# 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 2009

# Contents

# 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-Hisen

## 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

## 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 SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of Communications Co., Ltd
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Industrial Bank of Taiwan

## STOCK CODE

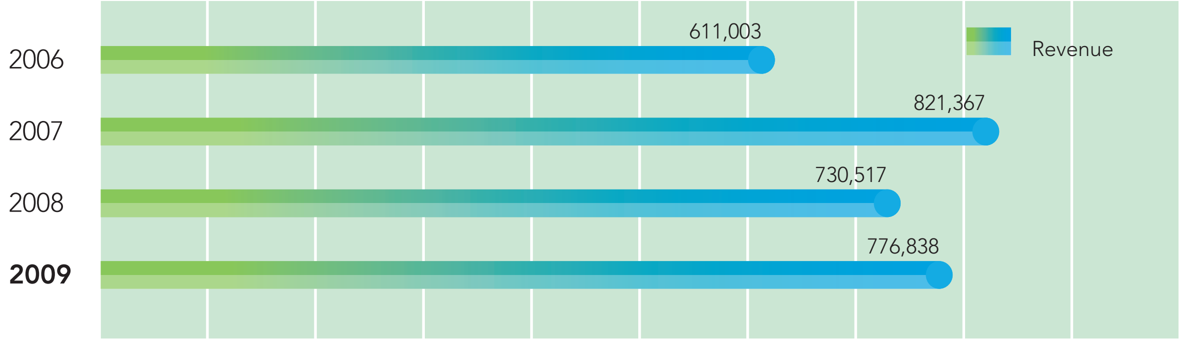
2398

## WEBSITE

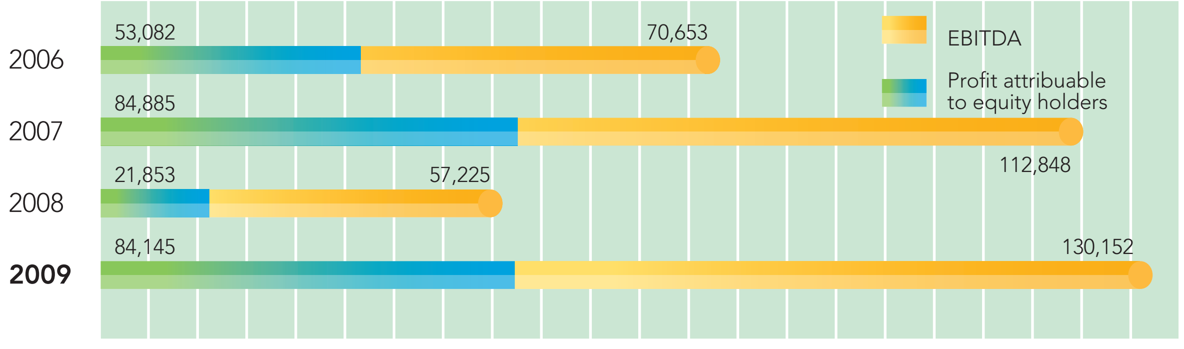
http://www.goodfriend.hk

# Financial Highlights

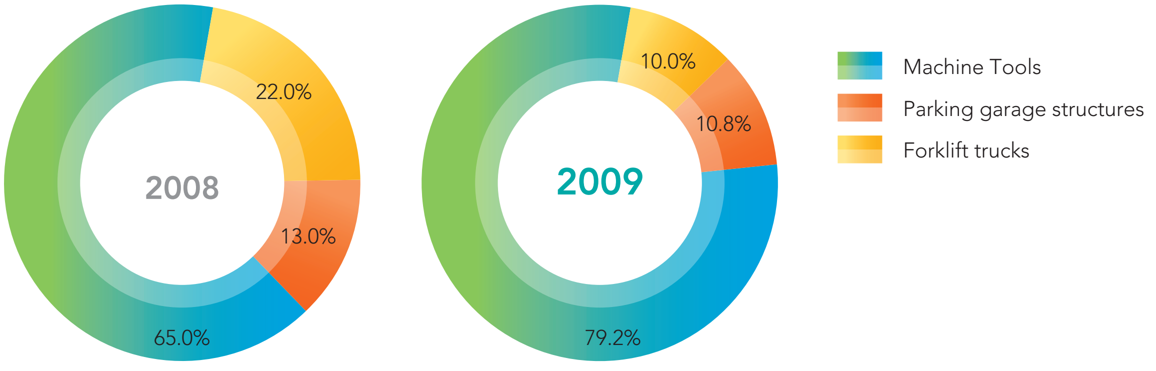
## REVENUE (RMB'000)




## PROFIT (RMB'000)




## BUSINESS SEGMENTS (In terms of revenue)



# Financial Highlights

## TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

| | 2009<br>RMB'000 | 2008<br>RMB'000 | Change<br>(%) |
|---|---|---|---|
| Revenue | **776,838** | 730,517 | 6.3% |
| Gross profit | **202,306** | 180,017 | 12.4% |
| EBITDA | **130,152** | 57,225 | 127.4% |
| Profit attributable to equity holders | **84,145** | 21,853 | 285.1% |
| Shareholders' equity | **362,855** | 329,110 | 10.3% |
| Total assets | **826,625** | 699,683 | 18.1% |
| Earnings per share – basic (RMB) | **0.25** | 0.07 | 257.1% |

## SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

| | 2009 | 2008 | Change<br>(%) |
|---|---|---|---|
| Gross profit margin *Note 1* | **26.0%** | 24.6% | 5.7% |
| Net profit margin *Note 2* | **10.8%** | 3.0% | 260.0% |
| Inventory turnover days *Note 3* | **133.1** | 141.2 | (5.7)% |
| Debtors' turnover days *Note 4* | **94.6** | 67.6 | 39.9% |
| Creditors' turnover days *Note 5* | **79.5** | 56.3 | 41.2% |
| Current ratio (Times) *Note 6* | **1.3** | 1.3 | – |
| Quick ratio (Times) *Note 7* | **0.8** | 0.7 | 14.3% |
| Gearing ratio (%) *Note 8* | **15.4%** | 24.9% | (38.2)% |
| EBITDA/Finance costs (Times) *Note 9* | **28.5** | 9.4 | 203.2% |
| Return on equity (%) *Note 10* | **23.2%** | 6.6% | 251.5% |

*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 sales 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 hereby 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 2009 ("the year").

## FINANCIAL PERFORMANCE

For the year ended 31 December 2009, the Group recorded a revenue of approximately RMB776.84 million, representing an increase of approximately 6.3% compared to the previous year; profit attributable to equity holders amounted to approximately RMB84.15 million, representing an increase of approximately 285.1% compared to 2008.

## FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company, a final dividend of RMB0.12 (equivalent to approximately HK$0.137) per share for the year ended 31 December 2009, amounting to RMB40.32 million (equivalent to approximately HK$46.03 million), according to number of existing issued ordinary shares.

# Chairman's Statement

## BUSINESS REVIEW

The Group recorded satisfactory growth in its results performance for the year. During the year, CNC machine tools remained the major source of the Group's revenue, representing approximately 79.2% of the total revenue. As the economy of China began to recover in the second half of 2009, number of orders received by the Group in respect of its CNC machine tools business also increased remarkably. For the year ended 31 December 2009, sales volume and sales revenue of the Group's CNC machine tools business amounted to 1,352 units and approximately RMB615.45 million respectively, representing satisfactory growth when compared to 2008. During the year, the Group also recorded revenue of approximately RMB43.42 million for its double column machining centre launched in 2008, whilst selling price of such product is approximately 2 times or more the average selling price of the Group's CNC machine tools products. Moreover, the Group's new production base in Xiasha, Hangzhou (owned by Hangzhou Ever Friend Precision Machinery Co., Ltd. with an area of about 26,000 sq.m.) has already been utilized for the production of double column machining centre in the middle of 2009 which in turn enhanced the production capacity of the Group.

During the year, the Group continued to actively participate in those machine tools fairs in China. Through promoting its CNC machine tools products, the Group was able to achieve growth in sales of the products. In respect of its sales network, the number of the Group's liaison offices in China had increased to 32 in the year, covering various major cities in China. The Group has more than 300 professional sales staffs which are able to maintain close relationship with the customers for providing comprehensive pre-sales and after-sales services to those customers. Moreover, amidst the global economic slowdown in the second half of 2008 caused by the financial tsunami, the management had further strengthened its cost control measures during the year. Tight control on its operating expenses enabled the Group to achieve better efficiency. With sales revenue of CNC machine tools (the Group's mainstream product) returned to growing trend in the second half of 2009 coupled with the Group's implementation of effective cost control measures, the Group therefore recorded remarkable results performance during the year ended 31 December 2009.

## STRATEGIC INVESTMENT

On 23 June 2009, the Company, Anest Iwata Corporation ("AIC") and Anest Iwata Taiwan Corporation ("AIT") entered into a shareholders' agreement for the formation of a wholly foreign owned enterprise, Anest Iwata Feeler Corporation (the "JVC"). Accordingly, the equity interest of the JVC is owned as to 35%, 35% and 30% by the Company, AIC and AIT respectively. The amount to be contributed by the Group to the registered capital of the JVC is US$ 2,625,000. The JVC is principally engaged in the production, assembly and supply of air compressors, their components, accessories and spare parts. The Group considers the formation of the JVC an opportunity to diversify the investment portfolio of the Group and helps enlarge the revenue base of the Group as a whole.

# Chairman's Statement


# Chairman's Statement

## ISSUE OF TAIWAN DEPOSITARY RECEIPTS

On 10 December 2009, the Company made an application to the relevant authorities for the offering and listing of Taiwan Depositary Receipts ("TDR") on the Taiwan Stock Exchange (equivalent to not exceeding 67,200,000 new shares to be issued by the Company). The Company has subsequently obtained the approvals from the Taiwan Central Bank, the Taiwan Stock Exchange and the Taiwan Securities and Futures Bureau on 16 December 2009, 23 December 2009 and 13 January 2010 respectively. The Group intends to use the net proceeds from the issue of TDR for purchasing machinery and equipment and construction of plant to further expand the Group's production capacity in respect of its CNC machine tools business. Issue of TDR could provide an additional fundraising platform for the Group as well as broaden and diversify the shareholder base of the Company.

## PROSPECTS

Despite the global economic environment still remains uncertain in 2009 due to the financial crisis, the Group recorded encouraging growth in its results performance for 2009. Through the Chinese government's policies of promotion of economic-stimulus measures, the gross domestic product GDP of China for 2009 has achieved a growth of 8.7%. It is believed that China will be the first country to recover from the impact of financial crisis. The Group stands to benefit accordingly by virtue of the fact that its mainstream product CNC machine tools focuses mainly in China market. Moreover, purchases of machine tools keep rising in China at a CAGR of 15.9% from 2004 to 2008. China therefore has a great demand for machine tools and in turn provides ample room for the development of the machine tools industry.

China is the largest machine tools consuming country. The Group will continue to expand its production capacity and enhance its production efficiency, in order to meet the vast demand from the domestic market and provide high quality CNC machine tools to the customers. Moreover, the Group will continue to participate actively in machine tools fairs in China in the future in order to solidify the Group's market share in China. On the other hand, apart from further expanding the Group's production capacity in respect of its CNC machine tools business, the issue of TDR could also increase the public awareness of the Group and promote the Group's corporate image internationally, which could enhance its competitiveness and also be beneficial to the Group's overall business development.

Looking ahead, the management believes that with its extensive sales network, solid research and development foundation as well as advanced manufacturing facilities, the Group is capable of meeting customers' different needs. Furthermore, the management will explore appropriate investing and acquisition activities. The Group is committed to becoming an international CNC machine tools manufacturer to bringing favorable returns to the shareholders of the Company. In conclusion, the management is optimistic about China's economic development prospects and the Group's prospect in the foreseeable future.

Last but not least, I on behalf of the Board, would like to thank the Company's shareholders, the Group's customers and suppliers for their continued support. I would also like to thank all the management and staff for their efforts and contributions to the Group over the last year.

By order of the Board,
**Chu Chih-Yaung**
*Chairman*

Hong Kong, 11 February 2010

# Management Discussion and Analysis

## FINANCIAL REVIEW

For the year ended 31 December 2009, the Group's financial performance returned to growing trend. The Group's revenue and profit attributable to equity holders of the Company for the year amounted to approximately RMB776.84 million (2008: RMB730.52 million) and approximately RMB84.15 million (2008: RMB21.85 million) respectively, representing an increase of approximately 6.3% and 285.1% respectively as compared with that in 2008. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,352 units, 5,668 units and 1,189 units respectively (2008: 1,177 units, 4,437 units and 2,178 units).

### Revenue

During the year, CNC machine tools remained the major source of the Group's revenue. The number of CNC machine tools sold increased from 1,177 units in 2008 to 1,352 units this year. Sales of the product rose from approximately RMB476.65 million in 2008 to approximately RMB615.45 million this year, an increase of approximately 29.1% and represented approximately 79.2% of the Group's total revenue. The major customers of the CNC machine tools business are auto parts and mechanical manufacturers. During 2009, the effects of global financial crisis continued to spread. Despite that, the Group's CNC machine tools business was benefited by the RMB4,000 billion economic-stimulus measures launched by the central government of China at the end of 2008, as well as the automobile subsidies for rural areas launched in early 2009. Revenue of the Group's CNC machine tools business was able to grow steadily from the middle of 2009. The underlying factors are the Group's advantage over its competitors in producing relatively high quality machine tools products, and the comprehensive sales services provided by its extensive sales network in China. The operating gross profit margin for CNC machine tools during the year was approximately 30.7% (2008: 31.5%).

On the other hand, the Group's forklift trucks business was hit by the drop of sales orders from overseas customers during the year. As a result, revenue generated from the forklift trucks decreased by 51.4% from RMB159.83 million in 2008 to RMB77.61 million this year. Proportion of revenue of forklift trucks to the Group's total revenue decreased to 10.0% accordingly. Moreover, sales revenue of parking garage structures for the year was approximately RMB83.78 million, representing a decrease of approximately 10.9% from that in 2008 and approximately 10.8% of the Group's total revenue.

# Management Discussion and Analysis

### Gross profit and margin

For the year ended 31 December 2009, gross profit of the Group amounted to approximately RMB202.31 million (2008: RMB180.02 million). Overall gross profit margin of the Group was approximately 26.0% (2008: 24.6%). Despite the fact that gross profit margin of CNC machine tools (the Group's major product) during the year maintained at approximately 30.7%, proportion of revenue of CNC machine tools to the Group's total revenue increased for the year whilst at the same period proportion of revenue of forklift trucks (relatively lower gross profit margin) to the Group's total revenue decreased. As a result, the overall gross profit margin for the year increased slightly.

### Distribution and selling expenses

Distribution and selling expenses decreased by approximately 17.8% from approximately RMB96.33 million in 2008 to approximately RMB79.18 million for the year. Since the occurrence of the financial crisis in the second half of 2008, the Group had striven to control its operating expenditures in order to achieve better efficiency. During the year, distribution and selling expenses as a percentage of the Group's revenue was approximately 10.2% (2008: 13.2%).

### Administrative expenses

Administrative expenses decreased significantly by approximately 60.4% from approximately RMB55.58 million in 2008 to approximately RMB22.01 million for the year. Apart from the stringent cost control measures implemented by the Group, there was a write-back of allowance for trade and doubtful debts amounting to approximately RMB12.31 million for the year ended 31 December 2009 due to the change in estimate given the improvement in economic conditions.

### Finance costs

During the year ended 31 December 2009, finance costs decreased to approximately RMB4.56 million (2008: RMB6.11 million). The decrease was primarily due to the decrease of average bank borrowings of the Group during the year.

### Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2009 was approximately RMB84.15 million, representing an increase of approximately 285.1% as compared to the previous year.

# Management Discussion and Analysis

## Liquidity and financial resources

As at 31 December 2009, the Group had net current assets of approximately RMB132.93 million (2008: RMB99.03 million), shareholders' fund of approximately RMB362.86 million (2008: RMB329.11 million) and short-term bank borrowings of approximately RMB117.30 million (2008: RMB173.76 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 2009 amounted to approximately RMB68.14 million (2008: RMB53.88 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.3 times (2008: 1.3 times). The gearing ratio (ratio of total debts to total assets) was approximately 15.4% (2008: 24.9%), 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 2009 was HK$3,360,000 divided into 336,000,000 shares of HK$0.01 each (at 31 December 2008: HK$3,360,000 divided into 336,000,000 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 2009, the total outstanding short-term borrowings stood at approximately RMB117.30 million (2008: RMB173.76 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

## Significant investment

The Group had no significant investment held for the year ended 31 December 2009.

## Material acquisitions and disposals of subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2009.

## Segmental information

Details of segmental information for the year ended 31 December 2009 are set out in note 5 to the consolidated financial statements.

# Management Discussion and Analysis

## Staff and remuneration policies

At 31 December 2009, the Group employed a total of 1,230 (2008: 1,130) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB62.89 million (2008: RMB72.81 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 RMB2.21 million (2008: RMB3.69 million) to the said schemes.

## Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB3.43 million (2008: RMB9.95 million) which are contracted but not provided in the financial statements. The Group also had commitments of USD0.63 million (2008: Nil) in respect of initial capital contribution to the JVC (see "Strategic Investment" in chairman's statement). The Group had no material contingent liabilities as at 31 December 2009 (2008: Nil).

## Charges on the Group's assets

As at 31 December 2009, restricted bank deposits with an amount of approximately RMB23.92 million (2008: RMB8.78 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 RMB67.25 million (2008: RMB14.37 million) to secure general banking facilities granted to them.

## Future plans for material investments or capital assets

Apart from the investment in JVC, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2009. 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 2009, 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 the impact to 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 63, 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 64, was appointed as an executive Director in December 2005 and chief executive officer. He is also a member of remuneration committee and 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 59, 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 45, was appointed as an executive Director in December 2005. He is currently the vice general manager of machine tools division of Hangzhou Good Friend Precision Machinery Co., Ltd. and is responsible for the production and operation of this division. Mr. Wen has more than 10 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 52, was appointed as an executive Director in December 2005. Mr. Chiu is the manager of the parking garage structures division of Hangzhou Good Friend Precision Machinery Co., Ltd. and is responsible for the production and operation of this division. Mr. Chiu has more than 25 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 53, was appointed as an independent non-executive Director in December 2005 and is the chairman of audit committee, remuneration committee and 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 acts as an independent non-executive director of Weichai Power Co., Ltd., Li Ning Company Limited, Midland Holdings Limited and Xingda International Holdings Limited, which are companies listed on the Main Board, and Richfield Group Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange. He is a certified public accountant.

Mr. Koo retired as vice chairman and chief financial officer of 2020 ChinaCap Acquirco, Inc in 2009. He also retired as independent non-executive director of China Communications Construction Company Limited in 2009.

**Mr. Chiang Chun-Te**（江俊德先生）, aged 49, was appointed as an independent non-executive Director in December 2005 and is a member of audit committee, remuneration committee and nomination committee of the Company. Mr. Chiang is the 16th Representative of the Delegates Committee of the Importers and Exporters Association of Taipei（台北市進出口商業同業公會會員代表大會）. He is the director of Premier Venture Capital Corp.（首席創業投資股份有限公司）, Premier Capital Management（首席財務管理顧問股份有限公司）and 乾坤投資股份有限公司 and chairman and general manager of Istra Corp.（德鎂實業股份有限公司）.

He is appointed as independent director of Long Chen Paper Co., Ltd（榮成紙業股份有限公司）in 2009.

**Mr. Yu Yu-Tang**（余玉堂先生）, aged 73, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee of the Company. He was appointed as a provincial government consultant of the Taiwan Hsin Chu County Government（台灣新竹縣政府）in May 2004.

# Biographical Details of Directors and Senior Management

## SENIOR MANAGEMENT

**Mr. Wang Gui Sheng** (王桂生先生), aged 56, was appointed as the vice general manager of Hangzhou Global Friend and is responsible for the operation and management of the factory. He joined the Group in February 2003 and has over 37 years of experience in forklift and mechanical industry.

**Mr. Chiang Chia-Shin** (強家鑫先生), aged 51, 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 24 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 48, 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 22 years of experience in the machine tools industry.

**Mr. Yeh Ming-Pin** (葉明彬先生), aged 42, 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 12 years of experience in the fields of auditing, accounting and finance.

**Mr. Yip Sai Keung, Esmond** (葉世強先生), aged 44, 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 18 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 2009.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and the 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 2009 is set out in note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 37 to 87.

The Directors declared an interim dividend of RMB0.09 (equivalent to approximately HK$0.102) per ordinary share to those shareholders whose names appear on the register of members on 2 October 2009, amounted to approximately RMB30.24 million (equivalent to approximately HK$34.27 million) which was paid on 7 October 2009.

The Directors proposed a final dividend of RMB0.12 (equivalent to approximately HK$0.137) per ordinary share for the year ended 31 December 2009, amounting to approximately RMB40.32 million (equivalent to approximately HK$46.03 million), according to number of existing issued ordinary shares.

The dates of closure of register of members of the Company for the purpose of determining the identity of the shareholders entitled to receive the final dividend and payment date of the final dividend will be announced later.

## RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 41.

## ANNUAL GENERAL MEETING

The 2010 AGM will be held on Wednesday, 31 March 2010. Shareholders should refer to details regarding the 2010 AGM in the circular of the Company of 1 March 2010 and the notice of 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 14 to the consolidated financial statements.

# Report of the Directors

## SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2009 are set out in note 28 to the consolidated financial statements.

## BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2009 are set out in note 27 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") Mr. Chen Hsiang-Jung, Mr. Chen Min-Ho and Mr. Chiu Rung-Hsien will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## 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 ("Listing Rules"). The Company considers all of the 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.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 11 January 2009 with the Company for a term of three years commencing from 11 January 2009 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 2010, and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

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 32 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 2009, 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.

# Report of the Directors

## 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.

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

# Report of the Directors

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.

(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.

There has been no option granted since the adoption of the Scheme.

## DIRECTORS' INTEREST IN SHARES

As at 31 December 2009, 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 | 24,580,347 shares | 15.61% |
| Mr. Chu Chih-Yaung *(Note 1)* | Taiwan FF | Spouse interest | 4,618,925 shares | 2.93% |
| Mr. Chu Chih-Yaung *(Not 2)* | Taiwan FF | Family interest | 685,759 shares | 0.44% |

# Report of the Directors

| Name of Director | Name of associated corporation | Nature of interest | Number and class of securities | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Chen Hsiang-Jung | Taiwan FF | Beneficial owner | 4,662,841 shares | 2.96% |
| Mr. Chu Chih-Yaung | 友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 4)* | Beneficial owner | 21,988 shares | 0.22% |
| Mr. Chu Chih-Yaung *(Note 3)* | 友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 4)* | 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 4)* | Beneficial owner | 1,000 shares | 0.01% |
| Mr. Chu Chih-Yaung *(Note 5)* | 佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) *(Note 4)* | Spouse interest | 1,000 shares | 0.01% |
| Mr. Chu Chih-Yaung *(Note 6)* | 友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 4)* | Spouse interest | 14,700 shares | 0.17% |
| Mr. Chen Hsiang-Jung | 友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 4)* | Beneficial owner | 2,940 shares | 0.03% |
| Mr. Chu Chih-Yaung | Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 4)* | Beneficial owner | 750 shares | 0.03% |
| Mr. Chen Hsiang-Jung | Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 4)* | 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"), holds 2.93% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

2. Mr. Chu Yi-Chia, the son of Mr. Chu under the age of 18, holds 0.44% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Mr. Chu Yi-Chia in Taiwan FF under the SFO.

3. Ms. Wang holds 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.

4. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO.

5. Ms. Wang holds 0.01% of the issued share capital of Yu Thai Xin Ent. Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Yu Thai Xin Ent. Co., Ltd. under the SFO.

6. Ms. Wang holds 0.17% of the issued share capital of Decaview Asia Corporation. Mr. Chu is 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 2009, 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 2009, 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 2009, 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 | 252,000,000 shares *(Note)* | 75% |
| Taiwan FF | Interest of controlled corporation | 252,000,000 shares *(Note)* | 75% |
| Morgan Stanley | Beneficial owner | 24,000,000 shares | 7.14% |

*Note:* Hong Kong GF is owned as to approximately 99.99% by Taiwan FF. Accordingly, Taiwan FF is deemed to be interested in 252,000,000 shares of the Company held by Hong Kong GF under the SFO.

2. Aggregate short 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 |
|---|---|---|---|
| Hong Kong GF | Beneficial owner | 24,000,000 shares *(Note)* | 7.14% |
| Taiwan FF | Interest of controlled corporation | 24,000,000 shares *(Note)* | 7.14% |

*Note:* Hong Kong GF is owned as to approximately 99.99% by Taiwan FF. Accordingly, Taiwan FF is deemed to be interested in 24,000,000 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 2009.

## 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 standard 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 9 to the consolidated financial statements.

## RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 32 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.

1. **Non-exempt continuing connected transactions**

   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 "**Framework Agreement**") with Fair Friend Enterprise Company Limited ("**Taiwan FF**"), the indirect controlling shareholder and connected person

# Report of the Directors

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.

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

The resolution approving the Framework Agreement, the transactions contemplated thereunder and the relevant annual maximum transaction amounts (the "**Annual Cap(s)**") was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 23 June 2008.

The independent non-executive directors of the Company have reviewed the Framework 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 terms of the Framework Agreement and on terms which were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) the aggregate transactions amount for the year was within the relevant Annual Cap.

The auditors of the Company have confirmed their factual findings to the board of directors of the Company in respect of Rule 14A.38 of the Listing Rules.

2. Non-exempt connected transaction

As disclosed in the announcement of the Company of 23 June 2009 and circular of the Company of 14 July 2009, the Company had on 23 June 2009 entered into a conditional shareholders' agreement (the "Shareholders' Agreement) with Anest Iwata Corporation ("AIC") and Anest Iwata Taiwan Corporation ("AIT"), pursuant to which a wholly foreign owed enterprise (the "JVC") with a registered capital of US$7,500,000, owned as to 35% by the Company, 35% by AIC and 30% by AIT was to be established in the PRC.

Through the establishment of the JVC, the Company intended to cooperate with AIC and AIT in the production, assembly and supply of air compressors, their components, accessories and spare parts for a term of 50 years from the date on which the business licence certificate of the JVC was issued.

# Report of the Directors

As AIT is an associate of Taiwan FF, the indirect controlling shareholder and connected person of the Company, the formation of the JVC constituted a connected transaction subject to reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The ordinary resolution approving the Shareholders' Agreement and the transactions contemplated thereunder was duty passed by the independent shareholders of the Company at the extraordinary general meeting held on 30 July 2009.

## 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 2009.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 12.1% of the Group's total turnover for the year and the largest customer accounted for approximately 3.6% of the Group's total turnover. The five largest suppliers accounted for approximately 37.8% of the Group's total purchases for the year and the largest supplier accounted for approximately 15.4% of the Group's total purchases.

## 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 24 February 2010 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in this report).

# Report of the Directors

## 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 Code on Corporate Governance Practices 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 2009.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 29 to 34 of the 2009 Annual Report.

## 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 88.

## AUDITORS

For the three years ended 31 December 2008, Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company. During 2009, Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company and Messrs. PricewaterhouseCoopers were appointed as auditors of the Company for the year of 31 December 2009.

A resolution will be submitted to the 2010 AGM of the Company to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company.

On behalf of the Board
**Good Friend International Holdings Inc.**
**Chu Chih-Yaung**
*Chairman*

Hong Kong, 11 February 2010

# 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 CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own code of corporate governance practices which meets the code provisions in the Code on Corporate Governance Practices (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 E1.2 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 8 June 2009 due to his business trip and Mr. Chen Hsiang-Jung as Executive Director of the Company took the chair pursuant to the Articles of the Association of the Company.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transaction by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2009, 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 are set out on pages 14 to 16 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 of the Company.

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 2009, 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 | 3/4 |
| Mr. CHEN Hsiang-Jung | 4/4 |
| Mr. CHEN Min-Ho | 4/4 |
| Mr. WEN Chi-Tang | 3/4 |
| Mr. CHIU Rung-Hsien | 4/4 |
| Mr. KOO Fook Sun, Louis | 4/4 |
| Mr. CHIANG Chun-Te | 3/4 |
| 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 of the Company 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 to approve 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 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 period ended 30 June 2009. The audited financial statements of the Company for the year ended 31 December 2009 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 2009, the Audit Committee met three times, during which the qualified accountant of the Company and the external auditors were also in attendance. Details of the attendance by audit committee members of such meetings are as follows:

| Name of member | Number of attendance |
|---|---|
| Mr. KOO Fook Sun, Louis | 3/3 |
| Mr. CHIANG Chun-Te | 3/3 |
| Mr. YU Yu-Tang | 2/3 |

## 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, 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 Committee considered the current Board size as adequate for the Company's present operations. In addition, the Committee has reviewed and satisfied the independency 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 of Association of the Company, Mr. CHEN Hsiang-Jung, Mr. CHEN Min-Ho and Mr. CHIU Rung-Hsien will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections.

# Corporate Governance Report

### Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2009 and details of the attendance of its meeting are as follows:

| Directors | Number of attendance |
|---|---|
| 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, 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 2009 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:

| Directors | Number of attendance |
|---|---|
| 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 9 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 | 920 |
| Non-audit services | 300 |

## 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 interest of 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 covers 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 of Directors 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 2009, 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 2009.

11 February 2010

# Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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**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 37 to 87, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

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

## Auditor's responsibility

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

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

# Independent Auditor's Report

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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, 11 February 2010

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2009*

| | NOTE | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **776,838** | 730,517 |
| Cost of sales and construction contract costs | | **(574,532)** | (550,500) |
| Gross profit | | **202,306** | 180,017 |
| Other income | 6 | **12,695** | 13,332 |
| Distribution and selling expenses | 7 | **(79,181)** | (96,327) |
| Administrative expenses | 7 | **(22,013)** | (55,575) |
| Other operating expenses | 7 | **(1,559)** | (3,201) |
| Operating profit | | **112,248** | 38,246 |
| Finance costs | 8 | **(4,564)** | (6,105) |
| Profit before taxation | | **107,684** | 32,141 |
| Income tax expense | 10 | **(23,539)** | (10,288) |
| Profit for the year attributable to equity holders of the Company | 11 | **84,145** | 21,853 |
| Other comprehensive income | | **–** | – |
| Total comprehensive income attributable to equity holders of the Company | | **84,145** | 21,853 |
| Earnings per share – basic and diluted, in RMB | 13 | **0.25** | 0.07 |

The notes on page 44 to 87 are an integral part of these consolidated financial statements.

| | | | |
|---|---|---|---|
| Dividends | 12 | **70,560** | 40,320 |

# Consolidated Balance Sheet

*As at 31 December 2009*

| | NOTE | **2009** **RMB'000** | 2008 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 14 | **183,615** | 152,084 |
| Investment properties | 15 | **8,837** | – |
| Land use rights | 16 | **42,253** | 43,196 |
| Deposits for purchases of plant and equipment | | **2,443** | 28,534 |
| Intangible assets | 17 | **2,726** | 2,664 |
| Deferred tax assets | 18 | **5,235** | 6,461 |
| | | **245,109** | 232,939 |
| Current assets | | | |
| Inventories | 20 | **209,534** | 213,031 |
| Debtors, deposits and prepayments | 21 | **262,140** | 169,093 |
| Amounts due from customers for contract work | 22 | **17,198** | 14,659 |
| Amount due from ultimate holding company | 32 | **588** | – |
| Amount due from a fellow subsidiary | 32 | **–** | 1 |
| Tax recoverable | | **–** | 7,303 |
| Restricted bank deposits | 23 | **23,919** | 8,782 |
| Cash and cash equivalents | 24 | **68,137** | 53,875 |
| | | **581,516** | 466,744 |
| Total assets | | **826,625** | 699,683 |
| Equity | | | |
| Share capital | 28 | **3,431** | 3,431 |
| Reserves | 29 | **359,424** | 325,679 |
| | | **362,855** | 329,110 |
| Non-current liabilities | | | |
| Long-term bank borrowings | 27 | **10,241** | – |
| Deferred tax liabilities | 18 | **4,943** | 2,859 |
| | | **15,184** | 2,859 |

# Consolidated Balance Sheet

*As at 31 December 2009*

| | NOTE | **2009** **RMB'000** | 2008 RMB'000 |
|---|---|---|---|
| Current liabilities | | | |
| Creditors, other payables and accrued charges | 25 | **291,655** | 179,672 |
| Amounts due to customers for contract work | 22 | **18,576** | 7,402 |
| Amount due to ultimate holding company | 32 | **–** | 160 |
| Amount due to immediate holding company | 32 | **6,448** | 2,292 |
| Tax payable | | **9,406** | – |
| Warranty provision | 26 | **5,204** | 4,426 |
| Short-term bank borrowings | 27 | **117,297** | 173,762 |
| | | **448,586** | 367,714 |
| Total equity and liabilities | | **826,625** | 699,683 |
| Net current assets | | **132,930** | 99,030 |
| Total assets less current liabilities | | **378,039** | 331,969 |

**Chu Chih-Yaung**
*Director*

**Chen Hsiang-Jung**
*Director*

The notes on page 44 to 87 are an integral part of these consolidated financial statements.

# Company Balance Sheet

*As at 31 December 2009*

| | NOTE | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Subsidiaries | 33 | **52,837** | 52,837 |
| Current assets | | | |
| Deposits and prepayments | 21 | **942** | 564 |
| Amounts due from subsidiaries | 33 | **150,585** | 114,419 |
| Cash and cash equivalents | 24 | **1,704** | 1,015 |
| | | **153,231** | 115,998 |
| Total assets | | **206,068** | 168,835 |
| Equity | | | |
| Share capital | 28 | **3,431** | 3,431 |
| Reserves | 29 | **151,905** | 126,479 |
| Total equity | | **155,336** | 129,910 |
| Non-current liabilities | | | |
| Long-term bank borrowings | 27 | **10,241** | – |
| Current liabilities | | | |
| Other payables and accrued charges | 25 | **797** | 1,325 |
| Amounts due to subsidiaries | 33 | **2,146** | 3,487 |
| Short-term bank borrowings | 27 | **37,548** | 34,113 |
| | | **40,491** | 38,925 |
| Total equity and liabilities | | **206,068** | 168,835 |
| Net current assets | | **112,740** | 77,073 |
| Total assets less current liabilities | | **165,577** | 129,910 |

**Chu Chih-Yaung**
*Director*

**Chen Hsiang-Jung**
*Director*

The notes on page 44 to 87 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2009*

| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Other reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 3,431 | 66,596 | 77,338 | 27,267 | 172,945 | 347,577 |
| Dividends paid | – | – | – | – | (40,320) | (40,320) |
| Total comprehensive income | – | – | – | – | 21,853 | 21,853 |
| Appropriation of reserves | – | – | – | 9,912 | (9,912) | – |
| At 31 December 2008 | 3,431 | 66,596 | 77,338 | 37,179 | 144,566 | 329,110 |
| Dividends paid | – | – | – | – | (50,400) | (50,400) |
| Total comprehensive income | – | – | – | – | 84,145 | 84,145 |
| At 31 December 2009 | 3,431 | 66,596 | 77,338 | 37,179 | 178,311 | 362,855 |

The notes on page 44 to 87 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2009*

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | **107,684** | 32,141 |
| Adjustments for: | | |
| Finance costs | **4,564** | 6,105 |
| Interest income | **(688)** | (284) |
| Depreciation of property, plant and equipment | **15,963** | 16,353 |
| Depreciation of investment properties | **329** | – |
| Provision for impairment of property, plant and equipment | **–** | 1,369 |
| Amortisation of intangible asset | **998** | 942 |
| Amortisation of land use rights | **943** | 943 |
| Increase in warranty provision | **778** | 47 |
| Loss on disposal of property, plant and equipment | **282** | 285 |
| Operating cash flows before movements in working capital | **130,853** | 57,901 |
| Decrease/(Increase) in inventories | **3,497** | (81,617) |
| (Increase)/Decrease in debtors, deposits and prepayments | **(93,047)** | 37,094 |
| (Increase)/Decrease in amounts due from customers for contract work | **(2,539)** | 4,270 |
| Increase in amount due from ultimate holding company | **(588)** | – |
| Decrease/(Increase) in amount due from a fellow subsidiary | **1** | (1) |
| Increase/(Decrease) in creditors, other payables and accrued charges | **111,983** | (6,389) |
| Increase in amounts due to customers for contract work | **11,174** | 2,129 |
| (Decrease)/Increase in amount due to holding company ultimate | **(160)** | 160 |
| Increase in amount due to holding company immediate | **4,156** | 2,292 |
| Cash generated from operations | **165,330** | 15,839 |
| Income tax paid in People of Republic of China ("PRC") | **(5,967)** | (13,139) |
| Income tax refunded in PRC | **5,306** | – |
| Withholding tax on dividend declared and paid from subsidiaries in the PRC | **(2,859)** | – |
| **Net cash inflow from operating activities** | **161,810** | 2,700 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(32,427)** | (32,482) |
| Deposits paid for purchase of plant and equipment | **–** | (24,321) |
| Increase in restricted bank deposits | **(15,137)** | (6,346) |
| Acquisition of intangible assets | **(1,060)** | (1,026) |
| Proceeds on disposal of property, plant and equipment | **1,576** | 380 |
| Interest received | **688** | 284 |
| **Net cash used in investing activities** | **(46,360)** | (63,511) |

# Consolidated Cash Flow Statement

*For the year ended 31 December 2009*

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Financing activities** | | |
| Proceeds from new bank borrowings | **240,591** | 321,480 |
| Repayment of bank borrowings | **(286,815)** | (212,379) |
| Dividends paid | **(50,400)** | (40,320) |
| Interest paid | **(4,564)** | (6,105) |
| **Net cash (used in)/from financing activities** | **(101,188)** | 62,676 |
| **Net increase in cash and cash equivalents** | **14,262** | 1,865 |
| **Cash and cash equivalents at beginning of the year** | **53,875** | 52,010 |
| **Cash and cash equivalents at end of the year** | **68,137** | 53,875 |

*Note:*

During the year ended 31 December 2009, deposits paid for purchase of plant and equipment of RMB26,091,000 were transferred to property, plant and equipment upon receipt of the plant and equipment.

The notes on page 44 to 87 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 (together, the "Group") are engaged in design and production and sales 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 KY1-1111, 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.

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 11 February 2010.

## 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.

### (a) 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.

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2009.

| | |
|---|---|
| HKAS 1 (revised) | Presentation of financial statements |
| HKAS 23 (revised) | Borrowing costs |
| HKAS 27 (amendment) | Consolidated and separate financial statements |
| HKAS 32 and HKAS 1 (amendment) | Puttable financial instruments and obligation arising on liquidation |
| HKFRS 2 (amendment) | Share-based payment |
| HKFRS 7 (amendment) | Financial instruments: disclosures |
| HKFRS 8 | Operating segments |

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

*HKAS 1 (revised), "Presentation of financial statements"*

The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one statement: a statement of comprehensive income and the consolidated financial statements have been prepared under these revised disclosure requirements.

*HKFRS 8, "Operating segments"*

HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the executive directors that make strategic decisions.

Following the adoption of HKFRS 8, the presentation of the segment results and segment assets has changed. Please refer to note 5 to the financial statements for details.

*HKFRS 7, "Financial instruments: disclosures"*

The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group has made relevant disclosures in the consolidated financial statements for the year ended 31 December 2009.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

*HKAS 23 (revised), "Borrowing costs"*

This revised standard requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The change in this accounting policy had no material impact on the Group's results as the Group does not have any qualifying asset as at 31 December 2009.

The adoption of other new and revised standards and amendments to existing standards have no significant impact on the results and financial position of the Group.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 1 January 2009 but are not currently relevant to the Group.

| | |
|---|---|
| HKAS 32 (amendment) | Financial instruments: Presentation |
| HK(IFRIC) 9 (amendment) | Reassessment of embedded derivatives |
| HK(IFRIC) 13 | Customer loyalty programmes |
| HK(IFRIC) 15 | Agreements for the construction of real estate |
| HK(IFRIC) 16 | Hedges of a net investment in a foreign operation |

The following amendment to standards has been issued that are mandatory for accounting periods beginning on or after 1 January 2010 and which the Group has early adopted:

Amendment to HKFRS 8 "Operating segments". Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision maker. As the chief operating decision maker does not receive such information, segment assets and segment liabilities have not been disclosed in the consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2009 and have not been early adopted.

| | |
|---|---|
| HKAS 39 (amendment) | Financial instruments: Recognition and measurement |
| HKFRS 3 (revised) | Business combinations |
| HKAS 27 (amendment) | Consolidated and separate financial statements |
| HKAS 28 (amendment) | Investments in associates |
| HKAS 31 (amendment) | Interests in joint ventures |
| HK(IFRIC) 17 | Distributions of non-cash assets to owners |
| HK(IFRIC) 18 | Transfer of assets from customers |

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

*HKAS 23 (revised), "Borrowing costs" (Continued)*

HKICPA's improvements to HKFRS published in May 2009:

| | |
|---|---|
| HKFRS 2 (amendment) | Share-based payment |
| HKFRS 5 (amendment) | Non-current assets held for ales and discounted operations |
| HKFRS 8 (amendment) | Operating segments |
| HKAS 1 (amendment) | Presentation of financial statements |
| HKAS 7 (amendment) | Statement of cash flows |
| HKAS 17 (amendment) | Leases |
| HKAS 36 (amendment) | Impairment of assets |
| HKAS 38 (amendment) | Intangible assets |
| HKAS 39 (amendment) | Financial instruments: Recognition and measurement |
| HK(IFRIC) 9 (amendment) | Reassessment of embedded derivatives |
| HK(IFRIC) 16 (amendment) | Hedges of a net investment in a foreign operation |

The adoption of the above standards, amendments and interpretations to existing standards in future periods is not expected to result in substantial changes to the Group's accounting policies.

### (b) Basis of 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of consolidation *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

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

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

### (c) Foreign currency translation

#### *(i) 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 currency and the Group's presentation currency.

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions 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. Translation differences on non-monetary financial assets and liabilities are recognised as part of the fair value gain or loss.

### (d) 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.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) 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 during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Machinery and equipment | 10 years |
| Office and computer equipment | 3 to 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.

Construction in progress represents property, plant and equipment 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.

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 the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) 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 comprehensive income.

### (g) Intangible assets

Intangible assets represent software with five-year useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over their estimated useful lives.

Gains or losses arising from disposal of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is disposed.

### (h) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, 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)*

### (h) Impairment of investments in subsidiaries and non-financial assets *(Continued)*

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

### (i) Land use rights

All land in PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods using the straight-line method.

### (j) 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. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### (k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Cash and cash equivalents

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

### (m) Share capital

Ordinary shares are classified as equity.

### (n) Trade payables

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

### (o) Borrowings

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

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

### (p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income.

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 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Current and deferred income tax *(Continued)*

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.

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

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

### (q) Employee benefits

#### *(i) Employee leave entitlements*

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

#### *(ii) 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.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Employee benefits *(Continued)*

#### *(iii) 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.

### (r) 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.

### (s) Provision

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. 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.

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

(i) Sales of machine tools and forklift trucks are recognised when goods are delivered and title has been passed.

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Revenue recognition *(Continued)*

(ii) Revenue from construction of parking garage structures for 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 estimated to be incurred under the contract. Provision is made for foreseeable losses as soon as they are anticipated by the management.

(iii) Interest income is recognised using the effective interest method.

### (u) 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, as measured by the proportion that contract costs incurred for work performed to date bear 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 advances received. Amount billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under debtors, deposits and prepayments.

### (v) Operating leases

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

# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and 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

### (a) 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.

#### *(i) Foreign exchange risk*

The Group and the Company are mainly exposed to foreign exchange risk arising from Hong Kong dollars and United States dollars 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 considers that the Group's and the Company's foreign exchange risk is insignificant.

*Group*

At 31 December 2009, if RMB had strengthened/weakened by 5% (2008: 5%) against the Hong Kong dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB1,048,000 higher/lower (2008: approximately RMB1,083,000 higher/lower).

At 31 December 2009, if RMB had strengthened/weakened by 5% (2008: 5%) against the United States dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB1,569,000 higher/lower (2008: approximately RMB3,433,000 higher/lower).

*Company*

At 31 December 2009, if RMB had strengthened/weakened by 5% (2008: 5%) against the United States dollars with all other variables held constant, the Company's profit for the year would have been approximately RMB2,389,000 lower/higher (2008: approximately RMB3,433,000 higher/lower).

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

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Financial risk factors *(Continued)*

#### *(i) Foreign exchange risk (Continued)*

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.

#### *(ii) Interest rate risk*

The Group and the Company are exposed to cash flow interest rate risk in relation to its variable-rate cash and cash equivalents and bank borrowings. At 31 December 2009, if interest rates had been 50 basis points higher/lower with all other variables held constant, the Group's and the Company's profit before taxation would have been approximately RMB177,000 lower/higher (2008: approximately RMB556,000 lower/higher) and approximately RMB230,000 lower/higher (2008: approximately RMB165,000 lower/higher) respectively. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date.

The Group is also exposed to fair value interest rate risk in relation to its fixed-rate restricted bank deposits. Management considers that the Group's fixed value interest rate risk is insignificant.

#### *(iii) Credit risk*

As at 31 December 2009, the Group's maximum exposure to credit risk is arising from debtors and deposits, amounts due from customers for contract work, amounts due from ultimate holding company and a fellow subsidiary, restricted bank deposits and cash and cash equivalents as stated in the consolidated balance sheet.

As at 31 December 2009, the Company's maximum exposure to credit risk is arising from deposits, amounts due from subsidiaries and cash and cash equivalents as stated in the company balance sheet.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on cash and cash equivalents is minimal because the counterparties are banks with credit ratings at least Baa2 (2008: Baa2) assigned by international credit rating agencies.

Other than concentration of credit risk on 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.

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Financial risk factors *(Continued)*

#### *(vi) Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and unused credit has deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group has unused credit lines of RMB132,681,000 (2008: RMB278,689,000) as at 31 December 2009. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

| | **Within 1 year** | **Between 1 and 2 years** | **Total** |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Group** | | | |
| At 31 March 2009 | | | |
| Creditors, other payables and accrued charges | 291,655 | – | 291,655 |
| Bank borrowings | 117,297 | 10,241 | 127,538 |
| Amounts due to customers for contract work | 18,576 | – | 18,576 |
| Amount due to ultimate holding company | 6,448 | – | 6,448 |
| At 31 March 2008 | | | |
| Creditors, other payables and accrued charges | 179,672 | – | 179,672 |
| Bank borrowings | 173,762 | – | 173,762 |
| Amounts due to customers for contract work | 7,402 | – | 7,402 |
| Amount due to immediate holding company | 160 | – | 160 |
| Amount due to ultimate holding company | 2,292 | – | 2,292 |

# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Financial risk factors *(Continued)*

#### *(vi) Liquidity risk (Continued)*

| | Within 1 year | Between 1 and 2 years | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Company** | | | |
| At 31 March 2009 | | | |
| Other payables and accrued charges | 797 | – | 797 |
| Amounts due to subsidiaries | 2,146 | – | 2,146 |
| Bank borrowings | 37,549 | 10,241 | 47,790 |
| At 31 March 2008 | | | |
| Other payables and accrued charges | 1,325 | – | 1,325 |
| Amounts due to subsidiaries | 3,487 | – | 3,487 |
| Bank borrowings | 34,113 | – | 34,113 |

### (b) Fair value estimation

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

### (c) Capital risk management

The Group manages its capital to ensure that entities in 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 debt, 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.

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 taking into account of the future expansion and the provision of funding. Based on the proposed annual budget, the directors of the Company consider the cost of capital and the risks 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 debt or the redemption of existing debt.

# 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.

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. The recognition of this revenue based on a proportional performance basis 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 the complexity of the parking garage structures being constructed and efficiency of the Group's employees. Recognised revenue and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to the consolidated statement of comprehensive income in the period in which the revision become 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 2009, provision for impairment of trade debtors amounting to approximately RMB25,866,000 (2008: RMB38,177,000) has been recognised. Provision of RMB12,311,000 is written back for the year ended 31 December 2009 due the change in estimate given the improvement in economic conditions.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (c) Estimated impairment of property, plant and equipment

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 2009, the Group reported accumulated impairment loss for certain machinery and equipment at RMB1,369,000 (2008: RMB1,369,000). In the segments where the above-mentioned impairment was determined, the "fair value loss costs to sell" of the remaining machinery and equipment and other assets in the scope of HKAS 36 "Impairment of Assets" have been assessed as exceeding carrying value, and the other assets have been assessed for impairment under the respective accounting standards (as appropriate). No additional impairment was considered necessary as at 31 December 2009.

### (d) Income taxes

The subsidiaries of the Group are subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many 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.

## 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.

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

# Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION *(Continued)*

The Executive Directors assess the performance of the operating segments based on a measure of 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 for each reportable segment and total assets.

**For the year ended 31 December 2009:**

| | **Machine tools** RMB'000 | **Parking garage structures** RMB'000 | **Forklift trucks** RMB'000 | **Unallocated** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|
| Revenue (all from external customers) | 615,450 | 83,776 | 77,612 | – | 776,838 |
| Cost of sales | (426,680) | (77,146) | (70,706) | – | (574,532) |
| | 188,770 | 6,630 | 6,906 | – | 202,306 |
| Other income | | | | 12,695 | 12,695 |
| Distribution and selling expenses | | | | (79,181) | (79,181) |
| Administrative expenses | | | | (22,013) | (22,013) |
| Other operating expenses | | | | (1,559) | (1,559) |
| Operating profit | | | | 112,248 | 112,248 |
| Finance costs | | | | (4,564) | (4,564) |
| Profit before taxation | | | | 107,684 | 107,684 |
| Income tax expense | | | | (23,539) | (23,539) |
| Profit for the year | | | | 84,145 | 84,145 |

# Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION *(Continued)*

Business segments

**For the year ended 31 December 2008:**

| | **Machine tools** | **Parking garage structures** | **Forklift trucks** | **Unallocated** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue (all from external customers) | 476,645 | 94,044 | 159,828 | – | 730,517 |
| Cost of sales | (326,717) | (82,853) | (140,930) | – | (550,500) |
| | 149,928 | 11,191 | 18,898 | – | 180,017 |
| Other income | | | | 13,332 | 13,332 |
| Distribution and selling expenses | | | | (96,327) | (96,327) |
| Administrative expenses | | | | (55,575) | (55,575) |
| Other operating expenses | | | | (3,201) | (3,201) |
| Operating profit | | | | 38,246 | 38,246 |
| Finance costs | | | | (6,105) | (6,105) |
| Profit before taxation | | | | 32,141 | 32,141 |
| Income tax expense | | | | (10,288) | (10,288) |
| Profit for the year | | | | 21,853 | 21,853 |

All 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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Sales of materials | **2,265** | 5,524 |
| Net exchange gain | **2,553** | 2,393 |
| Government subsidies *(note)* | **774** | 2,049 |
| Repair service income | **3,374** | 1,653 |
| Rental income from investment properties | **1,679** | 602 |
| Bank interest income | **688** | 284 |
| Others | **1,362** | 827 |
| | **12,695** | 13,332 |

*Note:*

In 2009, the Group received government subsidies of RMB774,000 (2008: RMB2,049,000) which was awarded to one of its subsidiaries for being one of the highest taxpaying entities in Hangzhou.

## 7 EXPENSES BY NATURE

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cost of inventories sold | **529,175** | 517,115 |
| Sales commission | **15,377** | 19,368 |
| Depreciation of property, plant and equipment | **15,963** | 16,353 |
| Amortisation of intangible assets | **998** | 741 |
| Amortisation of land use rights | **943** | 943 |
| Provision for impairment of property, plant and equipment | **–** | 1,369 |
| Employee benefit expenses *(note 9)* | **62,891** | 72,807 |
| Operating lease rentals on land and buildings | **4,437** | 4,837 |
| (Write-back of)/Allowance for doubtful debts, net | **(12,311)** | 19,114 |
| Allowance for inventories, net | **3,765** | 763 |
| Auditor's remuneration | **1,220** | 1,657 |
| Provision for warranty | **4,282** | 5,056 |
| Loss on disposal of property, plant and equipment | **282** | 285 |
| Others | **50,263** | 45,195 |
| Total cost of sales and construction contract costs, distribution and selling expenses, administrative expenses and other operating expenses | **677,285** | 705,603 |

# Notes to the Consolidated Financial Statements

## 8 FINANCE COSTS

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Interest expense arising from bank borrowings | **4,564** | 6,105 |

## 9 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Wages and salaries | **42,982** | 43,235 |
| Bonus | **9,168** | 12,752 |
| Welfare and other allowance | **8,528** | 13,131 |
| Pension costs – defined contribution plans | **2,213** | 3,689 |
| | **62,891** | 72,807 |

(a) Directors' emoluments

The remuneration of each director is set out below:

**Year ended 31 December 2009**

| | Chu Chih-Yaung<br>RMB'000 | Chen Hsiang-Jung<br>RMB'000 | Chen Min-Ho<br>RMB'000 | Wen Chi-Tang<br>RMB'000 | Chiu Rung-Hsien<br>RMB'000 | Koo Fook Sun, Louis<br>RMB'000 | Chiang Chun-Te<br>RMB'000 | Yu Yu-Tang<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| Fees | **180** | **180** | **144** | **144** | **144** | **176** | **88** | **88** | **1,144** |
| Other emoluments | – | – | – | – | – | – | – | – | – |
| | **180** | **180** | **144** | **144** | **144** | **176** | **88** | **88** | **1,144** |

**Year ended 31 December 2008**

| | Chu Chih-Yaung<br>RMB'000 | Chen Hsiang-Jung<br>RMB'000 | Chen Min-Ho<br>RMB'000 | Wen Chi-Tang<br>RMB'000 | Chiu Rung-Hsien<br>RMB'000 | Koo Fook Sun, Louis<br>RMB'000 | Chiang Chun-Te<br>RMB'000 | Yu Yu-Tang<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| Fees | 180 | 180 | 144 | 144 | 144 | 176 | 88 | 88 | 1,144 |
| Other emoluments | – | – | – | – | – | – | – | – | – |
| | 180 | 180 | 144 | 144 | 144 | 176 | 88 | 88 | 1,144 |

# Notes to the Consolidated Financial Statements

## 9 EMPLOYEE BENEFIT EXPENSE *(Continued)*

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, none (2008: none) was a director of the Company whose emoluments are included in the disclosures in note 9(a) above. The emoluments of the five (2008: five) individuals were as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Basic salaries and allowances | **1,544** | 1,544 |
| Bonus | **1,011** | 935 |
| Pension costs – defined contribution plans | **83** | 33 |
| | **2,638** | 2,512 |

The emolument of each individual is less than HK$1,000,000.

## 10 TAXATION

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| PRC enterprise income tax | **17,370** | 10,041 |
| Deferred tax *(note 18)* | **6,169** | 247 |
| | **23,539** | 10,288 |

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.

Enterprise income tax ("EIT") is provided for enterprises in the PRC based on the profit reported for statutory financial reporting purposes. In 2008, Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend") was approved the New and High-Tech Enterprise status by the relevant government authorities and it is entitled to a reduced tax rate of 15% for a three-year period commencing 2008. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2009 is 15% (2008: 15%).

Other Group companies did not have any assessable profits for both years. Certain group companies have unused tax loss.

# Notes to the Consolidated Financial Statements

## 10 TAXATION *(Continued)*

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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit before taxation | **107,684** | 32,141 |
| Tax at PRC enterprise income tax rate at 15% (2008: 15%) | **16,153** | 4,821 |
| Expenses not deductible | **2,301** | 2,834 |
| Income not taxable | **(1,847)** | (741) |
| Tax effect on tax loss not recognised | **1,469** | 21 |
| Deferred tax on undistributed earnings of subsidiaries in PRC | **4,943** | 2,859 |
| Effect of change in tax rate | **–** | 303 |
| Others | **520** | 191 |
| Tax charge for the year | **23,539** | 10,288 |

## 11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB75,826,000 (2008: RMB39,613,000) for the year ended 31 December 2009.

## 12 DIVIDENDS

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interim dividend paid of RMB9 cents (2008: RMB6 cents) per share | **30,240** | 20,160 |
| Final dividend proposed of RMB12 cents (2008: RMB6 cents) per share | **40,320** | 20,160 |
| | **70,560** | 40,320 |

At a meeting of directors held on 11 February 2010, the directors resolved to recommend a final dividend of RMB12 cents (2008: RMB6 cents) per share for the year ended 31 December 2009. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2009.

# Notes to the Consolidated Financial Statements

## 13 EARNINGS PER SHARE

The calculation of the basis earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB84,145,000 (2008: RMB21,853,000) and 336,000,000 (2008: 336,000,000) ordinary shares.

| | **2009** | 2008 |
|---|---|---|
| Basic earnings per share (RMB per share) | **0.25** | 0.07 |

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

## 14 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 2008 | 72,933 | 74,787 | 15,291 | 8,655 | 3,580 | 175,246 |
| Additions | 343 | 4,450 | 2,463 | 2,335 | 38,840 | 48,431 |
| Transfer | 536 | 10,602 | – | – | (11,138) | – |
| Disposals | – | (1,443) | (854) | (954) | – | (3,251) |
| At 31 December 2008 and 1 January 2009 | 73,812 | 88,396 | 16,900 | 10,036 | 31,282 | 220,426 |
| Additions | – | 26,766 | 2,235 | 772 | 28,745 | 58,518 |
| Transfer | 22,341 | 1,352 | – | – | (23,693) | – |
| Transfer to investment properties *(note)* | (11,244) | – | – | – | – | (11,244) |
| Disposals | – | (46) | (1,498) | (2,128) | – | (3,672) |
| At 31 December 2009 | 84,909 | 116,468 | 17,637 | 8,680 | 36,334 | 264,028 |

# Notes to the Consolidated Financial Statements

## 14 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

| | Buildings | Machinery and equipment | Office and computer equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 January 2008 | 14,888 | 27,539 | 7,733 | 3,046 | – | 53,206 |
| Provided for the year | 3,315 | 6,722 | 4,282 | 2,034 | – | 16,353 |
| Impairment | – | 1,369 | – | – | – | 1,369 |
| Disposals | – | (1,202) | (680) | (704) | – | (2,586) |
| At 31 December 2008 and 1 January 2009 | 18,203 | 34,428 | 11,335 | 4,376 | – | 68,342 |
| Provided for the year | 3,833 | 7,909 | 2,418 | 1,803 | – | 15,963 |
| Transfer to investment properties *(note)* | (2,078) | – | – | – | – | (2,078) |
| Disposals | – | (34) | (1,206) | (574) | – | (1,814) |
| At 31 December 2009 | 19,958 | 42,303 | 12,547 | 5,605 | – | 80,413 |
| Net book amounts | | | | | | |
| At 31 December 2009 | 64,951 | 74,165 | 5,090 | 3,075 | 36,334 | 183,615 |
| At 31 December 2008 | 55,609 | 53,968 | 5,565 | 5,660 | 31,282 | 152,084 |

*Note:*

During the year ended 31 December 2009, the Group had leased out certain of its property to third party tenants. Accordingly, the carrying amount of the property leased out had been reclassified as investment properties *(note 15)*.

# Notes to the Consolidated Financial Statements

## 15 INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Opening net book amount at 1 January | **–** | – |
| Transfer from property, plant and equipment | **9,166** | – |
| Depreciation | **(329)** | – |
| Closing net book amount at 31 December | **8,837** | – |

The Group's investment properties are held in PRC with leases under 50 years. The fair value of the investment properties as at 31 December 2009 was approximately RMB8,850,000, which was assessed by Zhejiang Hengji Appraisal Co.,Ltd ("浙江恒基資產評估有限公司"), an independent valuer in the PRC, based on open market values of similar properties.

## 16 LAND USE RIGHTS

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 amounts are analysed as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| At 1 January | **43,196** | 44,139 |
| Amortisation | **(943)** | (943) |
| At 31 December | **42,253** | 43,196 |

# Notes to the Consolidated Financial Statements

## 17 INTANGIBLE ASSETS – SOFTWARE

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| At 1 January | | |
| Cost | **5,293** | 4,267 |
| Accumulated amortisation | **(2,629)** | (1,687) |
| Net book amount | **2,664** | 2,580 |
| Year ended 31 December | | |
| Opening net book amount | **2,664** | 2,580 |
| Additions | **1,060** | 1,026 |
| Amortisation | **(998)** | (942) |
| Closing net book amount | **2,726** | 2,664 |
| At 31 December | | |
| Cost | **6,353** | 5,293 |
| Accumulated amortisation | **(3,627)** | (2,629) |
| Net book amount | **2,726** | 2,664 |

# Notes to the Consolidated Financial Statements

## 18 DEFERRED TAX ASSETS – GROUP

The movements in deferred tax assets during the years are as follows:

| | Allowance for doubtful debts RMB'000 | Allowance for inventories RMB'000 | Warranty provision RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2008 | 3,122 | 56 | 671 | 3,849 |
| Credit to consolidated statement of comprehensive income | 2,815 | 90 | 10 | 2,915 |
| Effect of change in applicable tax rate | (237) | (5) | (61) | (303) |
| At 31 December 2008 and 1 January 2009 | 5,700 | 141 | 620 | 6,461 |
| Credit/(charge) to consolidated statement of comprehensive income | (1,820) | 504 | 90 | (1,226) |
| At 31 December 2009 | 3,880 | 645 | 710 | 5,235 |

The gross movements in deferred tax liabilities arising from withholding tax on distributable profits of subsidiaries in the PRC during the years are as follows:

| | Group | |
|---|---|---|
| | **2009 RMB'000** | 2008 RMB'000 |
| At 1 January | **2,859** | – |
| Charge to consolidated statement of comprehensive income | **4,943** | 2,859 |
| Settlement | **(2,859)** | – |
| At 31 December | **4,943** | 2,859 |

At the balance sheet date, the Group has unused tax losses of approximately RMB12,993,000 (2008: RMB3,200,000) available for offset against future profits. No deferred tax asset has been recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

The expiry dates of these tax losses are as follows:

| | Group | |
|---|---|---|
| | **2009 RMB'000** | 2008 RMB'000 |
| With expiry in: | | |
| 2012 | **3,060** | 3,060 |
| 2013 | **140** | 140 |
| 2014 | **9,793** | – |

# Notes to the Consolidated Financial Statements

## 19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial assets are classified as loans and receivables and financial liabilities are at amortised cost.

## 20 INVENTORIES

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Raw materials | **103,496** | 92,156 |
| Work in progress | **53,420** | 27,066 |
| Finished goods | **57,416** | 94,843 |
| | **214,332** | 214,065 |
| Provision | **(4,798)** | (1,033) |
| | **209,534** | 213,032 |

## 21 DEBTORS, DEPOSITS AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade debtors and bills receivables | **230,114** | 173,557 | **–** | – |
| Less: Allowance for doubtful debts | **(25,866)** | (38,177) | **–** | – |
| | **204,248** | 135,380 | **–** | – |
| Deposits to suppliers | **30,778** | 10,707 | **–** | – |
| Other debtors | **27,114** | 23,006 | **942** | 564 |
| Total debtors, deposits and prepayments | **262,140** | 169,093 | **942** | 564 |

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 an one-year warranty period.

# Notes to the Consolidated Financial Statements

## 21 DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

The aging analysis of trade debtors and bills receivable is as follows:

| | **2009** **RMB'000** | 2008 RMB'000 |
|---|---|---|
| Current – 30 days | **165,767** | 104,387 |
| 31 – 60 days | **10,008** | 5,178 |
| 61 – 90 days | **2,081** | 4,607 |
| 91 – 180 days | **7,876** | 9,804 |
| Over 180 days | **44,382** | 49,581 |
| | **230,114** | 173,557 |

Deposits to suppliers and other deposits are generally aged within one year.

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB46,479,000 (2008: RMB35,696,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The directors, after considering the past repayment history of these individual trade debtors, had assessed that the 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 following is an aging analysis of trade debtors which are past due but not impaired:

| | **Group** | |
|---|---|---|
| | **2009** **RMB'000** | 2008 RMB'000 |
| 1 – 30 days | **7,998** | 4,703 |
| 31 – 60 days | **10,008** | 5,178 |
| 61 – 90 days | **2,081** | 4,607 |
| 91 – 180 days | **7,876** | 9,804 |
| Over 180 days | **18,516** | 11,404 |
| | **46,479** | 35,696 |

As of 31 December 2009, trade debtors of RMB25,866,000 (2008: RMB38,177,000) were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. These debtors are aged over 180 days.

# Notes to the Consolidated Financial Statements

## 21 DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

Movement in the allowance for doubtful debts, is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Balance at beginning of the year | **38,177** | 19,063 |
| Allowance for doubtful debts | **–** | 19,114 |
| Write-back of allowance | **(12,311)** | – |
| Balance at end of the year | **25,866** | 38,177 |

Trade debtors are denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| RMB | **224,191** | 169,606 |
| United States dollars | **5,923** | 3,951 |
| | **230,114** | 173,557 |

## 22 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Contract costs incurred plus recognised profits less recognised losses | **192,639** | 102,210 |
| Less: Progress billings | **(194,017)** | (94,953) |
| | **(1,378)** | 7,257 |

# Notes to the Consolidated Financial Statements

## 22 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK *(Continued)*

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Amounts due from contract customers | **17,198** | 14,659 |
| Amounts due to contract customers | **(18,576)** | (7,402) |
| Net amounts due (to)/from customers for contract work | **(1,378)** | 7,257 |

As at 31 December 2009, retentions held by customers for contract mark which have been included in debtors amounted to RMB2,019,000 (2008: RMB3,937,000).

## 23 RESTRICTED BANK DEPOSITS

The amounts represent guarantee deposits placed in banks for the purpose of bidding certain construction contracts. The deposits have maturity dates within one year and they carry fixed interest rate at 0.36% (2008: 0.72%) per annum. All restricted bank deposits are denominated in RMB.

## 24 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash at bank and on hand | **68,137** | 53,875 | **1,704** | 1,015 |

Cash and cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **31,042** | 50,280 | **–** | – |
| United States dollars | **35,198** | 2,470 | **10** | 14 |
| Hong Kong dollars | **1,795** | 1,125 | **1,694** | 1,001 |
| Others | **102** | – | **–** | – |
| | **68,137** | 53,875 | **1,704** | 1,015 |

# Notes to the Consolidated Financial Statements

## 25 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade creditors | **157,174** | 84,892 | **–** | – |
| Advance deposits from customers | **95,053** | 67,052 | **–** | – |
| Other payables | **22,656** | 13,941 | **–** | 105 |
| Accrued charges | **16,772** | 13,787 | **797** | 1,220 |
| | **291,655** | 179,672 | **797** | 1,325 |

The Group normally receives credit terms of 30 to 60 days. The aging of the creditors is as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current – 30 days | **108,094** | 54,836 |
| 31 – 60 days | **13,224** | 17,668 |
| 61 – 90 days | **14,864** | 6,414 |
| 91 – 180 days | **20,846** | 4,197 |
| Over 180 days | **146** | 1,777 |
| Trade creditors | **157,174** | 84,892 |

Trade creditors are denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| RMB | **155,465** | 81,784 |
| United States dollars | **1,709** | 3,108 |
| | **157,174** | 84,892 |

# Notes to the Consolidated Financial Statements

## 26 WARRANTY PROVISION

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| At 1 January | **4,426** | 4,379 |
| Provision for the year | **4,282** | 5,056 |
| Utilisation of provision | **(3,504)** | (5,009) |
| At 31 December | **5,204** | 4,426 |

One-year product warranty is granted on the Group's products. The Group will provide repair services for the first year after the customers purchase its products. The warranty provision represents management's best estimate of the Group's liability under one-year warranties granted on its products, based on prior experience and industry averages for defective products.

## 27 BANK BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Non-current | | | | |
| – Unsecured | **10,241** | – | **10,241** | – |
| Current | | | | |
| – Secured *(note)* | **32,973** | 56,713 | **–** | – |
| – Unsecured | **84,324** | 117,049 | **37,548** | 34,113 |
| | **117,297** | 173,762 | **37,548** | 34,113 |
| | **127,538** | 173,762 | **47,789** | 34,113 |

# Notes to the Consolidated Financial Statements

## 27 BANK BORROWINGS *(Continued)*

The ranges of effective interest rates on the Group's borrowings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Effective interest rates | **1.20% to 5.75% per annum** | 1.29% to 7.84% per annum | **1.62% to 4.18% per annum** | 2.53% to 6.50% per annum |

Bank borrowings are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **34,000** | 79,000 | **–** | – |
| Hong Kong dollars | **22,745** | 22,781 | **–** | – |
| United States dollars | **70,793** | 71,981 | **47,789** | 34,113 |
| | **127,538** | 173,762 | **47,789** | 34,113 |

*Note:*

A subsidiary of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB67,247,000 (2008: RMB14,371,000) as at 31 December 2009 in order to secure the general banking facilities granted to it.

## 28 SHARE CAPITAL

| | Number of shares | Nominal value |
|---|---|---|
| | | RMB'000 |
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 31 December 2008 and 2009 | 1,000,000,000 | 10,211 |
| Issued and fully paid: | | |
| At 31 December 2008 and 2009 | 336,000,000 | 3,431 |

# Notes to the Consolidated Financial Statements

## 29 RESERVES

Group

| | Share premium RMB'000 | Capital reserve RMB'000 | General reserve RMB'000 | Enterprise expansion reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 66,596 | 77,338 | 18,178 | 9,089 | 172,945 | 334,146 |
| Dividends paid | – | – | – | – | (40,320) | (40,320) |
| Total comprehensive income | – | – | – | – | 21,853 | 21,853 |
| Appropriation of reserves | – | – | 9,912 | – | (9,912) | – |
| At 31 December 2008 | 66,596 | 77,338 | 28,090 | 9,089 | 144,566 | 325,679 |
| Dividends paid | – | – | – | – | (50,400) | (50,400) |
| Total comprehensive income | – | – | – | – | 84,145 | 84,145 |
| At 31 December 2009 | 66,596 | 77,338 | 28,090 | 9,089 | 178,311 | 359,424 |

*Notes:*

(i) Capital reserve represents the difference between the paid-in capital/share capital and share premium of the subsidiaries acquired an the nominal value of the Company's shares issued for the acquisition at the time of group reorganisation prior to its listing on The Stock Exchange of Hong Kong Limited.

(ii) General reserve and enterprise expansion reserve are set up in accordance with statutory requirements in the PRC.

# Notes to the Consolidated Financial Statements

## 29 RESERVES *(Continued)*

**Company**

| | Share premium RMB'000 | Other reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2008 | 66,596 | 12,136 | 48,454 | 127,186 |
| Dividends paid | – | – | (40,320) | (40,320) |
| Total comprehensive income | – | – | 39,613 | 39,613 |
| At 31 December 2008 | 66,596 | 12,136 | 47,747 | 126,479 |
| Dividends paid | – | – | (50,400) | (50,400) |
| Total comprehensive income | – | – | 75,826 | 75,826 |
| At 31 December 2009 | 66,596 | 12,136 | 73,173 | 151,905 |

## 30 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 in respect of rented premises which fall due as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Within one year | **2,478** | 1,613 |
| In the second to fifth years inclusive | **2,061** | 4,032 |
| Over five years | **608** | 1,028 |
| | **5,147** | 6,673 |

# Notes to the Consolidated Financial Statements

## 30 OPERATING LEASE COMMITMENTS *(Continued)*

**The Group as lessor**

At the balance sheet date, the Group had commitments with tenants for the following minimum lease payments:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Within one year | **683** | 786 |
| In the second to fifth years inclusive | **680** | 1,427 |
| | **1,363** | 2,213 |

## 31 CAPITAL COMMITMENTS

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – capital injection into a joint venture company *(note)* | **4,300** | – |
| – acquisition of machinery and equipment | **3,425** | 9,952 |
| | **7,725** | 9,952 |

*Note:*

In 2009, the Company entered into an agreement with Anest Iwata Corporation ("AIC") and Anest Iwata Taiwan Corporation ("AIT") to establish a joint venture company in the PRC. AIT is a related company of Fair Friend Enterprise Company Limited, the ultimate holding company of the Company. The Company is committed to contribute capital amounting to approximately RMB5.5 million to this joint venture company. As of 31 December, no contribution had been made by the Company.

# Notes to the Consolidated Financial Statements

## 32 RELATED PARTY TRANSACTIONS AND BALANCES

Save as disclosed elsewhere in the financial statements, during the year, the Group also had the following transactions with its related parties:

### Transactions

| Name of company | Relationship | Nature of transactions | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|---|
| Hangzhou Feeler Takamatsu Machinery Co., Ltd. | Associate of ultimate holding company | Sales of goods | **774** | 865 |
| Fairskq (Taiwan) Co., Ltd | Associate of ultimate holding company | Sales of goods | **31** | 182 |
| Fair Friend Enterprise Company Limited ("Fair Friend") | Ultimate holding company | Sales of goods | **972** | 825 |
| | | Purchases of goods | **21,023** | 7,172 |
| Good Friend (H. K.) Corporation Limited ("Hong Kong GF") | Immediate holding company | Purchases of goods | **108,410** | 7,677 |
| Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine") | Fellow subsidiary | Sales of goods | **4** | 16 |

*Note:*

The terms of the above transactions are based on the framework agreements with Fair Friend or its subsidiaries.

# Notes to the Consolidated Financial Statements

## 32 RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### Balances

| Name of company | Relationship | Nature of balances | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|---|
| Fair Fine | Fellow subsidiary | Trade receivable *(note)* | **–** | 1 |
| Fair Friend | Ultimate holding company | Trade receivable *(note)* | **588** | – |
| | | Trade payable *(note)* | **–** | (160) |
| | | | **588** | (160) |
| Hong Kong GF | Immediate holding company | Trade payable *(note)* | **(10,084)** | (2,292) |
| | | Trade receivable *(note)* | **3,636** | – |
| | | | **(6,448)** | (2,292) |

*Notes:*

(i) The Group allowed a normal credit period of 90 days for sales or purchases with the fellow subsidiary and the ultimate holding Company. Balances are unsecured, interest free and repayable on demand.

(ii) The balances with related parties are aged within three months. All balances with related parties are denominated in RMB.

### Compensation of key management personnel

The remuneration of key management during the year is as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Salaries and other allowances | **2,553** | 3,656 |

# Notes to the Consolidated Financial Statements

## 33 SUBSIDIARIES

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **52,837** | 52,837 |
| Amounts due from subsidiaries | **150,585** | 114,419 |
| Amounts due to subsidiaries | **2,146** | 3,487 |

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

Details of the Company's subsidiaries as at 31 December 2009 and 2008 are as follows:

| Name of company | Place of incorporation/ registration/ operation | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| **Direct subsidiaries** | | | | |
| Winning Steps Limited | British virgin Islands ("BVI") | Ordinary shares US$110 | 100% | Investment holding |
| Yu Hwa Holdings Limited | BVI | Ordinary shares US$1,500,000 | 100% | Investment holding |
| Hai Sheng International Holdings Inc. | BVI | Ordinary shares US$200,000 | 100% | Investment holding |
| Sky Thrive Investment Ltd. | BVI | Ordinary shares US$5,000,000 | 100% | Investment holding |
| Kai Win Group Limited | BVI | Ordinary shares US$1 | 100% | Investment holding |

# Notes to the Consolidated Financial Statements

## 33 SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ registration/ operation | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| **Indirect subsidiaries** | | | | |
| Hangzhou Good Friend | PRC | Registered capital US$10,000,000 | 100% | Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structures |
| Hangzhou Global Friend | PRC | Registered capital US$10,000,000 | 100% | Design and assembling of forklift trucks |
| Hangzhou Ever Friend Precision Machinery Co., Ltd. ("Hangzhou Ever Friend") | PRC | Registered capital US$5,000,000 | 100% | Design and production of computer numerical control machine tools |
| Hangzhou Glory Friend Precision Machinery Co., Ltd. ("Hangzhou Glory Friend") | PRC | Registered capital US$15,000,000 | 100% | Processing of computer numerical control machine tools |
| Rich Friend (Shanghai) Precision Machinery Co., Ltd. ("Shanghai Rich Friend") | PRC | Registered capital US$200,000 | 100% | Trading of computer numerical control machine tools |
| Winning Steps Hong Kong Development Limited | Hong Kong | Ordinary shares HK$1,000 | 100% | Investment holding |

# Notes to the Consolidated Financial Statements

## 33 SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ registration/ operation | Issued and fully paid-up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Yu Hwa Hong Kong Enterprise Limited | Hong Kong | Ordinary shares HK$1,000 | 100% | Investment holding |
| Hai Sheng International Hong Kong Limited | Hong Kong | Ordinary shares HK$1,000 | 100% | Investment holding |
| Sky Thrive Hong Kong Enterprise Limited | Hong Kong | Ordinary shares HK$1,000 | 100% | Investment holding |
| Full Moral Industrial Limited | Hong Kong | Ordinary shares HK$1 | 100% | Inactive |

## 34 HOLDING COMPANIES

The directors regard Good Friend (H.K.) Corporation Limited, a company incorporate in and 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.

## 35 SIGNIFICANT SUBSEQUENT EVENT

The Company made an application to the Taiwan Stock Exchange and the Taiwan Central Bank for the offering and listing of Taiwan depositary receipts ("TDR Listing"), representing not more than 67.2 million new shares to be issued by the Company, on the Taiwan Stock Exchange. The TDR Listing was approved by relevant authorities in January 2010.

# Five-Year Summary

## OPERATING RESULTS

For the year ended 31 December

| | 2005<br>RMB'000 | 2006<br>RMB'000 | 2007<br>RMB'000 | 2008<br>RMB'000 | **2009**<br>**RMB'000** |
|---|---|---|---|---|---|
| Revenue | 557,674 | 611,003 | 821,367 | 730,517 | **776,838** |
| Gross profit | 119,325 | 153,158 | 214,351 | 180,017 | **202,306** |
| Profit before taxation | 47,125 | 57,370 | 95,954 | 32,141 | **107,684** |
| **Profit for the year attributable to equity holders of the Company** | 42,369 | 53,082 | 84,885 | 21,853 | **84,145** |
| **Earnings per share – basic (RMB)** | 0.20 | 0.16 | 0.25 | 0.07 | **0.25** |

## ASSETS AND LIABILITIES

As at 31 December

| | 2005<br>RMB'000 | 2006<br>RMB'000 | 2007<br>RMB'000 | 2008<br>RMB'000 | **2009**<br>**RMB'000** |
|---|---|---|---|---|---|
| Non-current assets | 97,931 | 145,077 | 177,064 | 232,939 | **245,109** |
| Net current assets | 89,812 | 151,775 | 170,513 | 99,030 | **132,930** |
| **Total assets less current liabilities** | 187,743 | 296,852 | 347,577 | 331,969 | **378,039** |
| Share capital | – | 2,882 | 3,431 | 3,431 | **3,431** |
| Reserves | 187,743 | 293,970 | 344,146 | 325,679 | **359,424** |
| **Shareholders' equity** | 187,743 | 296,852 | 347,577 | 329,110 | **362,855** |
| Non-current liabilities | – | – | – | 2,859 | **15,184** |
| | 187,743 | 296,852 | 347,577 | 331,969 | **378,039** |

*Note:* The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2009, 2008, 2007, 2006 and 2005 was prepared as if the current group structure had been in existence throughout these financial years.