee has recommended to the Board that PricewaterhouseCoopers, Certified Public Accountants, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

Frequency of Meetings and Attendance

During the year 2011, the Audit Committee met three times, during which the management of the Company and the external auditors were also in attendance, if appropriate. Details of the attendance by members of the Audit Committee of such meetings are as follows:

<u>Name of members</u>	<u>Number of attendance</u>
Mr. KOO Fook Sun, Louis	3/3
Mr. CHIANG Chun-Te	1/3
Mr. YU Yu-Tang	3/3

NOMINATION OF DIRECTORS

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, especially their experience in the mechanics industry and/or other professional area.

The Company established a nomination committee (the "Nomination Committee"), with written terms of reference, on 22 December 2005 in compliance with the CG Code and consists of two independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman) and Mr. CHIANG Chun-Te, and one executive Director, namely Mr. CHEN Hsiang-Jung.

The functions of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the year and prior to the date of this report, there were no changes of the Directors. The Nomination Committee considered the current Board size as adequate for the Company's present operations. In addition, the Committee has reviewed and satisfied with the independence of all independent non-executive Directors.

In accordance with the Articles, at least one-third of the Directors will retire from office at the forthcoming annual general meeting. In accordance with the Articles 87(1) of the Articles, Mr. Chiu Rung-Hsien, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Corporate Governance Report

Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2011 and details of the attendance of its meeting are as follows:

<u>Name of members</u>	<u>Number of attendance</u>
Mr. KOO Fook Sun, Louis	1/1
Mr. CHIANG Chun-Te	1/1
Mr. CHEN Hsiang-Jung	1/1

REMUNERATION OF DIRECTORS

The Company established a remuneration committee (the "Remuneration Committee"), with written terms of reference, on 22 December 2005 in compliance with the CG Code and consists of two independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman) and Mr. CHIANG Chun-Te, and one executive Director, namely Mr. CHEN Hsiang-Jung.

The functions of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2011 to review the existing remuneration packages of each of the Directors and senior management of the Company and details of the attendance of its meeting are as follows:

<u>Name of members</u>	<u>Number of attendance</u>
Mr. KOO Fook Sun, Louis	1/1
Mr. CHIANG Chun-Te	1/1
Mr. CHEN Hsiang-Jung	1/1

Emolument policy

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. Each of the executive Directors is entitled to the respective basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may suggest, the amount of which shall not exceed 2% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee. Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements.

Corporate Governance Report

The Company has adopted a share option scheme on 22 December 2005. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimize their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in the section headed "Share Option Scheme" of the "Report of the Directors".

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, PricewaterhouseCoopers, is set out below:

Services rendered to the Group	Fee paid/payable HK\$'000
Audit services	1,580
Non-audit services	–

INTERNAL CONTROL SYSTEM

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls, etc.. The Board is committed to implementing an effective and sound internal control system to safeguard the interests of the shareholders and the Group's assets. During the year, the management had conducted a review of the effectiveness of the internal control system of the Group. Such review also

covered adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. The report and findings of the review which has covered all material controls, had been submitted to the Board and follow up plan had been adopted. The review did not find any material deficiencies in the internal control system of the Group.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's accounts for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2011, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' STATEMENT

The auditors of the Company acknowledge their responsibilities in the auditors' report on the financial statements of the Group for the year ended 31 December 2011.

Hong Kong, 27 March 2012

Independent Auditor's Report



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 103, which comprise the consolidated and company balance sheets as at 31 December 2011, and 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.

Independent Auditor's Report

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 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 2011, 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, 27 March 2012

Consolidated Statement of Comprehensive Income

	NOTE	2011 RMB'000	2010 RMB'000
Revenue	5	1,884,132	1,374,183
Cost of revenue	7	(1,444,916)	(1,018,648)
Gross profit		439,216	355,535
Other income	6	30,386	20,674
Distribution and selling expenses	7	(149,595)	(110,404)
Administrative expenses	7	(110,127)	(84,544)
Other operating expenses	7	(3,010)	(3,000)
Excess of the net fair value of identifiable assets, liabilities and contingent liabilities of business acquired over cost	34	–	19,006
Operating profit		206,870	197,267
Finance costs	9	(8,821)	(3,461)
Share of loss of jointly controlled entities	19	(1,017)	–
Profit before income tax		197,032	193,806
Income tax expense	10	(43,342)	(35,060)
Profit attributable to equity holders of the Company		153,690	158,746
Other comprehensive income:			
Currency translation differences	27	(981)	(161)
Other comprehensive income for the year		(981)	(161)
Total comprehensive income for the year attributable to equity holders of the Company		152,709	158,585
Earnings per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
Basic and diluted earnings per share	12	0.38	0.41
Dividends	13	88,704	100,800

The notes on pages 46 to 103 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	NOTE	2011 RMB'000	2010 RMB'000
Assets			
Non-current assets			
Land use rights	14	40,367	41,310
Property, plant and equipment	15	288,677	228,404
Investment property	16	1,442	2,042
Intangible assets	17	14,779	16,623
Investments in jointly controlled entities	19	19,952	8,192
Deferred income tax assets	31	4,534	5,545
Deposits for purchases of plant and equipment		2,178	20,146
		371,929	322,262
Current assets			
Inventories	22	532,791	341,829
Debtors, deposits and prepayments	21	622,577	428,298
Amounts due from customers for contract work	23	29,135	22,943
Amount due from ultimate holding company	35	–	139
Amounts due from and prepayment to fellow subsidiaries and associates of ultimate holding company	35	289	3,436
Restricted bank deposits	24	35,205	29,158
Cash and cash equivalents	25	140,482	161,045
		1,360,479	986,848
Total assets		1,732,408	1,309,110
Equity			
Equity attributable to equity holders of the Company			
Share capital	26	4,022	4,022
Share premium	27	183,088	271,792
Capital reserves	27	77,338	77,338
Other reserves	27	43,783	44,764
Retained earnings	27	374,137	220,447
Total equity		682,368	618,363

Consolidated Balance Sheet

	NOTE	2011 RMB'000	2010 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	30	–	6,614
Deferred income tax liabilities	31	21,800	15,788
		21,800	22,402
Current liabilities			
Creditors, other payables and accrued charges	28	600,101	454,057
Amounts due to customers for contract work	23	26,364	15,674
Amount due to ultimate holding company	35	1,542	–
Amount due to immediate holding company	35	4,624	2,213
Amount due to a jointly controlled entity	35	–	7,335
Amount due to a fellow subsidiary	35	11,661	–
Current income tax liabilities		11,515	11,783
Warranty provision	29	8,278	8,099
Borrowings	30	364,155	169,184
		1,028,240	668,345
Total liabilities		1,050,040	690,747
Total equity and liabilities		1,732,408	1,309,110
Net current assets		332,239	318,503
Total assets less current liabilities		704,168	640,765

The notes on pages 46 to 103 are an integral part of these consolidated financial statements.

The financial statements on pages 39 to 103 were approved by the Board of Directors on 27 March 2012 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Company Balance Sheet

	NOTE	2011 RMB'000	2010 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		1	8
Investment in subsidiaries	18	52,837	52,837
Investment in jointly controlled entities	19	20,969	8,192
		73,807	61,037
Current assets			
Debtors, deposits and prepayments	21	7,558	154
Amounts due from subsidiaries	18	308,511	312,350
Cash and cash equivalents	25	1,598	2,745
		317,667	315,249
Total assets		391,474	376,286
Equity			
Equity attributable to equity holders of the Company			
Share capital	26	4,022	4,022
Share premium	27	183,588	271,792
Other reserves	27	12,136	12,136
Retained earnings	27	25,678	32,511
Total equity		225,424	320,461
Liabilities			
Non-current liabilities			
Borrowings	30	–	6,614

Company Balance Sheet

	NOTE	2011 RMB'000	2010 RMB'000
Current liabilities			
Other payables and accrued charges		3,475	822
Amounts due to ultimate holding company		3,434	–
Amounts due to subsidiaries	18	2,094	2,094
Borrowings	30	157,047	46,295
		166,050	49,211
Total liabilities		166,050	55,825
Total equity and liabilities		391,474	376,286
Net current assets		151,617	266,038
Total assets less current liabilities		225,424	327,075

The notes on pages 46 to 103 are an integral part of these financial statements.

The financial statements on pages 39 to 103 were approved by the Board of Directors on 27 March 2012 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2010		3,431	66,596	77,338	37,179	178,311	362,855
Comprehensive income:							
Profit for the year		–	–	–	–	158,746	158,746
Other comprehensive income:							
Currency translation difference		–	–	–	(161)	–	(161)
Total comprehensive income		–	–	–	(161)	158,746	158,585
Proceeds from issuance of Taiwan Depository Receipts ("TDRs")							
		591	205,196	–	–	–	205,787
Dividends paid	13	–	–	–	–	(108,864)	(108,864)
Appropriations to reserve	27	–	–	–	7,746	(7,746)	–
Balance at 31 December 2010		4,022	271,792	77,338	44,764	220,447	618,363
Comprehensive income:							
Profit for the year		–	–	–	–	153,690	153,690
Other comprehensive income:							
Currency translation difference		–	–	–	(981)	–	(981)
Total comprehensive income		–	–	–	(981)	153,690	152,709
Dividends paid	13	–	(88,704)	–	–	–	(88,704)
Balance at 31 December 2011		4,022	183,088	77,338	43,783	374,137	682,368

The notes on pages 46 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	NOTE	2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	3,382	78,398
Income tax and withholding tax paid		(36,587)	(31,213)
Transaction costs in relation to a business combination		–	422
Net cash generated (used in)/from operating activities		(33,205)	47,607
Cash flows from investing activities			
Investment in a jointly controlled entity		(12,777)	(8,192)
Cash paid for acquiring a business		–	(14,759)
Purchases of property, plant and equipment ("PPE")		(61,467)	(70,984)
Proceeds from sale of PPE	32	194	1,956
Purchases of intangible assets		(1,747)	(524)
Interest received		3,654	1,321
Increase in restricted bank deposits		(6,047)	(5,239)
Net cash used in investing activities		(78,190)	(96,421)
Cash flows from financing activities			
Proceeds from issuance of TDRs		–	205,787
Proceeds from borrowings		1,434,664	345,036
Repayments of borrowings		(1,246,307)	(296,776)
Dividends paid to equity holders		(88,704)	(108,864)
Interests paid		(8,821)	(3,461)
Net cash generated from financing activities		90,832	141,722
Net (decrease)/increase in cash and cash equivalents		(20,563)	92,908
Cash and cash equivalents at beginning of year	25	161,045	68,137
Cash and cash equivalents at end of year	25	140,482	161,045

The notes on pages 46 to 103 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Good Friend International Holdings Inc. ("the Company") and its subsidiaries ("the Group") are engaged in the design and production of computer numerical control machine tools, three dimensional car parking garage structures and forklift trucks.

The Company was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman Ky-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 11 January 2006. In addition, 67,200,000 units of Taiwan depository receipts ("TDRs"), representing 67,200,000 newly issued shares of the Company, were issued and listed on the Taiwan Stock Exchange Corporation ("Taiwan Stock Exchange") on 18 March 2010.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 27 March 2012.

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). 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 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 2011 but do not have a material impact on the Group:

HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	Third annual improvements projects (2010) published in May 2010

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of HKFRS 9 and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.
- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess the full impact of HKFRS 10 and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted (Continued)*

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of HKFRS 12 and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess the full impact of HKFRS 13 and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

Business combinations

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2.2.2 Separate financial statements

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.

2.3 Jointly controlled entity

A jointly controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Interest in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost.

The Group's share of its jointly controlled entity's post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 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 directors that makes strategic decisions.

2.5 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 or valuation where items are re-measured. 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 statement of comprehensive income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive 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 hyper-inflationary 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 statement of comprehensive 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 rate on the dates of the transactions); and

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

(iii) all resulting exchange differences are recognised in other comprehensive income.

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. Exchange differences arising are recognised in equity.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. 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 to the consolidated statement of comprehensive income statement during the financial period in which they are incurred.

– Buildings	20 years
– Machinery and equipments	10 years
– Office and computer equipment	3-5 years
– Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 2.9).

Construction in progress represents property in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

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 income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method over their estimated useful lines of 20 years.

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. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial period in which they are incurred.

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the statement of consolidated statement of comprehensive income.

2.8 Intangible assets

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 10 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

2.9 Impairment of non-financial assets

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Impairment of non-financial assets *(Continued)*

Impairment testing of the investments in subsidiaries or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or jointly controlled entities 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.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 receivables comprise 'Debtors, deposits and prepayments', 'Amount due from ultimate holding company', 'Amounts due from and prepayment to a fellow subsidiary and associates of ultimate holding company', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Receivables are subsequently carried at amortised cost using the effective interest method.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period 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:
 - adverse changes in the payment status of borrowers in the portfolio;
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, 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.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise 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.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, 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.

2.16 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.

2.17 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 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 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 pre-payment 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 end of the reporting period.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

2.19 Current and deferred income tax

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

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's subsidiaries and jointly controlled entities 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 statements. 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 substantively 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except for deferred income tax liability 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.

2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leaves are recognised when they accrue to employees. Provisions are made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(b) Pension obligations

The Group makes contributions to defined contribution retirement schemes under the Mandatory Provident Fund Schemes ("MPF") Ordinance in Hong Kong, the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the Group. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

The Group also contributes to employee retirement schemes established by municipal governments in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the statement of consolidated comprehensive income as incurred.

(c) Bonus plans

Provisions for bonus plan due wholly within twelve months after the balance sheet date are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Government grants

Government grants are recognised at their fair values where there is reasonable assurance that grant will be received and all attaching conditions will be complied with. Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the cost that they are intended to compensate.

2.22 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.

2.23 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when 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) Sales of machine tools and forklift trucks are recognised when goods are delivered and title has been passed.
- (b) Revenue from construction of parking garage structures for contract customers is recognised based on the percentage of completion of the contract, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is estimated by reference to the costs incurred to date as compared to the total costs to be incurred under the contract. Provision is made for foreseeable losses as soon as they are anticipated by the management.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

- (c) Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

2.24 Parking garage structures contracts

Where the outcome of a parking garage structures construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured by the proportion of contract costs incurred for work performed to date as compared to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

Where the outcome of a parking garage structures construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as amounts due to customers for contract work. Amount billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under amounts due from customers for contract work.

2.25 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 income statement on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 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 or directors where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group and the Company are mainly exposed to foreign exchange risk arising from Hong Kong dollars, United States dollars and Euro against RMB. This foreign exchange risk arises from future commercial transactions or recognised assets and liabilities denominated in a currency that is not the entity's functional currency of RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it has not hedged its foreign exchange risk. Management has assessed that the risk is insignificant because there were no substantial assets nor liabilities maintained at foreign currency as of 31 December 2011.

Group

At 31 December 2011, if RMB had strengthened/weakened by 5% (2010: 5%) against the Hong Kong dollars with all other variables held constant, profit for the year would have been approximately RMB3,500,000 higher/lower (2010: approximately RMB2,090,000 higher/lower).

At 31 December 2011, if RMB had strengthened/weakened by 5% (2010: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB8,870,000 higher/lower (2010: approximately RMB4,096,000 higher/lower).

The Group did not have significant foreign exchange risk arising from Euro as at 31 December 2011 as the Group did not have significant financial assets and financial liabilities denominated in Euro.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk (Continued)

Company

At 31 December 2011, if RMB had strengthened/weakened by 5% (2010: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB4,975,000 higher/lower (2010: approximately RMB2,527,000 higher/lower).

The Company does not have significant foreign exchange risk arising from Hong Kong dollars and Euro as the Company does not have significant financial assets and financial liabilities denominated in Hong Kong dollars or Euro.

In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest bearing assets and liabilities except for the deposits in banks and certain bank loans, details of which have been disclosed in Note 25 and Note 30 respectively. The interest rate risk is considered to be insignificant.

(c) Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk arises from debtors and deposits, amounts due from customers for contract work, amounts due from ultimate holding company, a fellow subsidiary and an associate of ultimate holding company, as well as restricted bank deposits and cash and cash equivalents as stated in the consolidated balance sheet.

As at 31 December 2011, the Company's maximum exposure to credit risk arises from deposits, amounts due from subsidiaries and cash and cash equivalents as recorded in the Company standalone balance sheet.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

In order to minimise the credit risk, management of the Group has delegated a team of personnel responsible for determination of credit limits, credit approvals and implementation of monitoring procedures to ensure follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount due from each individual trade customer at each balance sheet date in order to provide for impairment losses for irrecoverable amounts.

The credit risk on cash and cash equivalents is considered insignificant because the counterparties are banks with credit ratings not lower than Baa2 (2010: Baa2) assigned by international credit-rating agencies.

Other than cash and cash equivalents which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

(d) Liquidity risk

In order to manage the liquidity risk, the Group monitors and maintains cash and cash equivalents and unused credit facilities at a level which is deemed to be adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The Group had unutilised credit facilities of RMB473,452,000 (2010: RMB115,590,000) granted by several financial institutions as at 31 December 2011. Management monitor the utilisation of credit facilities and draw-down of bank borrowings and ensure compliance with the relevant loan covenants. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period between balance sheet date to the contractual maturity dates.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

Group

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011					
Creditors, other payables and accrued charges	600,101	–	–	–	–
Borrowings	237,919	129,830	–	–	–
Amount due to ultimate holding company	1,542	–	–	–	–
Amount due to immediate holding company	4,624	–	–	–	–
Amount due to a fellow subsidiary	11,661	–	–	–	–
At 31 December 2010					
Creditors, other payables and accrued charges	454,057	–	–	–	–
Borrowings	118,710	50,812	6,627	–	–
Amount due to immediate holding company	2,213	–	–	–	–
Amount due to a jointly controlled company	7,335	–	–	–	–

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

Company

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011					
Other payables and accrued charges	3,475	-	-	-	-
Amounts due to subsidiaries	2,094	-	-	-	-
Amount due to ultimate holding company	3,434	-	-	-	-
Borrowings	122,101	35,461	-	-	-
At 31 December 2010					
Other payables and accrued charges	822	-	-	-	-
Amounts due to subsidiaries	2,094	-	-	-	-
Borrowings	26,621	19,966	6,627	-	-

3.2 Capital risk management

The Group manage its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debts, which includes bank borrowings net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising paid-in capital, share premium and reserves.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)***3.2 Capital risk management** *(Continued)*

The directors of the Company review the capital structure periodically. As a part of this review, the directors of the Company assess the annual budget prepared by various departments, which takes into account future expansion plans and sources of funding. The directors of the Company consider the cost of capital and the risk associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or redemption of existing debts.

	2011 RMB'000	2010 RMB'000
Total borrowings (note 30)	364,155	175,798
Less: cash and cash equivalents (note 25)	(140,482)	(161,045)
Net debt	223,673	14,753
Total equity	682,368	618,363
Total capital	906,041	633,116
Gearing ratio	25%	2%

The increase in the gearing ratio during 2011 resulted primarily from increase in borrowings.

3.3 Fair value estimation

As at 31 December 2011, the Group had no financial instrument which has been stated at fair value.

The carrying amounts less impairment provision of receivables and payables are a reasonable approximation of their fair values due to their short-term maturities.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Revenue from construction of parking garage structures

When the outcome of a parking garage structures construction contract can be estimated reliably, the Group recognises the related revenue based on the percentage-of-completion method, which is measured by the proportion of contract costs incurred for work performed to date to the estimated total contract costs. Estimated total costs to be incurred under each contract are regularly reviewed during the whole term of the contract. Recognition of this revenue is made based on performance measurement. It involves an estimation process and is subject to risks and uncertainties inherent in projecting future events. A number of internal and external factors can affect our estimates, including different cost components applied to different parking garage structures being constructed; and efficiency of the Group's employees undertaking the construction. Recognised revenue and profit are subject to revisions as the respective contract progress to completion. Revisions in profit estimates are charged to the consolidated statement of comprehensive income in the period in which the revision becomes known. Accordingly, any changes in the Group's estimates would impact the Group's future operating results.

(b) Estimated impairment of trade debtors

The Group makes provision for impairment of trade debtors based on an estimate of the recoverability of the debtors. Provisions are applied to debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of debtors requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying amount of the debtors and provision for impairment losses in the year in which such estimate has been changed.

As at 31 December 2011, provision for impairment of trade debtors amounting to approximately RMB23,082,000 (2010: RMB29,656,000) had been recognised.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Estimated useful lives and impairment of property, plant and equipment

The Group determines the estimated useful lives of 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, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Machinery and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the machinery and equipment less costs to sell or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise.

As at 31 December 2011, the Group reported accumulated impairment provision for certain machinery and equipment in certain business segments at RMB1,369,000 (2010: RMB1,369,000), as brought forward from prior years. The directors had performed an assessment to determine the 'fair value less costs to sell' of the related machinery and equipment and other assets in these segments according to provisions of HKAS 36 "Impairment of Assets". The amounts had been assessed to be in excess of their respective carrying values after the impairment provision brought forward. As a result, no additional impairment was considered necessary nor reversal of previous impairment was considered necessary.

(d) Income taxes

Most of the subsidiaries of the Group are subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are 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 current tax and deferred tax provisions in the financial period in which such determination is made.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors (the "Executive Directors") of the Company. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors consider that the Group has three reportable segments: (1) machine tools; (2) parking garage structure; and (3) forklift trucks.

The Executive Directors assess the performance of the operating segments based on their respective gross profit.

The Group does not allocate operating costs or assets to its segments, as the Executive Directors do not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of profit and total assets for each reportable segment.

	Machine Tools RMB'000	Parking Garage structures RMB'000	Forklift Trucks RMB'000	Total Group RMB'000
For the year ended 31 December 2011				
Revenue (all from external sales)	1,501,751	121,385	260,996	1,884,132
Cost of revenue	(1,094,285)	(105,098)	(245,533)	(1,444,916)
Segment profit	407,466	16,287	15,463	439,216

	Machine Tools RMB'000	Parking Garage structures RMB'000	Forklift Trucks RMB'000	Total Group RMB'000
For the year ended 31 December 2010				
Revenue (all from external sales)	1,135,468	88,062	150,653	1,374,183
Cost of revenue	(813,991)	(73,254)	(131,403)	(1,018,648)
Segment profit	321,477	14,808	19,250	355,535

Majority of the Group's operations and assets are located in the PRC and the Group mainly sells to the PRC market.

Notes to the Consolidated Financial Statements

6 OTHER INCOME

	2011 RMB'000	2010 RMB'000
Sale of scrap materials	5,295	6,485
Net exchange gain	9,143	6,660
Government subsidies	864	1,825
Repair income	8,385	2,190
Rental income from investment properties	239	335
Interest income	3,654	1,321
Others	2,806	1,858
	30,386	20,674

7 EXPENSES BY NATURE

	2011 RMB'000	2010 RMB'000
Cost of inventories sold	1,335,059	957,498
Sales commission	30,178	23,285
Depreciation of property, plant and equipment	21,233	16,880
Depreciation of investment properties	101	133
Amortisation of intangible assets	2,130	1,836
Amortisation of land use rights	943	943
Operating lease rental on land and buildings	11,173	5,993
Employee benefit expenses (note 8)	149,248	89,801
Allowance for bad and doubtful debts, net	(1,061)	5,540
Allowance for inventories, net	1,108	(2,903)
Auditor's remuneration	1,659	1,149
Provision for warranty	7,878	9,465
Loss on disposal of property, plant and equipment	398	732
Research and development expenses*	57,782	39,428
Transportation fees	22,346	15,641
Others	67,473	51,175
Total cost of revenue, distribution and selling expenses, administrative expenses and other expenses	1,707,648	1,216,596

* Depreciation of property, plant and equipment, amortisation of intangible assets and employee benefit expenses amounting to RMB2,079,000, RMB330,000 and RMB17,252,000 were included in research and development expenses (2010: RMB1,311,000, RMB205,000 and RMB10,156,000 respectively.)

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2011 RMB'000	2010 RMB'000
Wages and salaries	110,684	66,101
Bonus	30,622	18,844
Welfare and other allowance	18,213	10,917
Pension costs – defined contribution plans	6,981	4,095
	166,500	99,957

(a) Directors' emoluments

The remuneration of each director is set out below:

Year ended 31 December 2011

	Chu Chih- Yaung RMB'000	Chen Hsiang- Jung RMB'000	Chen Min-Ho RMB'000	Wen Chi-Tang RMB'000	Chiu Rung- Hsien RMB'000	Koo Fook Sun, Louis RMB'000	Chiang Chun-Te RMB'000	Yu Yu-Tang RMB'000	Total RMB'000
Fees	180	180	144	144	144	164	82	82	1,120
	180	180	144	144	144	164	82	82	1,120

Year ended 31 December 2010

	Chu Chih- Yaung RMB'000	Chen Hsiang- Jung RMB'000	Chen Min-Ho RMB'000	Wen Chi-Tang RMB'000	Chiu Rung- Hsien RMB'000	Koo Fook Sun, Louis RMB'000	Chiang Chun-Te RMB'000	Yu Yu-Tang RMB'000	Total RMB'000
Fees	180	180	144	144	144	174	87	87	1,140
	180	180	144	144	144	174	87	87	1,140

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION) *(Continued)***(b) Five highest paid individuals**

Of the five individuals with the highest emoluments in the Group, none (2010: none) was a director of the Company. The emoluments of the five (2010: five) individuals were as follows:

	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	2,476	3,747
Bonus	4,108	2,957
Pension costs – defined contribution plans	100	139
	6,684	6,843

The emolument fell within the following bands:

	Number of individuals	
	2011	2010
Emolument bands (in HKD)		
Less than HKD1,000,000	–	1
HKD1,000,001 – HKD1,500,000	3	3
HKD1,500,001 – HKD2,000,000	1	–
HKD2,000,001 – HKD2,500,000	–	1
HKD2,500,001 – HKD3,000,000	1	–

9 FINANCE COSTS

	2011	2010
	RMB'000	RMB'000
Interest expense:		
– Bank borrowings wholly repayable within 5 years	8,821	3,461

Notes to the Consolidated Financial Statements

10 INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Enterprise income tax	36,319	33,225
Deferred tax (note 31)	7,023	1,835
	43,342	35,060

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both years. In addition, no provision for Italian profits tax had been made in 2011 as the Italian operations of the Group did not have any assessable profits.

Enterprise income tax ("EIT") is provided for enterprises in the PRC. In 2011, Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend") renewed its New and High-Tech Enterprise status, which has been approved by the relevant government authorities, and it is entitled to a reduced tax rate of 15% for a three-year period commencing 2011. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2011 is 15% (2010: 15%).

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:

	2011 RMB'000	2010 RMB'000
Profit before income tax	197,032	193,806
Tax calculated at tax rates applicable to the principal operating entity of the Group	30,539	31,484
Tax effects of:		
Income not subject to tax	–	(6,267)
Expenses not deductible for tax purposes	1,364	1,481
Utilisation of previously unrecognised tax losses	(169)	(363)
Tax losses for which no deferred income tax asset was recognised	2,041	399
Deferred tax on undistributed earnings of subsidiaries in the PRC (note 31)	9,291	7,693
Others	276	633
Tax charge	43,342	35,060

Notes to the Consolidated Financial Statements

11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB6,833,000 (2010: profit of RMB68,202,000).

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB153,690,000 (2010: RMB158,746,000) by the weighted average number of ordinary shares in issue during the year of 403,200,000 (2010: 389,760,000).

	2011	2010
Basic and Diluted earnings per share (RMB per share)	0.38	0.41

There were no potential dilutive shares in issue for both years.

13 DIVIDENDS

The dividends paid in 2011 and 2010 were RMB88,704,000 (RMB0.22 per share) and RMB108,864,000 (RMB0.27 per share) respectively. At a meeting of directors held on 27 March 2012, the directors resolved to recommend a final dividend of RMB0.10 (2010: RMB0.10) per share for the year ended 31 December 2011. This proposed final dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2011.

	2011 RMB'000	2010 RMB'000
Interim dividend paid of RMB0.12 (2010: RMB0.15) per ordinary share	48,384	60,480
Proposed final dividend of RMB0.10 (2010: RMB0.10) per ordinary share	40,320	40,320
	88,704	100,800

The proposed final dividend for the year ended 31 December 2011 is to be declared out of the share premium of the Company.

The aggregate amounts of the dividends paid and proposed during 2010 and 2011 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Notes to the Consolidated Financial Statements

14 LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments in the PRC held on leases of between 10 to 50 years and their net book value are analysed as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	41,310	42,253
Amortisation	(943)	(943)
At 31 December	40,367	41,310

Bank borrowings outstanding as at 31 December 2011 were secured by land use rights of carrying value of RMB13,537,000 (2010: RMB13,847,000) (note 30).

15 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings RMB'000	Machinery and equipment RMB'000	Office and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2010	84,909	116,468	17,637	8,680	36,334	264,028
Exchange differences	–	31	4	2	–	37
Additions	–	5,191	5,578	3,728	40,188	54,685
Acquisition from a business combination (note 34)	–	3,566	492	227	–	4,285
Transfers	20,665	5,235	–	–	(25,900)	–
Transfer from investment properties (note 16)	8,280	–	–	–	–	8,280
Disposals	(270)	(3,046)	(1,475)	(1,116)	–	(5,907)
At 31 December 2010 and 1 January 2011	113,584	127,445	22,236	11,521	50,622	325,408
Exchange differences	–	(301)	(38)	(17)	–	(356)
Additions	1,325	12,068	6,933	7,308	56,377	84,011
Transfers	21,406	19,381	2,678	–	(43,465)	–
Transfer from investment properties (note 16)	724	–	–	–	–	724
Disposals	–	(617)	(1,868)	(355)	–	(2,840)
At 31 December 2011	137,039	157,976	29,941	18,457	63,534	406,947

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT – GROUP (Continued)

	Buildings RMB'000	Machinery and equipment RMB'000	Office and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation and impairment						
At 1 January 2010	19,958	42,303	12,547	5,605	–	80,413
Exchange differences	–	1	–	–	–	1
Provided for the year	4,708	10,285	1,953	1,245	–	18,191
Transfer from investment properties (note 16)	1,618	–	–	–	–	1,618
Disposals	(110)	(1,386)	(1,090)	(633)	–	(3,219)
At 31 December 2010 and 1 January 2011	26,174	51,203	13,410	6,217	–	97,004
Exchange differences	–	(18)	(3)	(2)	–	(23)
Provided for the year	5,692	11,379	3,378	2,863	–	23,312
Transfer from investment properties (note 16)	225	–	–	–	–	225
Disposals	–	(389)	(1,538)	(321)	–	(2,248)
At 31 December 2011	32,091	62,175	15,247	8,757	–	118,270
Net book amount						
At 31 December 2011	104,948	95,801	14,694	9,700	63,534	288,677
At 31 December 2010	87,410	76,242	8,826	5,304	50,622	228,404

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation expense of RMB16,187,000 (2010: RMB13,150,000) had been charged in 'cost of goods sold', RMB1,682,000 (2010: RMB966,000) in 'selling and marketing costs' and RMB5,443,000 (2010: RMB4,075,000) in 'administrative expenses' (note 7).

Lease rental expenses amounting to RMB11,173,000 (2010: RMB5,993,000) relating to leasing of properties were included in the consolidated income statement (note 7).

Bank borrowings outstanding as at 31 December 2011 were secured by buildings for the value of RMB24,849,000 (2010: RMB25,911,000) (note 30).

During the year, the Group terminated the lease agreements of certain portions of its investment property and kept them for own use. Accordingly, the relevant carrying amount of the investment properties as at the date of change of usage was transferred to property, plant and equipment.

16 INVESTMENT PROPERTIES – GROUP

	2011 RMB'000	2010 RMB'000
Opening net book amount at 1 January	2,042	8,837
Transfer to property, plant and equipment (note 15)	(499)	(6,662)
Depreciation	(101)	(133)
Closing net book amount at 31 December	1,442	2,042

Notes to the Consolidated Financial Statements

17 INTANGIBLE ASSETS – GROUP

	Trademarks and licences RMB'000	Technology know-how RMB'000	Software RMB'000	Total RMB'000
At 1 January 2010				
Cost	–	–	6,353	6,353
Accumulated amortisation and impairment	–	–	(3,627)	(3,627)
Net book amount	–	–	2,726	2,726
Year ended 31 December 2010				
Opening net book amount	–	–	2,726	2,726
Exchange difference	69	58	–	127
Additions	–	–	524	524
Acquisition from a business combination (note 34)	8,037	7,250	–	15,287
Amortisation charge (note 7)	(436)	(364)	(1,241)	(2,041)
Closing net book amount	7,670	6,944	2,009	16,623
At 31 December 2010				
Cost	8,106	7,308	6,877	22,291
Accumulated amortisation and impairment	(436)	(364)	(4,868)	(5,668)
Net book amount	7,670	6,944	2,009	16,623
Year ended 31 December 2011				
Opening net book amount	7,670	6,944	2,009	16,623
Exchange difference	(594)	(537)	–	(1,131)
Additions	–	–	1,747	1,747
Amortisation charge (note 7)	(369)	(312)	(1,779)	(2,460)
Closing net book amount	6,707	6,095	1,977	14,779
At 31 December 2011				
Cost	7,512	6,771	8,624	22,907
Accumulated amortisation and impairment	(805)	(676)	(6,647)	(8,128)
Net book amount	6,707	6,095	1,977	14,779

Amortisation of RMB330,000 (2010: RMB205,000) and RMB2,130,000 (2010: RMB1,836,000) have been charged in cost of revenue and administrative expenses (note 7).

Notes to the Consolidated Financial Statements

18 INVESTMENT IN SUBSIDIARIES – COMPANY

	2011 RMB'000	2010 RMB'000
Investments – unlisted shares, at cost:	52,837	52,837
Amounts due from subsidiaries	308,511	312,350
Amounts due to subsidiaries	(2,094)	(2,094)

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

The following is a list of principal subsidiaries of the Group at 31 December 2011:

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held
<u>Directly held subsidiaries</u>				
Winning Steps Ltd	BVI	Investment Holding	Ordinary shares USD110	100%
Yu Hwa Holdings Ltd.	BVI	Investment Holding	Ordinary shares USD1,500,000	100%
Hai Sheng International Holdings Inc	BVI	Investment Holding	Ordinary shares USD200,000	100%
Sky Thrive Investment Ltd	BVI	Investment Holding	Ordinary shares USD5,000,000	100%
Kai Win Group Ltd	BVI	Investment Holding	Ordinary shares USD1	100%

Notes to the Consolidated Financial Statements

18 INVESTMENT IN SUBSIDIARIES – COMPANY (Continued)

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held
Indirectly held subsidiaries				
Full Moral Industrial Ltd	Hong Kong	Inactive	Ordinary shares HKD1	100%
Winnings Steps Hong Kong Development Ltd	Hong Kong	Investment Holding	Ordinary shares HKD1,000	100%
Yu Hwa Hong Kong Enterprise Ltd	Hong Kong	Investment Holding	Ordinary shares HKD1,000	100%
Hai Sheng International Hong Kong Ltd	Hong Kong	Investment Holding	Ordinary shares HKD1,000	100%
Sky Thrive Hong Kong Enterprise Ltd	Hong Kong	Investment Holding	Ordinary shares HKD1,000	100%
Hangzhou Good Friend Precision Machinery Co Ltd	PRC	Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structure	Registered Capital USD11,000,000	100%
Hangzhou Global Friend Precision Machinery Co Ltd	PRC	Design and assembling of forklift trucks	Registered Capital USD10,000,000	100%
Hangzhou Ever Friend Precision Machinery Co Ltd	PRC	Design and production of computer numerical control machine tools	Registered Capital USD3,000,000	100%
Hangzhou Glory Friend Precision Machinery Co Ltd	PRC	Processing of computer numerical control machine tools	Registered Capital USD15,000,000	100%
Rich Friend (Shanghai) Precision Machinery Co Ltd	PRC	Trading of computer numerical control machine tools	Registered Capital USD200,000	100%
Sky Thrive Rambaudi S.r.l.	Italy	Design and production of computer numerical control machine tools	Ordinary shares EUR10,000	100%

Notes to the Consolidated Financial Statements

19 INVESTMENT IN JOINTLY CONTROLLED ENTITIES – GROUP AND COMPANY

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Investments in jointly controlled entities				
At beginning of the year	8,192	8,192	8,192	8,192
Capital injections (Note (a))	12,777	–	12,777	–
Share of loss of jointly controlled entities	(1,017)	–	–	–
At end of year	19,952	8,192	20,969	8,192
Amounts due to a jointly controlled entity	–	(7,335)	–	–

As at 31 December 2011, the Group had direct interests in the following jointly controlled entities as follows:

Name of associate	Date of incorporation/ establishment	Attributable equity interest		Registered Capital	Type of legal entity	Principal activities/ place of incorporation and operation
		2011	2010			
Anest Iwata Feeler Corporation ("AIF")	23 November 2009	35%	35%	USD7,500,000	Jointly controlled entity	Manufacture and sales of air compressor and parts, PRC
Hangzhou Nippon Cable Feeler Corporation	20 October 2010	50%	50%	USD100,000	Jointly controlled entity	Wholesale and export of parking garage structures, PRC
Hangzhou Feeler Mectron Machinery Co., Ltd ("Feeler Mectron")	14 April 2011	45%	N/A	USD1,110,000	Jointly controlled entity	Manufacture and sales of machine tools and related products, PRC

Notes to the Consolidated Financial Statements

19 INVESTMENT IN JOINTLY CONTROLLED ENTITIES – GROUP AND COMPANY

(Continued)

Note (a): During the current year, the Company made capital contribution to two jointly controlled entities in the PRC. Details are as follows:

- In February, July and October, 2011, the Company contributed approximately USD1,470,000 (equivalent to RMB9,496,000) in aggregate as additional registered capital into AIF. AIF was jointly established in 2009 by the Company; a third party company, Anest Iwata Corporation (“AIC”); and Anest Iwata Taiwan (“AIT”), which is a jointly controlled entity of the Company’s ultimate holding company. After the additional capital injections made by the Company, equity interests held by the Company, AIC and AIT in AIF are 35%, 35% and 30% respectively. The Company adopts equity accounting to account for its interests in AIF.
- In July 2011, the Company contributed approximately USD499,500 (equivalent to RMB3,281,000) as registered capital into Hangzhou Feeler Mectron Machinery Co., Ltd. (“Feeler Mectron”), a PRC corporation. Feeler Mectron was established by the Company, Mectron Inc. (“Mectron”) and Takamatsu Machinery Co., Ltd (“Takamatsu”), the latter two being independent parties to the Company. Interests held by the Company, Mectron and Takamatsu are 45%, 45% and 10% respectively. The Company also adopts equity accounting to account for its interests in Feeler Mectron.

The following amounts represent the Group’s share of the assets and liabilities, income and results of the jointly controlled entities, which have been included in the consolidated balance sheet and consolidated statement of comprehensive income.

	2011 RMB'000	2010 RMB'000
Assets:		
– Non-current assets	10,011	2,398
– Current assets	9,976	5,301
	19,987	7,699
Liabilities:		
– Current liabilities	278	64
Net assets	19,709	7,635
– Income	548	–
– Expenses	(1,565)	–
Loss for the year	(1,017)	–

For the year ended 31 December 2010, all these jointly controlled entities were still at pre-operation stage and their financial results were immaterial.

There were no contingent liabilities relating to the Group’s interest in the jointly controlled entities and these jointly controlled entities did not have any contingent liabilities themselves.

Notes to the Consolidated Financial Statements

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(a) Group

Assets as per consolidated balance sheet

	Loans and receivables	
	2011	2010
	RMB'000	RMB'000
Debtors and deposits excluding prepayments	575,209	386,207
Amount due from ultimate holding company	–	139
Amounts due from and prepayment to fellow subsidiaries and associates of ultimate holding company	289	3,436
Restricted bank deposits	35,205	29,158
Cash and cash equivalents	140,482	161,045
Total	751,185	579,985

Liabilities as per consolidated balance sheet

	Other financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Creditors, other payables and accrued charges	600,101	454,057
Amount due to ultimate holding company	1,542	–
Amount due to immediate holding company	4,624	2,213
Amount due to a jointly controlled entity	–	7,335
Amount due to a fellow subsidiary	11,661	–
Borrowings	364,155	175,798
Total	982,083	639,403

Notes to the Consolidated Financial Statements

20 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY (Continued)

(b) Company

Assets as per balance sheet

	Loans and receivables	
	2011 RMB'000	2010 RMB'000
Debtors and deposits excluding prepayments	7,344	154
Amounts due from subsidiaries	308,511	312,350
Cash and cash equivalents	1,598	2,745
Total	317,453	315,249

Liabilities as per balance sheet

	Other financial liabilities at amortised cost	
	2011 RMB'000	2010 RMB'000
Other payables and accrued charges	3,475	822
Amounts due to ultimate holding company	3,434	–
Amounts due to subsidiaries	2,094	2,094
Borrowings	157,047	52,909
Total	166,050	55,825

Notes to the Consolidated Financial Statements

21 DEBTORS, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade debtors and bills receivables	553,407	381,143	7,319	–
Less: provision for impairment of trade receivables	(23,082)	(29,656)	–	–
Trade receivables – net	530,325	351,487	7,319	–
Prepayments	47,368	42,091	214	–
Others	44,884	34,720	25	154
Total debtors, deposits and prepayments	622,577	428,298	7,558	154

The Group generally allows a credit period of 30 to 180 days to its customers. The Group also allows its customers to retain certain percentage of the outstanding balances as retention money for a one-year warranty period of the products sold.

At 31 December 2011 and 2010, the ageing analysis of trade debtors and bills receivable were as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Current – 30 days	451,349	293,558	7,319	–
31 – 60 days	10,388	10,508	–	–
61 – 90 days	9,257	11,510	–	–
91 – 180 days	25,565	17,326	–	–
Over 180 days	56,848	48,241	–	–
	553,407	381,143	7,319	–

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB108,475,000 (2010: RMB66,351,000) which were past due as at 31 December 2011 but the Group had not provided for impairment loss. The directors, after considering the trade relationship, credit status and past settlement history of these individual trade debtors, had concluded that these outstanding balances would be recovered. The Group does not hold any collateral over these balances. There are no historical defaults in payments from these trade debtors.

The Company had not provided for impairment loss against its trade debtors as at 31 December 2011 (2010: Nil). The Company's trade debtors were neither pass due nor impaired as at 31 December 2011 (2010: Nil).

Notes to the Consolidated Financial Statements

21 DEBTORS, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY (Continued)

The following is an ageing analysis of trade debtors of the Group which are past due but not impaired:

	Group	
	2011	2010
	RMB'000	RMB'000
0 – 30 days	25,871	10,208
31 – 60 days	10,274	10,164
61 – 90 days	9,257	10,998
91 – 180 days	25,560	16,382
Over 180 days	37,513	18,599
	108,475	66,351

As of 31 December 2011, trade debtors of RMB23,082,000 (2010:RMB29,656,000) of the Group were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpected financial difficulties. The ageing of these receivables is as follows:

	2011	2010
	RMB'000	RMB'000
91 – 180 days	5	14
Over 6 months	23,077	29,642
	23,082	29,656

Movements of provision for impairment of trade receivables of the Group are as follows:

	2011	2010
	RMB'000	RMB'000
At 1 January	29,656	25,866
Provision for receivables impairment	879	5,540
Receivables written off during the year when proved to be uncollectible	(5,513)	(1,750)
Write-back	(1,940)	–
At 31 December	23,082	29,656

Notes to the Consolidated Financial Statements

21 DEBTORS, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY *(Continued)*

The creation and release of provision for impaired receivables have been included in 'other operating expenses' in the consolidated income statement (note 7). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of debtors, deposits and prepayments are denominated in the following currencies:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
RMB	551,187	395,317	–	–
US dollar	44,236	23,862	–	–
Euro	981	3,487	–	–
Other currencies	26,173	5,632	7,319	–
	622,577	428,298	7,319	–

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

22 INVENTORIES – GROUP

	2011 RMB'000	2010 RMB'000
Raw materials	202,459	126,894
Work in progress	133,482	101,499
Finished goods	199,878	115,356
	535,819	343,749
Provision	(3,028)	(1,920)
	532,791	341,829

The cost of inventories recognised as expense and included in 'cost of revenue' amounted to RMB 1,335,059,000 (2010: RMB957,498,000) (note 7).

Notes to the Consolidated Financial Statements

23 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK – GROUP

	2011 RMB'000	2010 RMB'000
Contract costs incurred plus recognised profits less recognised losses	258,167	202,114
Less: Progress billings	(255,396)	(194,845)
	2,771	7,269
	2011 RMB'000	2010 RMB'000
Amounts due from contract customers	29,135	22,943
Amounts due to contract customers	(26,364)	(15,674)
Net amounts due from customers for contract work	2,771	7,269

As at 31 December 2011, retention money held by customers for contract work included in debtors amounted to RMB3,060,000 (2010: RMB2,061,000).

24 RESTRICTED BANK DEPOSITS

The amounts mainly represent deposits placed in banks for guarantees issued for trade finance instruments used by the Group. The deposits have a maturity period within one year and they carry fixed rate interest at 0.5% (2010: 0.36%) per annum.

Notes to the Consolidated Financial Statements

25 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Cash at bank and on hand	70,577	61,645	1,598	2,745
Short-term bank deposits	69,905	99,400	–	–
Cash and cash equivalents	140,482	161,045	1,598	2,745

26 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	Nominal value RMB'000
Ordinary share of HK\$0.01 each		
Authorised:		
At 31 December 2010 and 31 December 2011	1,000,000	10,211
Issued and fully paid:		
At 1 January 2010	336,000	3,431
Issuance of TDRs	67,200	591
At 31 December 2010 and 31 December 2011	403,200	4,022

Notes to the Consolidated Financial Statements

27 RESERVES – GROUP AND COMPANY

Group

	Share premium RMB'000	Capital reserve RMB'000	Other reserves			Retained profits RMB'000	Total RMB'000
			General reserve RMB'000	Enterprise expansion reserve RMB'000	Translation RMB'000		
At 1 January 2010	66,596	77,338	28,090	9,089	–	178,311	359,424
Issuance of TDRs	205,196	–	–	–	–	–	205,196
Dividends paid	–	–	–	–	–	(108,864)	(108,864)
Profit for the year	–	–	–	–	–	158,746	158,746
Currency translation difference	–	–	–	–	(161)	–	(161)
Appropriation to reserves	–	–	7,746	–	–	(7,746)	–
At 31 December 2010	271,792	77,338	35,836	9,089	(161)	220,447	614,341
Dividends paid	(88,704)	–	–	–	–	–	(88,704)
Profit for the year	–	–	–	–	–	153,690	153,690
Currency translation difference	–	–	–	–	(981)	–	(981)
At 31 December 2011	183,088	77,338	35,836	9,089	(1,142)	374,137	678,346

Notes:

- (i) Under Section 34(2) of the Companies Law, Cap. 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be applied by the Company paying dividends to members provided that no dividend may be paid to members out of the share premium account unless, immediately following the date on which the dividend proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.
- (ii) Capital reserve represents the difference between the paid-in capital/share capital and share premium of the subsidiaries acquired at nominal value of the Company's shares issued during the time of the corporate reorganisation of the Group prior to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.
- (iii) General reserve and enterprise expansion reserve are set up in accordance with statutory requirements in the PRC.

Notes to the Consolidated Financial Statements

27 RESERVES – GROUP AND COMPANY (Continued)

Company

	Share premium RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	66,596	12,136	73,173	151,905
Issuance of TDRs	205,196	–	–	205,196
Dividends paid	–	–	(108,864)	(108,864)
Profit for the year	–	–	68,202	68,202
At 31 December 2010	271,792	12,136	32,511	316,439
Dividends paid	(88,204)	–	–	(88,204)
Loss for the year	–	–	(6,833)	(6,833)
At 31 December 2011	183,588	12,136	25,678	221,402

28 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES – GROUP

	Group 2011 RMB'000	2010 RMB'000
Trade creditors	302,299	167,285
Advance deposits from customers	227,222	218,106
Other payables	39,356	36,103
Accrued expenses	31,224	32,563
	600,101	454,057

The Group normally receives credit terms of 30 to 60 days. At 31 December 2011 and 2010, the ageing analysis of the trade payables was as follows:

	2011 RMB'000	2010 RMB'000
Current – 30 days	224,490	128,544
31 – 60 days	57,619	25,296
61 – 90 days	7,752	6,418
91 – 180 days	2,253	4,373
Over 180 days	10,185	2,654
	302,299	167,285

Notes to the Consolidated Financial Statements

28 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES – GROUP *(Continued)*

Creditors, other payables and accrued charges are dominated in the following currencies:

	2011 RMB'000	2010 RMB'000
RMB	571,269	433,351
US dollars	3,780	8,531
Euro	25,052	12,175
	600,101	454,057

29 WARRANTY PROVISION – GROUP

	2011 RMB'000	2010 RMB'000
At 1 January	8,099	5,204
Provision for the year	7,878	9,465
Utilisation of provision	(7,699)	(6,570)
At 31 December	8,278	8,099

30 BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Non-current				
– Unsecured	–	6,614	–	6,614
Current				
– Secured	36,979	980	–	–
– Unsecured	327,176	168,204	157,047	46,295
	364,155	169,184	157,047	46,295
Total borrowings	364,155	175,798	157,047	52,909

Notes to the Consolidated Financial Statements

30 BORROWINGS – GROUP AND COMPANY (Continued)

The range of effective interest rates of the Group's borrowing is as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Effective interest rates per annum	0.47% to 7.32% per annum	1.45% to 5.35% per annum	0.47% to 3.89% per annum	1.47% to 2.57% per annum

At 31 December 2011, the Group's borrowings were repayable as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Within 1 year	364,155	169,184	157,047	46,295
Between 1 and 2 years	–	6,614	–	6,614

The Group had pledged its land use rights and buildings with carrying amounts of approximately RMB13,537,000 (note 14) and RMB24,849,000 (note 15) respectively (2010: RMB13,847,000 and RMB25,911,000 respectively) as at 31 December 2011 in order to secure the general banking facilities granted to it.

The fair value of current borrowings as at 31 December 2011 equals their carrying amount because the impact of discounting is not significant. The fair value was determined based on cash flows discounted using a rate of borrowing at 3.25% per annum (2010: 2.37% per annum).

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

Notes to the Consolidated Financial Statements

30 BORROWINGS – GROUP AND COMPANY (Continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
RMB	42,100	10,100	–	–
HK dollars	91,947	49,594	42,916	–
US dollars	227,892	116,104	114,131	52,909
EUR	2,216	–	–	–
	364,155	175,798	157,047	52,909

The Group had the following undrawn borrowing facilities as at 31 December 2011:

	Group	
	2011 RMB'000	2010 RMB'000
Floating rate loans:		
– Expiring within one year	473,452	115,590

The facilities expiring within one year are annual facilities granted by banks which are subject to review at various dates throughout 2012.

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX – GROUP

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

	Group	
	2011 RMB'000	2010 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	4,534	5,545
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	4,396	2,097
– Deferred tax liability to be recovered within 12 months	17,404	13,691
	21,800	15,788

The movement on the deferred income tax assets during the years are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
At 1 January	5,545	5,235
(Charge)/credit to consolidated statement of comprehensive income	(1,011)	310
At 31 December	4,534	5,545

Deferred tax assets	Group			
	Allowance for doubtful receivables RMB'000	Allowance for inventories RMB'000	Warranty provision RMB'000	Total RMB'000
At 1 January 2010	3,880	645	710	5,235
Charge/(Credit) to consolidated statement of comprehensive income	463	(549)	396	310
At 31 December 2010	4,343	96	1,106	5,545
Charge/(Credit) to consolidated statement of comprehensive income	(986)	39	(64)	(1,011)
At 31 December 2011	3,357	135	1,042	4,534

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX – GROUP (Continued)

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

	Group	
	2011 RMB'000	2010 RMB'000
At 1 January	15,788	4,943
Charge to consolidated statement of comprehensive income	6,329	6,206
Reversal	(405)	(4,426)
Deferred tax liabilities arising from a business combination	–	8,700
Exchange difference	88	365
At 31 December	21,800	15,788

Deferred tax liabilities	Group		
	Withholding tax on distributable profit of subsidiaries in the PRC RMB'000	Business combination RMB'000	Total RMB'000
At 1 January 2010	4,943	–	4,943
Charge/(Credit) to consolidated statement of comprehensive income	7,693	(1,487)	6,206
Reversal	(4,426)	–	(4,426)
Deferred tax liabilities arising from a business combination	–	8,700	8,700
Exchange difference	–	365	365
At 31 December 2010	8,210	7,578	15,788
Charge/(Credit) to consolidated statement of comprehensive income	9,291	(2,962)	6,329
Reversal	(405)	–	(405)
Exchange difference	–	88	88
At 31 December 2011	17,096	4,704	21,800

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX – GROUP *(Continued)*

At the balance sheet date, the Group had unutilised tax losses of approximately RMB29,626,000 (2010: RMB14,551,000) available for offsetting against future profits. No deferred tax asset had been recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, withholding income tax of 10% shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes at the rate of 5% on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The expiry dates of these tax losses are as follows:

	2011 RMB'000	2010 RMB'000
With expiry in:		
2013	5,407	6,814
2014	6,142	6,142
2015	1,595	1,595
2016	16,482	–

Notes to the Consolidated Financial Statements

32 CASH GENERATED FROM OPERATIONS

	2011 RMB'000	2010 RMB'000
Profit before income tax	197,032	193,806
Adjustments for:		
Amortisation of land use rights (note 14)	943	943
– Depreciation of property, plant and equipment (note 15)	23,312	18,191
– Depreciation of investment properties (note 16)	101	133
– Amortisation of intangible assets (note 17)	2,460	2,041
– Share of loss of jointly controlled entities (note 19)	1,017	–
– Loss on disposal of property, plant and equipment (see below)	398	732
– Interest income (note 6)	(3,654)	(1,321)
– Finance costs (note 9)	8,821	3,461
– Effect on currency exchange difference	483	41
– Excess of net fair value of identifiable assets, liabilities and contingent liabilities of a business acquired over cost (note 34)	–	(19,006)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Increase in inventories	(190,962)	(104,429)
– Increase in debtors, deposits and prepayments	(194,279)	(166,158)
– Increase in amounts due from customers for contract work	(6,192)	(5,745)
– Decrease in amount due from ultimate holding company	139	449
– Decrease/(increase) in amounts due from a fellow subsidiary and an associate of ultimate holding company	3,147	(3,436)
– Increase in creditors, other payables and accrued charges	141,468	155,603
– Increase/(decrease) in amounts due to customers for contract work	10,690	(2,902)
– Decrease in amount due to ultimate holding company	1,542	–
– (Decrease)/increase in amount due to immediate holding company	2,411	(4,235)
– (Decrease)/increase in amount due to a jointly controlled entity	(7,335)	7,335
– Increase in amount due to a fellow subsidiary	11,661	–
– Increase in warranty provision	179	2,895
Cash generated from operations	3,382	78,398

Notes to the Consolidated Financial Statements

32 CASH GENERATED FROM OPERATIONS *(Continued)*

In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

Group	2011 RMB'000	2010 RMB'000
Net book amount (note 15)	592	2,688
Loss on disposal of property, plant and equipment	(398)	(732)
Proceeds from disposal of property, plant and equipment	194	1,956

33 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is analysed as follows:

Group	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection into jointly controlled entities	–	10,067
– Acquisition of machinery and equipment	6,502	27,097
	6,502	37,164

(b) Operating lease commitments

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

Group	2011 RMB'000	2010 RMB'000
No later than 1 year	4,810	2,402
Later than 1 year and no later than 5 years	4,737	2,795
Later than 5 years	–	456
	9,547	5,653

Notes to the Consolidated Financial Statements

34 BUSINESS COMBINATIONS

On 24 June 2010, the Company, through a newly incorporated subsidiary in Italy named Sky Thrive Rambaudi S.r.l. ("ST Rambaudi"), entered into a "Transfer of a Business Concern" agreement with the receiver for the liquidation of Sachman Rambaudi S.p.a. ("Sachman Rambaudi"), a third party Italian company. Pursuant to the agreement, ST Rambaudi undertook to acquire certain tangible and intangible assets pertaining certain models of computer numerical control machine tools owned by Sachman Rambaudi (the "Business") at an aggregate consideration of EUR2,259,000 (equivalent to approximately RMB18,890,000). In addition, ST Rambaudi also agreed to take up certain of the workforce pertaining to these operations. The Company completed the transaction on 19 July 2010. The acquisition constitutes a business combination as defined under HKFRS3R.

An analysis of the respective fair values of the identifiable assets, performed by a third party valuer in Italy, of the business so acquired and its comparison against the purchase consideration is as follows:

Consideration:

	RMB'000
At 19 July 2010	
Cash consideration	
Paid	14,759
Payable	4,973
Total consideration	19,732
Acquisition-related costs (included in administrative expenses in the consolidated income statement for the year ended 31 December 2010)	422
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (note 15)	4,285
Trademarks (included in intangibles) (note 17)	8,037
Technology know-how (included in intangibles) (note 17)	7,250
Inventories	27,866
Deferred tax liabilities (note 31)	(8,700)
Total identifiable net assets	38,738
Excess of net fair value of identifiable assets, liabilities and contingent liabilities of the business acquired over cost	(19,006)
	19,732

Notes to the Consolidated Financial Statements

34 BUSINESS COMBINATIONS *(Continued)*

The gain of RMB19,006,000 recognised in this transaction was mainly due to the fact that it was a bargain sales of the business from a company under liquidation in an open auction during the time of the global economic crisis. As a result, the Group was able to offer a preferential bidding price to win the auction.

The fair value of the trademark was assessed by applying the relief from royalty method. The fair value key estimates are based on:

- (a) an assumed royalty rate of 1.75%;
- (b) an assumed useful life of 10 years; and
- (c) an assumed discount rate of 16.68%.

The fair value of the technological know-how was assessed by applying the replacement cost method. The fair value key estimates are based on:

- (a) an assumed useful life of 10 years;
- (b) an assumed discount rate of 16.68%.

The revenue included in the consolidated statement of comprehensive income of the Group since 19 July 2010 which was contributed by ST Rambaudi was RMB10,897,000. ST Rambaudi also contributed profit of approximately RMB90,000 over the same period in 2010.

Due to the fact that the business acquired was left idle before the acquisition, had the business been consolidated from 1 January 2010, the consolidated statement of comprehensive income would show revenue and profit of the same amounts as above.

Notes to the Consolidated Financial Statements

35 RELATED-PARTY TRANSACTIONS AND BALANCES

During the year, the Group also had the following transactions with its related parties:

(a) Transactions

Name of company	Relationship	Nature of transactions	2011 RMB'000	2010 RMB'000
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	1,157	1,627
		Purchases of goods	47,521	248
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Sales of goods	454	499
		Purchases of goods	2	–
Fairsq (Taiwan) Co., Ltd	Associate of ultimate holding company	Sales of goods	833	–
Good Friend (H. K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	177,500	148,123
Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine")	Fellow subsidiary	Sales of goods	81	152
Hangzhou Anest Iwata Feeler Corporation ("Anest Iwata Feeler")	Jointly controlled entity	Sales of goods	6,273	813
		Purchases of goods	281	–
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	285	236
SANCO Machine & Tools Co., Ltd. ("SANCO")	Fellow subsidiary	Purchases of goods	37,072	–

Note:

The terms of the above transactions are governed based on framework agreements entered into between the Company and Fair Friend or its subsidiaries/associates/jointly controlled entity.

Notes to the Consolidated Financial Statements

35 RELATED-PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances

Name of company	Relationship	Nature of balances	2011 RMB'000	2010 RMB'000
Anest Iwata Feeler (controlled by Mr. Wen Chi-Tang)	Jointly controlled entities	Trade payable (note (b))	–	(7,335)
Fair Fine (controlled by Mr. Chen Min-Ho)	Fellow subsidiary	Trade receivable (note (a))	48	22
Best Friend	Associate of ultimate holding company	Prepayment for purchase and trade receivables (note (a))	241	3,276
Feeler Takamatsu	Associate of ultimate holding company	Trade receivable (note (a))	–	138
Fair Friend	Ultimate holding company	Trade receivable (note (a))	–	139
Fair Friend	Ultimate holding company	Trade payable (note (b))	(1,542)	–
Hong Kong GF	Immediate holding company	Trade payable (note (b))	(4,624)	(2,213)
SANCO	Fellow subsidiary	Trade payable (note (b))	(11,661)	–

Notes:

(a) The Group allowed a normal credit period of 90 days for sales made to the fellow subsidiary and the ultimate holding company and its associates. Balances are unsecured and interest free. As of 31 December 2011 and 2010, the ageing of above balances was mostly within 6 to 12 months.

(b) Balances are unsecured, interest free and repayable on demand.

Notes to the Consolidated Financial Statements

35 RELATED-PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2011	2010
	RMB'000	RMB'000
Salaries and other allowances	2,628	2,917

36 HOLDING COMPANIES

The directors regard Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong, and Fair Friend Enterprise Company Limited, a company incorporated in Taiwan, as being the immediate holding company and the ultimate holding company respectively.

37 EVENTS AFTER THE BALANCE SHEET DATE

On 16 January 2012, Sky Thrive Hong Kong Enterprise Limited, a wholly-owned subsidiary of the Company entered into a sales and purchase agreement with ETG Machine Tools S.r.l. ("ETGMT"), an independent party, for the acquisition of 15% interests in Jobs Automazione S.p.A ("Jobs"), a company incorporated in Italy, from ETGMT at a consideration of EUR1,651,000 (equivalent to RMB13,480,000). Upon completion of the transaction, there would be one representation of the Company in the board of directors of Jobs. Accordingly, the Group will account for such investment as an associate in the financial statements. The transaction was completed on 19 January 2012.

Five-Year Financial Summary

OPERATING RESULTS

For the year ended 31 December

	2007	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	821,367	730,517	776,838	1,374,183	1,884,132
Gross profit	214,351	180,017	214,801	355,535	439,216
Profit before taxation	95,954	32,141	107,684	193,806	197,032
Profit for the year attributable to equity holders of the Company	84,885	21,853	84,145	158,746	153,690
Earnings per share – basic (RMB)	0.25	0.07	0.25	0.41	0.38

ASSETS AND LIABILITIES

As at 31 December

	2007	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	177,064	232,939	245,109	322,262	371,929
Net current assets	170,513	99,030	132,930	318,503	332,239
Total assets less current liabilities	347,577	331,969	378,039	640,765	704,168
Share capital	3,431	3,431	3,431	4,022	4,022
Reserves	344,146	325,679	359,424	614,341	678,346
Shareholders' equity	347,577	329,110	362,855	618,363	682,368
Non-current liabilities	–	2,859	15,184	22,402	21,800
	347,577	331,969	378,039	640,765	704,168