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 2010

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 Fulcrum Group (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
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Industrial Bank of Taiwan
Mega International Commercial Bank

STOCK CODE

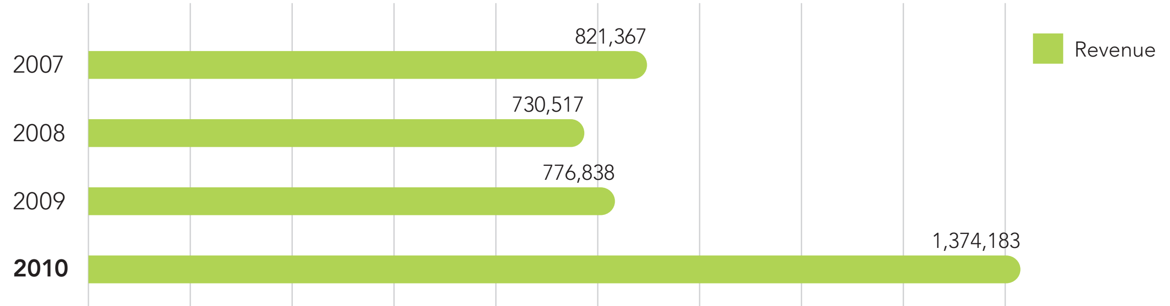
2398

WEBSITE

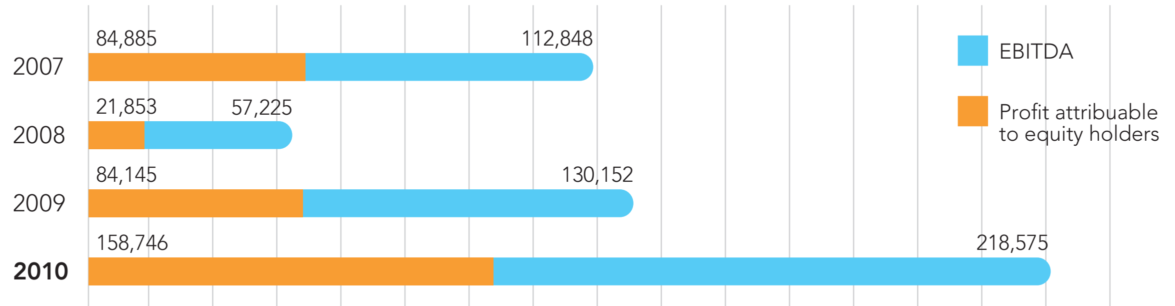
http://www.goodfriend.hk

Financial Highlights

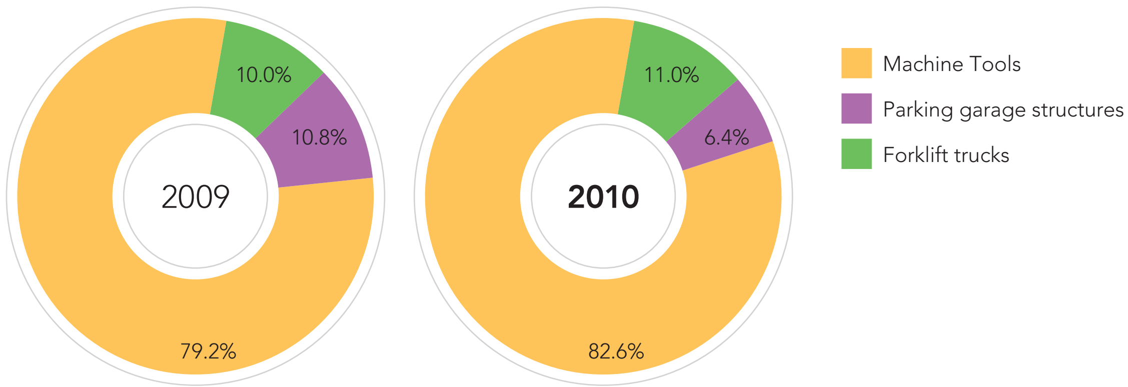
REVENUE (RMB'000)



PROFIT (RMB'000)



BUSINESS SEGMENTS (In terms of revenue)



Financial Highlights

TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2010 RMB'000	2009 RMB'000	Change (%)
Revenue	**1,374,183**	776,838	76.9%
Gross profit	**355,535**	214,801	65.5%
EBITDA	**218,575**	130,152	67.9%
Profit attributable to equity holders	**158,746**	84,145	88.7%
Shareholders' equity	**618,363**	362,855	70.4%
Total assets	**1,309,110**	826,625	58.4%
Earnings per share – basic (RMB)	**0.41**	0.25	64.0%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2010	2009	Change (%)
Gross profit margin *Note 1*	**25.9%**	27.7%	-6.5%
Net profit margin *Note 2*	**11.6%**	10.8%	7.4%
Inventory turnover days *Note 3*	**122.5**	136.1	-10.0%
Debtors' turnover days *Note 4*	**93.4**	96.0	-2.7%
Creditors' turnover days *Note 5*	**59.9**	102.1	-41.3%
Current ratio (Times) *Note 6*	**1.5**	1.3	15.4%
Quick ratio (Times) *Note 7*	**1.0**	0.8	25.0%
Gearing ratio (%) *Note 8*	**13.4%**	15.4%	-13.0%
EBITDA/Finance costs (Times) *Note 9*	**63.15**	28.5	121.8%
Return on equity (%) *Note 10*	**25.7%**	23.2%	10.8%

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

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

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

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

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

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

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

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

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

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

Chairman's Statement

Chu Chih-Yaung

Chairman

My heartfelt thanks to all of you for your support to our Group. I am pleased to present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the report on the results of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2010 (the "year").

FINANCIAL PERFORMANCE

For the year ended 31 December 2010, the Group's operating results scored a new high. During the year, the Group recorded revenue of approximately RMB1,374.18 million, representing an increase of approximately 76.9% compared to previous year; profit attributable to equity holders for the year amounted to approximately RMB158.75 million, representing an increase of approximately 88.7% compared to 2009.

FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company, a final dividend out of the share premium account of the Company of RMB0.10 (equivalent to approximately HK$0.119 according to the average middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 24 March 2011) per share for the year ended 31 December 2010, amounting to RMB40.32 million (equivalent to approximately HK$47.98 million) payable to shareholders whose names appear on the register of members of the Company on Friday, 20 May 2011. The payment date of the final dividend will be announced later.

Chairman's Statement

BUSINESS REVIEW

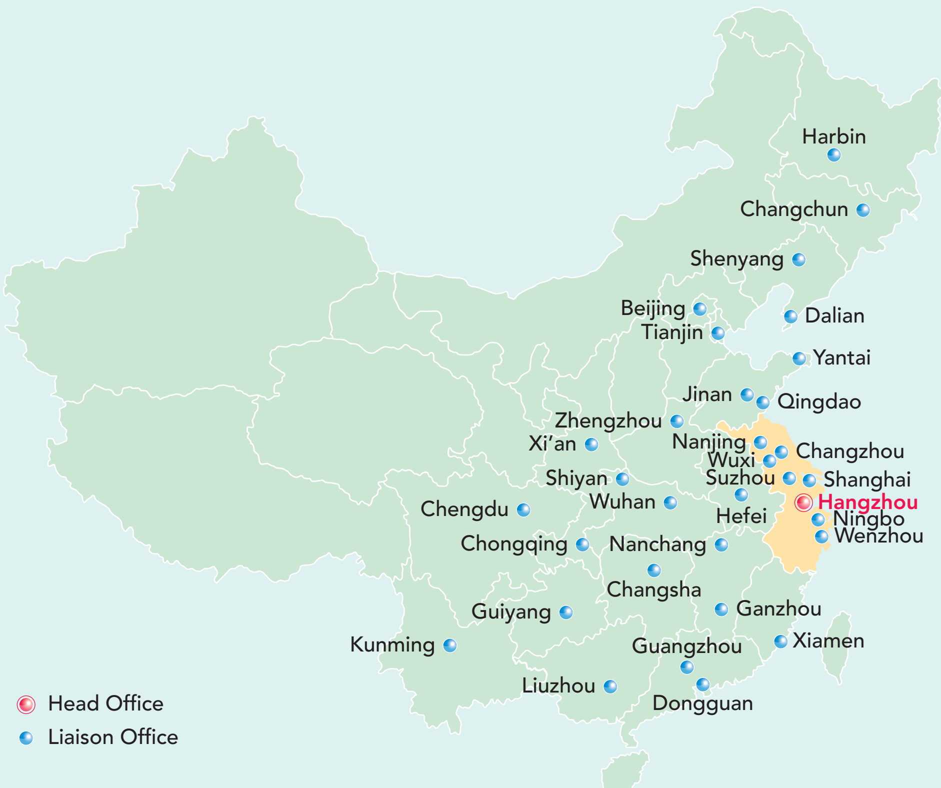
The gross domestic product of the mainland China was RMB39,798.3 billion in 2010, representing a growth of 10.3% over 2009 on a comparable price basis. The economy of China maintained its good momentum of development and had driven the country's fixed assets investment to leap by 23.8% year-on-year in 2010. Also purchases of machine tools in China amounted to US$27.3 billion in 2010, representing an encouraging growth when compared to that of US$19.8 billion in 2009.

The Group stands to benefit accordingly by virtue of the fact that its mainstream product CNC machine tools focuses mainly in China market. For the year ended 31 December 2010, sales volume and sales revenue of the Group's CNC machine tools business amounted to 2,546 units and approximately RMB1,135.47 million respectively (2009: 1,352 units and approximately RMB615.45 million), representing significant growth when compared with 2009 driven by the robust demand. This is also a testimonial to the good acceptance of the Group's products by the customers, as well as the Group's advantage in the comprehensive sales services provided by its existing sales network in China.

Moreover, the Company completed the offering and listing of Taiwan Depositary Receipts ("TDR") on the Taiwan Stock Exchange Corporation in March 2010. Apart from increasing the public awareness of the Group as well as promoting the Group's corporate image, the issue of TDR also provides an additional fundraising platform for the Group. The net proceeds raised from the issue of TDR amounted to approximately RMB205.8 million. Such funds will mainly be utilized for purchases of machineries and equipments and construction of plants by Hangzhou Ever Friend Precision Machinery Co., Ltd. (in respect of its second phase production base in Xiasha, Hangzhou) and Hangzhou Glory Friend Machinery Technology Co., Ltd. (in respect of its production base in Jiangdong, Hangzhou). With such strong financial backup, the Group could therefore further expand its production capacity in respect of its CNC machine tools business.

Furthermore, the Group had acquired specific assets of the "Rambaudi" business division of Sachman Rambaudi, including tangible assets, inventories and intangible assets in June 2010. The "Rambaudi" business division of Sachman Rambaudi has over 70 years history, and was principally engaged in the design and production of milling and machining centers for aerospace and mould and die. This acquisition provides an opportunity for the Group to enhance its product portfolio in particular for the application sectors of aerospace and mould and die, which is beneficial to the Group's overall business development.

Chairman's Statement



Chairman's Statement

In conclusion, given the encouraging growth of the operating results of its CNC machine tools (the Group's mainstream product), the Group finally recorded a profit attributable to equity holders of RMB158.75 million for the year. Coupled with the issue of TDR as well as the acquisition of assets of "Rambaudi", the Group's shareholders' equity was therefore increased from approximately RMB362.86 million as at 31 December 2009 to approximately RMB618.36 million as at 31 December 2010.

PROSPECTS

Following the formulation of the 12th Five Year Plan (2011-2015) by the central government of China, it is expected that the demand of machine tools from the industries of high-speed railway, aerospace, motor vehicle and energy will be increased considerably, especially demand of those hi-tech CNC machine tools. For the two months ended 28 February 2011, the Group received sales orders from customers of 1,098 units in respect of its CNC machine tools business, amounting to approximately RMB421.24 million (excluding tax), representing an increase of 59.0% when compared to the same period in 2010. Accordingly, the Group's CNC machine tools business continued to maintain its increasing trend.

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 robust demand from the domestic market. Moreover, the relevant construction work for the Group's phase one production base located at Jiangdong, Hangzhou shall be completed in the middle of 2011 and will commence to manufacture CNC machine tools. This could further enhance the Group's production capacity in respect of its CNC machine tools business, and provide high quality CNC machine tools to the customers.

Looking ahead, the Group will continue to participate actively in machine tools fairs in China, and enhance the promotion of the Group's CNC machine tools products so as to solidify the Group's market share in China. On the other hand, the management will continue to look for appropriate investing and acquisition activities so as to increase the competitive edge of our Group. The Group is committed to becoming an international CNC machine tools manufacturer.

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. The management will strive to bring favorable returns to the shareholders of the Company.

Chairman's Statement

APPRECIATION

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.

Chu Chih-Yaung
Chairman
Hong Kong, 24 March 2011

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2010, the Group recorded remarkable growth in its financial performance.

The Group's revenue and profit attributable to equity holders of the Company for the year amounted to approximately RMB1,374.18 million (2009: RMB776.84 million) and approximately RMB158.75 million (2009: RMB84.15 million) respectively, representing an increase of approximately 76.9% and 88.7% respectively as compared with that in 2009. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,546 units, 5,861 units and 2,064 units respectively (2009: 1,352 units, 5,668 units and 1,189 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 1,352 units in 2009 to 2,546 units this year. Sales of the product rose from approximately RMB615.45 million to RMB1,135.47 million this year, an increase of approximately 84.5% and represented approximately 82.6% of the Group's total revenue. CNC machine tools focuses mainly in China, with the major customers of the product being those automobile and mechanical manufacturers. The machine tools industry in China maintained its increasing trend in 2010. Sales revenue of the Group's CNC machine tools business in 2010 therefore recorded encouraging growth under such strong demand. Amongst this, sales revenue of double column machining centre amounted to approximately RMB94.19 million for this year, whilst selling price of such product is approximately 2 times or more the average selling price of the Group's CNC machine tools products. The operating gross profit for CNC machine tools during the year was approximately 28.3%.

On the other hand, driven by robust demand in China, sales revenue of the Group's forklift trucks business increased by approximately 94.1% from RMB77.61 million to RMB150.65 million, and approximately 11.0% of the Group's total revenue. Accordingly the proportion of the domestic sales of the forklift trucks was increased to 62.0%. Moreover, sales revenue of parking garage structures amounted to approximately RMB88.06 million during the year, representing an increase of approximately 5.1% as compared to last year and accounted for approximately 6.4% of the total revenue.

Management Discussion and Analysis

GROSS PROFIT AND MARGIN

For the year ended 31 December 2010, gross profit of the Group amounted to approximately RMB355.54 million(2009: RMB214.80 million). Overall gross profit margin of the Group was approximately 25.9% (2009: 27.7%). The gross profit margin of CNC machine tools during the year decreased as compared to last year. As a result, the overall gross profit margin for the year decreased.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses increased by approximately 51.8% from approximately RMB72.74 million in 2009 to approximately RMB110.40 million for the year. Such increase was mainly due to the increase in sales volume of its major product CNC machine tools during the year. The relevant expenditures including costs of sales staff, transportation costs therefore increased accordingly. During the year, distribution and selling expenses as a percentage of the Group's revenue was approximately 8.0% (2009: 9.4%)

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 106.4% from approximately RMB40.95 million to approximately RMB84.54 million. During the year, the Group changed its mode of presentation by aggregate the total research and development expenses as a component of administrative expenses. During the year ended 31 December 2010, the relevant research & development expenses and other related items amounted to approximately RMB39.43 million(2009: RMB22.96 million). Such increase was in line with the increase of the sales revenue of CNC machine tools (the Group's major product) during the year. On the other hand, there was a provision of approximately RMB5.54 million allowances for trade and doubtful debts during the year, compared with approximately RMB12.31 million write-back in 2009.

Despite that, administrative expenses increased by approximately 30.6%. This was mainly attributable to the increase of those general expenses including depreciation charges and the staff costs as well as the additional expenditures in relation to the Rambaudi business.

FINANCE COSTS

During the year ended 31 December 2010, finance costs decreased to approximately RMB3.46 million (2009: RMB4.56 million). The decrease was primarily due to the decrease of average bank borrowings of the Group during the year.

Management Discussion and Analysis

EXCESS OF THE NET FAIR VALUE OF IDENTIFIABLE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES OF BUSINESS ACQUIRED OVER COST

Pursuant to Hong Kong Financial Reporting Standard 3 (revised) "Business combinations", the Group has to perform valuation on those Rambaudi assets (including inventories etc.) acquired in June 2010, and to be recorded at fair values. Since discounting (in particular inventories) were offered upon the acquisition of those Rambaudi assets, accordingly the fair values after valuation was greater than the book values as at acquisition. The resulting difference amounted to approximately EUR2.18 million or RMB19.01 million was properly accounted for in the Group's income statement of the year in accordance with the relevant accounting standard.

PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The Group's profit attributable to equity holders of the Company amounted to approximately RMB158.75 million, representing an increase of approximately 88.7% as compared to the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had net current assets of approximately RMB318.50 million (2009: RMB132.93 million), shareholders' fund of approximately RMB618.36 million (2009: RMB362.86 million) and short-term bank borrowings of approximately RMB169.18 million (2009: RMB117.30 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 2010 amounted to approximately RMB161.05 million (2009: RMB68.14 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.5 times (2009: 1.3 times). The gearing ratio (ratio of total debts to total assets) was approximately 13.4% (2009: 15.4%), indicating that the Group continued to maintain solid financial position.

CAPITAL STRUCTURE AND TREASURY POLICIES

The share capital of the Company as at 31 December 2010 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2009: HK$3,360,000 divided into 336,000,000 shares of HK$0.01 each).

Management Discussion and Analysis

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As of 31 December 2010, the total outstanding short-term borrowings stood at approximately RMB169.18 million (2009: RMB117.30 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year. During the year, the Company further improved its capital structure by issuing 67,200,000 ordinary shares in the form of TDRs. These TDRs have been listed on Taiwan Stock Exchange since 18 March 2010. Net proceeds of RMB155 million was received by the Company. 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 2010.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save for the acquisition of Rambaudi business, the Group did not have any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2010.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2010 are set out in note 5 to the consolidated financial statements.

STAFF AND REMUNERATION POLICIES

At 31 December 2010, the Group employed a total of 1,600 (2009: 1,230) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB99.96 million (2009: RMB62.89 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 RMB4.10 million (2009: RMB2.21 million) to the said schemes.

Management Discussion and Analysis

CAPITAL COMMITMENTS AND CONTINGENCIES

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB27.10 million (2009: RMB3.43 million) which are contracted but not provided in the financial statements. The Group also had commitments of USD1.52 million (2009: USD0.63 million) in respect of capital contribution to a jointly controlled entity in China. The Group had no material contingent liabilities as at 31 December 2010 (2009: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2010, restricted bank deposits with an amount of approximately RMB29.16 million (2009: RMB23.92 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 RMB39.76 million (2009: RMB67.25 million) to secure general banking facilities granted to them.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2010. 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 2010, 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 64, 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 65, 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 60, 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 46, was appointed as an executive Director in December 2005. He was the vice general manager of machine tools division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the general manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Wen has more than 25 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 53, was appointed as an executive Director in December 2005. He was the manager of the parking garage structures division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the senior manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Chiu has more than 26 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 54, 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 act as an independent non-executive director of Weichai Power Co., Ltd., Li Ning Company Limited, Midland Holdings Limited, Xingda International Holdings Limited and Richfield Group Holdings Limited, which are companies listed on the Main Board of the Stock Exchange. He is a certified public accountant.

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

Mr. Chiang Chun-Te（江俊德先生）, aged 50, 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 the independent director of Long Chen Paper Co., Ltd.（榮成紙業股份有限公司）.

Mr. Yu Yu-Tang（余玉堂先生）, aged 74, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee of the Company. He is a consultant of the Taiwan Hsin Chu County Government（台灣新竹縣政府）and the Provincial Government.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Wang Gui Sheng（王桂生先生）, aged 57, 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 38 years of experience in forklift and mechanical industry.

Mr. Chiang Chia-Shin（強家鑫先生）, aged 52, 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 25 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 49, 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 26 years of experience in the machine tools industry.

Mr. Yeh Ming-Pin（葉明彬先生）, aged 43, 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 13 years of experience in the fields of auditing, accounting and finance.

Mr. Yip Sai Keung, Esmond（葉世強先生）, aged 45, was appointed as the financial controller of the Company and is responsible for the finance and accounting functions of the Group. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yip joined the Group in November 2007 and has over 20 years of experience in the fields of corporate finance, auditing and accounting.

Report of the Directors

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

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 2010 is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 39 to 103.

The Directors declared an interim dividend of RMB 0.15 (equivalent to approximately HK$0.172) per share to those shareholders whose names appear on the register of members on 17 September 2010, amounted to approximately RMB60.48 million (equivalent to approximately HK$69.35 million) which was paid on 21 September 2010.

The Directors proposed a final dividend of RMB0.10 (equivalent to approximately HK$0.119 according to the average middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 24 March 2011) per share for the year ended 31 December 2010, amounting to approximately RMB40.32 million (equivalent to approximately HK$47.98 million), payable to shareholders whose names appear on the register of members of the Company on Friday, 20 May 2011. The payment date of final dividend will be announced later.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 May 2011 to Friday, 20 May 2011, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed final dividend and attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 16 May 2011.

Report of the Directors

RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 45.

ANNUAL GENERAL MEETING

The 2011 annual general meeting will be held on Friday, 20 May 2011. Shareholders should refer to details regarding the 2011 annual general meeting in the circular of the Company of 13 April 2011 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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2010 are set out in note 26 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2010 are set out in note 30 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

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

Independent non-executive Directors

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

In accordance with article 87(1) of the articles of association of the Company ("Articles") Mr. Chu Chih-Yaung, Mr. Wen Chi-Tang and Mr. Koo Fook Sun, Louis will retire by rotation 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.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 11 January 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 may be 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 35 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2010, 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.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2010, 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	24,490,347 shares	15.56%
Mr. Chu Chih-Yaung *(Note 1)*	Taiwan FF	Spouse interest	4,528,925 shares	2.88%
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	4,572,841 shares	2.90%
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	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 4)*	Beneficial owner	2,940 shares	0.12%
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 2.88% 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 0.59% 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 2010, 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 2010, 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 2010, 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 1)*	62.50%
Taiwan FF	Interest of controlled corporation	252,000,000 shares *(Note 1)*	62.50%
Morgan Stanley	Interest of controlled corporation	47,831,538 shares *(Note 2)*	11.86%

Note 1: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF. Accordingly, Taiwan FF was deemed to be interested in 252,000,000 shares of the Company held by Hong Kong GF under the SFO.

Note 2: Morgan Stanley was deemed to be interested in 47,831,538 shares of the Company held by a number of its wholly-owed and non wholly-owed subsidiaries 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)*	5.95%
Taiwan FF	Interest of controlled corporation	24,000,000 shares *(Note)*	5.95%

Note: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF. Accordingly, Taiwan FF was 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 2010.

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 8 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

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 of the Company (such terms as defined in the

Report of the Directors

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 undertaken to report their factual findings to the board of directors of the Company in respect of Rule 14A.38 of the Listing Rules.

Report of the Directors

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 2010.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 10.5% of the Group's total turnover for the year and the largest customer accounted for approximately 3.1% of the Group's total turnover. The five largest suppliers accounted for approximately 35.8% of the Group's total purchases for the year and the largest supplier accounted for approximately 14.2% 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 the date of 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 CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the audited consolidated financial statements of the Group for the year ended 31 December 2010.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 31 to 36 of the 2010 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 104.

AUDITORS

The financial statements for the year ended 31 December 2010 have been audited by the auditors of the Company, PricewaterhouseCoopers (who shall retire and, being eligible, offer themselves for re-appointment at the 2011 annual general meeting).

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

Hong Kong, 24 March 2011

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 E 1.2 of the CG Code which stipulates that the chairman of the board should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting held on 31 March 2010 due to his business trip and Mr. Chen Hsiang-Jung as Executive Director of the Company took the chair pursuant to the Articles of 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 2010, 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 16 to 18 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 2010, the Board convened a total of four regular meetings and the attendances of the Directors at these Board meetings are as follows:

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

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 2010. The audited financial statements of the Company for the year ended 31 December 2010 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 2010, the Audit Committee met three times, during which the management of the Company and the external auditors were also in attendance, if appropriate. Details of the attendance by audit committee members of such meetings are as follows:

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

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the mechanics industry and/or other professional area.

The Company established a Nomination Committee, 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 Article 87(1) of the Articles of Association of the Company, Mr. Chu Chih-Yaung, Mr. Wen Chi-Tang and Mr. Koo Fook Sun, Louis will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Corporate Governance Report

Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2010 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 2010 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 8 to the consolidated financial statements.

Corporate Governance Report

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

AUDITORS' REMUNERATION

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

Services rendered to the Group	Fee paid/payable HK$'000
Audit services	1,350
Non-audit services	–

INTERNAL CONTROL SYSTEM

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls, etc.. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. 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. During the year, the management had conducted a review of the effectiveness of the internal control system of the Group. The report and findings of the review 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 2010, 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 2010.

Hong Kong, 24 March 2011

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 103, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

Independent Auditor's Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTE	2010 RMB'000	2009 RMB'000
Revenue	5	**1,374,183**	776,838
Cost of revenue	7	**(1,018,648)**	(562,037)
Gross profit		**355,535**	214,801
Other income	6	**20,674**	12,695
Distribution and selling expenses	7	**(110,404)**	(72,738)
Administrative expenses	7	**(84,544)**	(40,951)
Other operating expenses	7	**(3,000)**	(1,559)
Excess of the net fair value of identifiable assets, liabilities and contingent liabilities of business acquired over cost	34	**19,006**	–
Operating profit		**197,267**	112,248
Finance costs	9	**(3,461)**	(4,564)
Profit before income tax		**193,806**	107,684
Income tax expense	10	**(35,060)**	(23,539)
Profit attributable to equity holders of the Company		**158,746**	84,145
Earnings per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
Basic and diluted earnings per share	12	**0.41**	0.25

The notes on page 47 to 103 are an integral part of these consolidated financial statement.

Dividends	13	**100,800**	70,560

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTE	**2010** **RMB'000**	2009 RMB'000
Profit for the year		**158,746**	84,145
Other comprehensive income:			
Currency translation differences	27	**(161)**	–
Other comprehensive income for the year		**(161)**	–
Total comprehensive income for the year		**158,585**	84,145
Attributable to:			
– Equity holders of the company		**158,585**	84,145

The notes on pages 47 to 103 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	NOTE	2010 RMB'000	2009 RMB'000
Assets			
Non-current assets			
Land use rights	14	**41,310**	42,253
Property, plant and equipment	15	**228,404**	183,615
Investment property	16	**2,042**	8,837
Intangible assets	17	**16,623**	2,726
Investment in jointly controlled entities	19	**8,192**	–
Deferred income tax assets	31	**5,545**	5,235
Deposits for purchases of plant and equipment		**20,146**	2,443
		322,262	245,109
Current assets			
Inventories	22	**341,829**	209,534
Debtors, deposits and prepayments	21	**428,298**	262,140
Amounts due from customers for contract work	23	**22,943**	17,198
Amount due from ultimate holding company	35	**139**	588
Amounts due from and prepayment to a fellow subsidiary and associates of ultimate holding company	35	**3,436**	–
Restricted bank deposits	24	**29,158**	23,919
Cash and cash equivalents	25	**161,045**	68,137
		986,848	581,516
Total assets		**1,309,110**	826,625
Equity and liabilities			
Equity attributable to owners of the parent			
Ordinary shares	26	**4,022**	3,431
Share premium	27	**271,792**	66,596
Capital reserves	27	**77,338**	77,338
Other reserves	27	**44,764**	37,179
Retained earnings	27	**220,447**	178,311
– Proposed final dividend		**–**	40,320
– Others		**220,447**	137,991
Total equity		**618,363**	362,855

Consolidated Balance Sheet

As at 31 December 2010

	NOTE	2010 RMB'000	2009 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	30	**6,614**	10,241
Deferred income tax liabilities	31	**15,788**	4,943
		22,402	15,184
Current liabilities			
Creditors, other payables and accrued charges	28	**454,057**	291,655
Amounts due to customers for contract work	23	**15,674**	18,576
Amount due to immediate holding company	35	**2,213**	6,448
Amount due to a joint venture company	35	**7,335**	–
Current income tax liabilities		**11,783**	9,406
Warranty provision	29	**8,099**	5,204
Borrowings	30	**169,184**	117,297
		668,345	448,586
Total liabilities		**690,747**	463,770
Total equity and liabilities		**1,309,110**	826,625
Net current assets		**318,503**	132,930
Total assets less current liabilities		**640,765**	378,039

The notes on pages 47 to 103 are an integral part of these financial statements.

The financial statements on pages 39 to 103 were approved by the Board of Directors on 24 March 2011 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Company Balance Sheet

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**8**	–
Investment in subsidiaries	18	**52,837**	52,837
Investment in jointly controlled entities	19	**8,192**	–
Current assets			
Deposit and prepayments	21	**154**	942
Amounts due from subsidiaries	18	**312,350**	150,585
Cash and cash equivalents	25	**2,745**	1,704
		315,249	153,231
Total assets		**376,286**	206,068
Equity			
Equity attributable to owners of the parent			
Ordinary shares	26	**4,022**	3,431
Share premium	27	**271,792**	66,596
Other reserves	27	**12,136**	12,136
Retained earnings	27	**32,511**	73,173
– Proposed final dividend		**–**	40,320
– Others		**32,511**	32,853
Total equity		**320,461**	155,336
Liabilities			
Non-current liabilities			
Borrowings	30	**6,614**	10,241

Company Balance Sheet

As at 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Current liabilities			
Other payables and accrued charges		**822**	797
Amounts due to subsidiaries	18	**2,094**	2,146
Borrowings	30	**46,295**	37,548
		49,211	40,491
Total liabilities		**55,825**	50,732
Total equity and liabilities		**376,286**	206,068
Net current assets		**266,038**	112,740
Total assets less current liabilities		**327,075**	165,577

The notes on pages 47 to 103 are an integral part of these financial statements.

The financial statements on pages 39 to 103 were approved by the Board of Directors on 24 March 2011 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2009		3,431	66,596	77,338	37,179	144,566	329,110
Total comprehensive income		–	–	–	–	84,145	84,145
Dividends paid		–	–	–	–	(50,400)	(50,400)
Balance at 31 December 2009		3,431	66,596	77,338	37,179	178,311	362,855
Profit for the year		–	–	–	–	158,746	158,746
Currency translation difference		–	–	–	(161)	–	(161)
Total comprehensive income		–	–	–	(161)	158,746	158,585
Proceeds from issuance of Taiwan Depository Receipts ("TDRs")	26	591	205,196	–	–	–	205,787
Dividends paid	13	–	–	–	–	(108,864)	(108,864)
Appropriations to reserve	27	–	–	–	7,746	(7,746)	–
Balance at 31 December 2010		4,022	271,792	77,338	44,764	220,447	618,363

The notes on pages 47 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	NOTE	**2010** **RMB'000**	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**78,398**	165,330
Income tax and withholding tax paid		**(31,213)**	(8,826)
Income tax refunded		**–**	5,306
Transaction costs in relation to a business combination	34	**422**	–
Net cash generated from operating activities		**47,607**	161,810
Cash flows from investing activities			
Investment in a joint venture company		**(8,192)**	–
Cash paid for acquiring a business	34	**(14,759)**	–
Purchases of property, plant and equipment ("PPE")		**(70,984)**	(32,427)
Proceeds from sale of PPE	32	**1,956**	1,576
Purchases of intangible assets		**(524)**	(1,060)
Interest received		**1,321**	688
Increase in restricted bank deposits		**(5,239)**	(15,137)
Net cash used in investing activities		**(96,421)**	(46,360)
Cash flows from financing activities			
Proceeds from issuance of TDRs	26, 27	**205,787**	–
Proceeds from borrowings		**345,036**	240,591
Repayments of borrowings		**(296,776)**	(286,815)
Dividends paid to equity holders		**(108,864)**	(50,400)
Interests paid		**(3,461)**	(4,564)
Net cash generated from/(used in) financing activities		**141,722**	(101,188)
Net increase in cash and cash equivalents		**92,908**	14,262
Cash and cash equivalents at beginning of year	25	**68,137**	53,875
Cash and cash equivalents at end of year	25	**161,045**	68,137

The notes on pages 47 to 103 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

The Company was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman 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. In addition, 67,200,000 units of Taiwan depositary receipts ("TDRs"), representing 67,200,000 newly issued shares of the Company, were issued and listed on the Taiwan Stock Exchange Corporation ("Taiwan Stock Exchange") on 18 March 2010.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). 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.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures(Continued)

(a) New and amended standards adopted by the Group (Continued)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The revised standards were applied to the acquisition of a business and the related group of assets and employees in Italy during the year. See note 34 for further details.

HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) had no significant impact on the current period, as there were no transactions with non-controlling interests.

HKAS 38 (amendment) clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The revised standards were applied to the acquisition of a business and the related group of assets and employees from an Italian company during the year. See note 34 for further details.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

- HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and concluded that no classification was required to be made according to the amendment.

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

• HK(IFRIC) 17	Distribution of non-cash assets to owners
• HK(IFRIC) 18	Transfers of assets from customers
• HK(IFRIC) 9 (amendment)	Reassessment of embedded derivatives
• HK(IFRIC) 16 (amendment)	Hedges of a net investment in a foreign operation
• HKAS 1 (amendment)	Presentation of financial statements
• HKAS 36 (amendment)	Impairment of assets
• HKFRS 2 (amendments)	Group cash-settled share-based payment transactions,
• HKFRS 5 (amendment)	Non-current assets held for sale and discontinued operations'

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

• HKFRS 9	Financial instruments
• HKAS 24 (revised)	Related party disclosures
• 'Classification of rights issues'	(amendment to IAS/HKAS 32)
• IFRIC/HK (IFRIC) – Int 19	'Extinguishing financial liabilities with equity instruments'
• Prepayments of a minimum funding requirement'	(amendments to IFRIC/HK (IFRIC) – Int 14)

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

(a) Subsidiaries and Business Combination

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Joint venture

Joint venture is an entity over which the Group has significant influence but not control, joint venture accompanying a shareholding of 50% of the voting right. Investments in joint venture are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in joint venture includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

Dilution gains and losses arising in investments in joint venture are recognised in the income statement.

2.3 Segment reporting

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions 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 income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

(c) Group companies

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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

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

2.5 Property, plant and equipment

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(note 2.8)*.

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 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.

2.7 Intangible assets

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Impairment of investments non-financial assets

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

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

2.9 Financial assets

2.9.1 Classification

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's receivables comprise 'Debtors, deposit and prepayments', 'Amount due from ultimate holding company', 'Amounts due from and prepayment to a fellow subsidiary and associates of ultimate holding company', 'restricted bank deposit' and 'cash and cash equivalents' in the balance sheet *(notes 2.13 and 2.14)*.

2.9.2 Recognition and measurement

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost (Continued)

- adverse changes in the payment status of borrowers in the portfolio;
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

Impairment testing of trade and other receivables is described in note 2.14.

2.12 Inventories

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Trade payables

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

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

2.17 Borrowings

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and deferred income tax

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial 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 jointly controlled entities, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

(c) Bonus plans

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

2.20 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Provisions

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

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

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

2.22 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

(b) Revenue from construction of parking garage structures for contract customers is recognised based on the percentage of completion of the contract, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is estimated by reference to the costs incurred to date as compared to the total costs to be incurred under the contract. Provision is made for foreseeable losses as soon as they are anticipated by the management.

(c) *Interest income*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 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 amounts due to customers for contract work. Amount billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under amounts due from customers for contract work.

2.24 Operating Leases

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

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors where appropriate.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

The Group and the Company are mainly exposed to foreign exchange risk arising from Hong Kong dollars 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 Company's foreign exchange risk is significant.

Group

At 31 December 2010, if RMB had strengthened/weakened by 5% (2009: 5%) against the Hong Kong dollars with all other variables held constant, profit for the year would have been approximately RMB2,090,000 higher/lower (2009: approximately RMB1,048,000 higher/lower).

At 31 December 2010, if RMB had strengthened/weakened by 5% (2009: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB4,096,000 higher/lower (2009: approximately RMB1,569,000 higher/lower).

Company

At 31 December 2010, if RMB had strengthened/weakened by 5% (2009: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB2,527,000 higher/lower (2009: approximately RMB2,389,000 higher/lower)

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Interest rate risk

The Group and the Company are exposed to cash flow interest rate risk in relation to its variable-rate bank borrowings. As at 31 December 2010, 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 RMB130,000 (2009: approximately RMB177,000 lower/higher) and approximately RMB60,000 lower/higher (2009: approximately RMB230,000 lower/higher) respectively. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date.

(c) Credit risk

As at 31 December 2010, 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, a fellow subsidiary and an associate of ultimate holding company, as well as restricted bank deposits and cash equivalents as stated in the consolidated balance sheet.

As at 31 December 2010, 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 standalone balance sheet.

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

The credit risk on cash and cash equivalents is considered insignificant because the counterparties are banks with credit ratings not lower than Baa2 (2009: Baa2) assigned by international credit-rating agencies.

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

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

In order to manage the liquidity risk, the Group monitors and maintains cash and cash equivalents and unused credit facilities at a level which is deemed to be adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The Group had unused credit lines of RMB115,590,000 (2009: RMB132,681,000) as at 31 December 2010. Management monitor the utilisation of credit facilities and draw-down of bank borrowings and ensure compliance with the relevant loan covenants. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period between balance sheet date to the contractual maturity dates.

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group					
At 31 December 2010					
Creditors, other payables and accrued charges	454,057	–	–	–	–
Borrowings	118,710	50,812	6,627	–	–
Amounts due to customers for contract work	15,674	–	–	–	–
Amounts due to immediate holding company	2,213	–	–	–	–
Amounts due to a Joint venture company	7,335	–	–	–	–
At 31 December 2009					
Creditors, other payables and accrued charges	291,655	–	–	–	–
Borrowings	43,616	73,780	10,250	–	–
Amounts due to customers for contract work	18,576	–	–	–	–
Amounts due to immediate holding company	6,448	–	–	–	–

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Company					
At 31 December 2010					
Other payables and accrued charges	822	–	–	–	–
Amounts due to subsidiaries	2,094	–	–	–	–
Borrowings	26,621	19,966	6,656	–	–
At 31 December 2009					
Other payables and accrued charges	797	–	–	–	–
Amounts due to subsidiaries	2,146	–	–	–	–
Borrowings	–	37,575	10,248	–	–

3.2 Capital risk management

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

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

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

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management *(Continued)*

	2010	2009
	RMB'000	RMB'000
Total borrowings (note 30)	**175,798**	127,538
Less: cash and cash equivalents (note 25)	**(161,045)**	(67,137)
Net debt	**14,753**	60,401
Total equity	**618,363**	362,855
Total capital	**633,116**	423,256
Gearing ratio	**2%**	14%

The decrease in the gearing ratio during 2010 resulted primarily from the issue of Taiwan depository receipts ("TDRs") *(note 26)*.

3.3 Fair value estimation

Financial instruments are measured in the balance sheet at fair value, which requires disclosure of fair value measurements by level of fair value measurement hierarchy. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2010, the Group had no financial instrument which had been stated at fair value.

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

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Revenue from construction of parking garage structures

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

(b) Estimated impairment of trade debtors

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

As at 31 December 2010, provision for impairment of trade debtors amounting to approximately RMB29,656,000 (2009: RMB25,866,000) had been recognised.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Estimated 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 2010, the Group reported accumulated impairment loss for certain machinery and equipment at RMB1,369,000 (2009: RMB1,369,000). In the segments where the above-mentioned impairment was determined, the 'fair value less costs to sell' of the remaining machinery and equipment and other assets identified within the scope of HKAS 36 "Impairment of Assets" had been assessed to be in excess of their respective carrying values. No additional impairment was considered necessary.

(d) Income taxes

Most of 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 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.

(e) Fair value of identifiable assets, liabilities and contingent liabilities acquired in the business combination from Sachman Rambaudi

The fair value of the identifiable assets acquired in the business combination from Sachman Rambaudi (Note 34) at its acquisition date have been determined based on relief from royalty method and cost replacement method. These calculations require the use of certain key assumptions. Changing such key assumptions selected by management, including the discount rate, royalty rate and estimate useful life, could materially affect the fair value of the acquired intangible assets and the gain on bargain purchases.

The details of key assumptions used for calculations are stated in note 34.

5 SEGMENT INFORMATION

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

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

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

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

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

	Machine Tools RMB'000	Parking Garage structures RMB'000	Forklift Trucks RMB'000	Total Group RMB'000
For the year ended 31 December 2009				
Revenue (all from external sales)	615,450	83,776	77,612	776,838
Cost of revenue	(414,185)	(77,146)	(70,706)	(562,037)
Segment profit	201,265	6,630	6,906	214,801

Majority of 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

	2010 RMB'000	2009 RMB'000
Sales of scrap materials	**6,485**	2,265
Net exchange gain	**6,660**	2,553
Government subsidies	**1,825**	774
Repair income	**2,190**	3,374
Rental income from investment properties	**335**	1,679
Interest income	**1,321**	688
Others	**1,858**	1,362
	20,674	12,695

7 EXPENSES BY NATURE

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	**957,498**	529,175
Sales commission	**23,285**	15,377
Depreciation of property, plant and equipment	**16,880**	14,899
Depreciation of investment properties	**133**	329
Amortisation of intangible assets	**1,836**	827
Amortisation of land use rights	**943**	943
Operating lease rental on land and buildings	**5,993**	4,437
Employee benefit expenses (note 8)	**89,801**	56,500
Allowance for bad and doubtful debts, net	**5,540**	(12,311)
Allowance for inventories, net	**(2,903)**	3,765
Auditor's remuneration	**1,149**	1,220
Provision for warranty	**9,465**	4,282
Loss on disposal of property, plant and equipment	**732**	282
Research and development expense*	**39,428**	22,962
Transportation Fees	**15,641**	8,000
Others	**51,175**	26,598
Total cost of revenue, distribution and selling expenses, administrative expenses and other expenses	**1,216,596**	677,285

* Depreciation of property, plant and equipment, amortisation of intangible assets and employee benefit expenses amounting to RMB1,311,000, RMB205,000 and RMB10,156,000 was included in research and development expenses respectively (2009: RMB1,064,000, RMB171,000 and RMB6,391,000 respectively.)

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2010	2009
	RMB'000	RMB'000
Wages and salaries	**66,101**	42,982
Bonus	**18,844**	9,168
Welfare and other allowance	**10,917**	8,528
Pension costs – defined contribution plans	**4,095**	2,213
	99,957	62,891

(a) Directors' emoluments

The remuneration of each director is set out below:

Year ended 31 December 2010

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

Year ended 31 December 2009

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

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION) *(Continued)*

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, none (2009: none) was a director of the Company whose emoluments are included in the disclosures in note 8(a) above. The emoluments of the five (2009: five) individuals were as follows:

	2010 **RMB'000**	2009 RMB'000
Basic salaries and allowances	**3,747**	1,544
Bonus	**2,957**	1,011
Pension costs – defined contribution plans	**139**	83
	6,843	2,638

The emolument fell within the following bands:

	Number of individuals **2010** **RMB'000**	 2009 RMB'000
Emolument bands (in HKD)		
Less than HKD1,000,000	**1**	5
HKD1,000,001 – HKD1,500,000	**3**	–
HKD2,000,000 – HKD2,500,000	**1**	–

9 FINANCE COSTS

	2010 **RMB'000**	2009 RMB'000
Interest expense:		
– Bank borrowings wholly repayable within 5 years	**3,461**	4,564

10 INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Enterprise income tax	**33,225**	17,370
Deferred tax (note 31)	**1,835**	6,169
	35,060	23,539

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 and Italy 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, 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 2010 is 15% (2009: 15%).

Certain group companies have unused tax loss.

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

	2010 RMB'000	2009 RMB'000
Profit before income tax	**193,806**	107,684
Tax calculated at weighted average enterprise income tax rates at 16% (2009: 15%)	**31,484**	16,153
Tax effects of:		
– Income not subject to tax	**(6,267)**	(1,847)
– Expenses not deductible for tax purposes	**1,481**	2,301
– Utilisation of previously unrecognised tax losses	**(363)**	–
– Tax losses for which no deferred income tax asset was recognised	**399**	1,469
Deferred tax on undistributed earnings of subsidiaries in the PRC	**7,693**	4,943
Others	**633**	520
Tax charge	**35,060**	23,539

Notes to the Consolidated Financial Statements

11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the company is dealt with in the financial statements of the company to the extent of approximately RMB68,202,000 (2009: RMB75,826,000).

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB158,746,000 (2009: RMB84,145,000) by the weighted average number of ordinary shares in issue during the year of 389,760,000 (2009: 336,000,000).

	2010	2009
Basic and Diluted earnings per share *(RMB per share)*	**0.41**	0.25

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

13 DIVIDENDS

The dividends paid in 2010 and 2009 were RMB108,864,000 (RMB0.28 per share) and RMB50,400,000 (RMB0.15 per share) respectively. At a meeting of directors held on 24 March 2011, the directors resolved to recommend a final dividend of RMB0.10 (2009: RMB0.12) per share for the year ended 31 December 2010. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2010.

	2010 **RMB'000**	2009 RMB'000
Interim dividend paid of RMB0.15 (2009: RMB0.09) per ordinary share	**60,480**	30,240
Proposed final dividend of RMB0.10 (2009: RMB0.12) per ordinary share	**40,320**	40,320
	100,800	70,560

The proposed final dividend for the year ended 31 December 2010 is to be declared out of the share premium of the Company.

The aggregate amounts of the dividends paid and proposed during 2010 and 2009 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

14 LAND USE RIGHTS – GROUP

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

	2010 **RMB'000**	2009 RMB'000
At 1 January	**42,253**	43,196
Amortisation	**(943)**	(943)
At 31 December	**41,310**	42,253

Bank borrowings outstanding as at 31 December 2010 were secured by land use rights of carrying value of RMB13,847,000 (2009: RMB14,156,000) *(note 30)*.

15 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings **RMB'000**	**Machinery and equipment** **RMB'000**	**Office and computer equipment** **RMB'000**	**Motor vehicles** **RMB'000**	**Construction in progress** **RMB'000**	**Total** **RMB'000**
Cost						
At 1 January 2009	73,812	88,396	16,900	10,036	31,282	220,426
Additions	–	26,766	2,235	772	28,745	58,518
Transfers	22,341	1,352	–	–	(23,693)	–
Transferred to investment properties (note 16)	(11,244)	–	–	–	–	(11,244)
Disposals	–	(46)	(1,498)	(2,128)	–	(3,672)
At 31 December 2009 and 1 January 2010	84,909	116,468	17,637	8,680	36,334	264,028
Exchange differences	–	31	4	2	–	37
Additions	–	5,191	5,578	3,728	40,188	54,685
Acquisition from a business combination (note 34)	–	3,566	492	227	–	4,285
Transfers	20,665	5,235	–	–	(25,900)	–
Transferred from investment properties (note 16)	8,280	–	–	–	–	8,280
Disposals	(270)	(3,046)	(1,475)	(1,116)	–	(5,907)
At 31 December 2010	113,584	127,445	22,236	11,521	50,622	325,408

Notes to the Consolidated Financial Statements

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

	Buildings RMB'000	Machinery and equipment RMB'000	Office and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation and impairment						
At 1 January 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
Transferred to investment properties (note 16)	(2,078)	–	–	–	–	(2,078)
Disposals	–	(34)	(1,206)	(574)	–	(1,814)
At 31 December 2009 and 1 January 2010	19,958	42,303	12,547	5,605	–	80,413
Exchange differences	–	1	–	–	–	1
Provided for the year	4,708	10,285	1,953	1,245	–	18,191
Transferred from investment properties (note 16)	1,618	–	–	–	–	1,618
Disposals	(110)	(1,386)	(1,090)	(633)	–	(3,219)
At 31 December 2010	26,174	51,203	13,410	6,217	–	97,004
Net book amount						
At 31 December 2010	87,410	76,242	8,826	5,304	50,622	228,404
At 31 December 2009	64,951	74,165	5,090	3,075	36,334	183,615

Notes to the Consolidated Financial Statements

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

Depreciation expense of RMB13,150,000 (2009: RMB10,622,000) had been charged in 'cost of goods sold', RMB966,000 (2009: RMB1,375,000) in 'selling and marketing costs' and RMB4,075,000 (2009: RMB3,966,000) in 'administrative expenses' *(note 7)*.

Lease rental expenses amounting to RMB5,993,000 (2009: RMB4,437,000) relating to leasing of property were included in the income statement *(note 7)*.

Bank borrowings outstanding as at 31 December 2010 were secured by buildings for the value of RMB25,911,000 (2009: RMB53,091,000) *(note 30)*.

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

16 INVESTMENT PROPERTIES – GROUP

	2010 **RMB'000**	2009 RMB'000
Opening net book amount at 1 January	**8,837**	–
Transfer from property, plant and equipment (note 15)	**–**	9,166
Transfer to property, plant and equipment (note 15)	**(6,662)**	–
Depreciation	**(133)**	(329)
Closing net book amount at 31 December	**2,042**	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 2010 was approximately RMB6,830,000, which was assessed by Zhejiang Henji Appraisal Co., Ltd ("浙江基資產評估有限公司"), an independent valuer in the PRC, based on open market values of similar properties in the region where these properties are located.

Notes to the Consolidated Financial Statements

17 INTANGIBLE ASSETS – GROUP

	Trademarks and licences RMB'000	Technology know-how RMB'000	Software RMB'000	Total RMB'000
At 1 January 2009				
Cost	–	–	5,293	5,293
Accumulated amortisation and impairment	–	–	(2,629)	(2,629)
Net book amount	–	–	2,664	2,664
Year ended 31 December 2009				
Opening net book amount	–	–	2,664	2,664
Additions	–	–	1,060	1,060
Amortisation charge *(note 7)*	–	–	(998)	(998)
Closing net book amount	–	–	2,726	2,726
At 31 December 2009				
Cost	–	–	6,353	6,353
Accumulated amortisation and impairment	–	–	(3,627)	(3,627)
Net book amount	–	–	2,726	2,726
Year ended 31 December 2010				
Opening net book amount	–	–	2,726	2,726
Exchange difference	69	58	–	127
Additions	–	–	524	524
Acquisition from a business combination *(note 34)*	8,037	7,250	–	15,287
Amortisation charge *(note 7)*	(436)	(364)	(1,241)	(2,041)
Closing net book amount	7,670	6,944	2,009	16,623
At 31 December 2010				
Cost	8,102	7,309	6,877	22,888
Accumulated amortisation and impairment	(432)	(365)	(4,868)	(5,665)
Net book amount	7,670	6,944	2,009	16,623

Amortisation of RMB364,000 (2009: Nil) and RMB1,677,000 (2009: RMB998,000) have been charged in cost of revenue and administrative expenses *(note 7)*.

Notes to the Consolidated Financial Statements

18 INVESTMENT IN SUBSIDIARIES – COMPANY

	2010 RMB'000	2009 RMB'000
Investments – unlisted shares, at cost:	**52,837**	52,837
Amount due from subsidiaries	**312,350**	150,585
Amount due to subsidiaries	**(2,094)**	(2,146)

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

The following is a list of principal subsidiaries of the Group at 31 December 2010:

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

Notes to the Consolidated Financial Statements

18 INVESTMENT IN SUBSIDIARIES – COMPANY *(Continued)*

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

Notes to the Consolidated Financial Statements

18 INVESTMENT IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held
Hangzhou Glory Friend Precision Machinery Co Ltd	PRC	Processing of computer numerical control machine tools	Registered Capital USD15,000,000	100%
Rich Friend (Shanghai) Precision Machinery Co Ltd	PRC	Trading of computer numerical control machine tools	Registered Capital USD200,000	100%
Sky Thrive Rambaudi S.r.l.	Italy	Design and production of computer numerical control machine tools	Ordinary shares EUR10,000	100%

19 INVESTMENT IN JOINT CONTROLLED ENTITIES – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investments in joint controlled entities	**8,192**	–	**8,192**	–
Amount due to joint controlled entities	**(7,335)**	–	**–**	–

During the current year, the Company invested in two jointly controlled entities in China. Details are as follows:

- In January and July 2010, the Company contributed approximately USD1,155,000 (equivalent to RMB7,861,000) additional registered capital into Anest Iwata Feeler Corporation ("AIF"). AIF was established by the Company; a third party company, Anest Iwata Corporation ("AIC"); and Anest Iwata Taiwan("AIT"), a joint venture company of the Company's ultimate holding company in 2009. After the additional capital injection, equity interests held by the Company, AIC and AIT in AIF became 35%, 35% and 30% respectively. The Company adopts equity accounting to account for its interests in AIF.
- In December 2010, the Company contributed approximately USD50,000 (equivalent to RMB331,000 as registered capital into Hangzhou Nippon Cable Feeler Corporation ("NCF"). NCF was established by the Company and Nippon Cable Co., Ltd ("NC"),a third party company. Interests held by the Company and NC are 50% each. The Company also adopts equity method of accounting to account for this investment.

For the year ended 31 December 2010, the net income derived from the joint controlled entities was immaterial.

Notes to the Consolidated Financial Statements

20 FINANCIAL INSTRUMENTS BY CATEGORY

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

21 DEBTORS, DEPOSITS AND PREPAYMENT – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivables	**381,143**	230,114	**–**	–
Less: provision for impairment of trade receivables	**(29,656)**	(25,866)	**–**	–
Trade receivables – net	**351,487**	204,248	**–**	–
Prepayments	**42,091**	30,778	**–**	–
Other debtors	**34,720**	27,114	**154**	942
Total Debtors, deposits and prepayment	**428,298**	262,140	**154**	942

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

At 31 December 2010 and 2009, the ageing analysis of trade debtors and bills receivable were as follows:

	2010	2009
	RMB'000	RMB'000
Current – 30 days	**293,558**	165,767
31 – 60 days	**10,508**	10,008
61 – 90 days	**11,510**	2,081
91 – 180 days	**17,326**	7,876
Over 180 days	**48,241**	44,382
	381,143	230,114

Notes to the Consolidated Financial Statements

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

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 RMB66,351,000 (2009: RMB46,479,000) which were past due as at 31 December 2010 but the Group had not provided for impairment loss. The directors, after considering the trade relationship, credit status and past settlement history of these individual trade debtors, had concluded that these outstanding balances would be recovered. The Group does not hold any collateral over these balances. There are no historical defaults in payments from these trade debtors.

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

	2010 **RMB'000**	2009 RMB'000
0 – 30 days	**10,208**	7,998
31 – 60 days	**10,164**	10,008
61 – 90 days	**10,998**	2,081
91 – 180 days	**16,382**	7,876
Over 180 days	**18,599**	18,516
	66,351	46,479

As of 31 December 2010, trade debtors of RMB29,656,000 (2009:RMB25,866,000) were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpected financial difficulties. The ageing of these receivables is as follows:

	2010	2009
91 – 180 days	**14**	–
Over 6 months	**29,642**	25,866
	29,656	25,866

Notes to the Consolidated Financial Statements

21 DEBTORS, DEPOSITS AND PREPAYMENT – GROUP AND COMPANY *(continued)*

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

	2010	2009
	RMB'000	RMB'000
At 1 January	**25,866**	38,177
Provision for receivables impairment	**5,540**	–
Receivables written off during the year when proved to be uncollectible	**(1,750)**	–
Write-back of allowance	**–**	(12,311)
At 31 December	**29,656**	25,866

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

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

The carrying amounts of the Group's debtors, deposits and prepayment are denominated in the following currencies:

	2010	2009
	RMB'000	RMB'000
RMB	**395,317**	239,097
US dollar	**23,862**	20,898
Euro	**3,487**	–
Other currencies	**5,632**	2,145
	428,298	262,140

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

Notes to the Consolidated Financial Statements

22 INVENTORIES – GROUP

	2010 RMB'000	2009 RMB'000
Raw materials	**126,894**	103,496
Work in progress	**101,499**	53,420
Finished goods	**115,356**	57,416
	343,749	214,332
Provision	**(1,920)**	(4,798)
	341,829	209,534

The cost of inventories recognised as expense and included in 'cost of revenue' amounted to RMB957,498,000 (2009: RMB529,175,000) *(note 7)*.

During the year, the Group reversed RMB3,675,000 of the provision brought forward as a credit to cost of revenue. The Group had utilised the related inventory items for its own research and development and production. The carrying amount of these items were charged as research and development expenses.

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

	2010 RMB'000	2009 RMB'000
Contract costs incurred plus recognised profits less recognised losses	**202,114**	192,639
Less: Progress billings	**(194,845)**	(194,017)
	7,269	(1,378)

	2010 RMB'000	2009 RMB'000
Amounts due from contract customers	**22,943**	17,198
Amounts due to contract customers	**(15,674)**	(18,576)
Net amounts due from/(to) customers for contract work	**7,269**	(1,378)

As at 31 December 2010, retention money held by customers for contract work included in debtors amounted to RMB2,061,000 (2009: RMB2,019,000).

Notes to the Consolidated Financial Statements

24 RESTRICTED BANK DEPOSITS

The amounts represent deposits placed in banks for guarantees issued for trade finance instruments used by the Group. The deposits have a maturity period within one year and they carry fixed rate interest at 0.36% (2009: 0.36%) per annum.

25 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**61,645**	66,137	**2,745**	1,704
Short-term bank deposits	**99,400**	2,000	**–**	–
Cash and cash equivalents	**161,045**	68,137	**2,745**	1,704

26 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	Nominal value
		RMB'000
Ordinary share of HK$0.01 each		
Authorised:		
At 31 December 2010 and 31 December 2009	1,000,000	10,211
Issued and fully paid:		
At 31 December 2009	336,000	3,431
Opening balance 1 January 2010	336,000	3,431
Issuance of TDRs	67,200	591
At 31 December 2010	403,200	4,022

On 18 March 2010, the Company issued 67.2 million units of TDRs at NTD14.5 (RMB3.121) per unit (representing one newly issued ordinary share of the Company) and they have been listed on the Taiwan Stock Exchange. The Company received net proceeds amounting to approximately NTD956 million (equivalent to approximately RMB206 million). Approximately RMB155 million of the proceeds were injected by the Company into its subsidiaries in the PRC as additional registered capital and the remaining balance of approximately RMB51 million was utilised for repayment of bank borrowings.

Notes to the Consolidated Financial Statements

27 RESERVES – GROUP AND COMPANY

Group

	Share premium RMB'000	Capital reserve RMB'000	Other reserve: General reserve RMB'000	Other reserve: Enterprise expansion reserve RMB'000	Translation RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009	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
Appropriation to reserves	–	–	–	–	–	–	–
At 31 December 2009	66,596	77,338	28,090	9,089	–	178,311	359,424
Issuance of TDRs	205,196	–	–	–	–	–	205,196
Dividends paid	–	–	–	–	–	(108,864)	(108,864)
Profit for the year	–	–	–	–	–	158,746	158,746
Currency translation difference	–	–	–	–	(161)	–	(161)
Appropriation to reserves	–	–	7,746	–	–	(7,746)	–
At 31 December 2010	271,792	77,338	35,836	9,089	(161)	220,447	614,341

Notes:

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

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

Notes to the Consolidated Financial Statements

27 RESERVES – GROUP AND COMPANY *(Continued)*

Company

	Share premium RMB'000	**Other reserves** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2009	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
Issuance of TDRs	205,196	–	–	205,196
Dividends paid	–	–	(108,864)	(108,864)
Total comprehensive income	–	–	68,202	68,202
At 31 December 2010	271,792	12,136	32,511	316,439

28 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES – GROUP

	2010 **RMB'000**	2009 RMB'000
Trade creditors	**167,285**	157,174
Advance deposits from customers	**218,106**	95,053
Other payables	**36,103**	22,656
Accrued expenses	**32,563**	16,772
	454,057	291,655

The Group normally receives credit terms of 30 to 60 days. At 31 December 2010 and 2009, the ageing analysis of the trade payables were as follows:

	2010 **RMB'000**	2009 RMB'000
Current – 30 days	**128,544**	108,094
31 – 60 days	**25,296**	13,224
61 – 90 days	**6,418**	14,864
91 – 180 days	**4,373**	20,846
Over 180 days	**2,654**	146
	167,285	157,174

Notes to the Consolidated Financial Statements

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

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

	2010 **RMB'000**	2009 RMB'000
RMB	**433,351**	288,498
US dollars	**8,531**	3,157
Euro	**12,175**	–
	454,057	291,655

29 WARRANTY PROVISION – GROUP

	2010 **RMB'000**	2009 RMB'000
At 1 January	**5,204**	4,426
Provision for the year	**9,465**	4,282
Utilisation of provision	**(6,570)**	(3,504)
At 31 December	**8,099**	5,204

30 BORROWINGS – GROUP AND COMPANY

	Group		**Company**	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Non-current				
Unsecured	**6,614**	10,241	**6,614**	10,241
Current				
Secured	**980**	32,973	**–**	–
Unsecured	**168,204**	84,324	**46,295**	37,548
	169,184	117,297	**46,295**	37,548
Total borrowings	**175,798**	127,538	**52,909**	47,789

Notes to the Consolidated Financial Statements

30 BORROWINGS – GROUP AND COMPANY *(Continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Effective interest rates	**1.45% to 5.35% per annum**	1.20% to 5.75% per annum	**1.47% to 2.57% per annum**	1.62% to 4.18% per annum

At 31 December 2010, the Group's borrowings were repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**169,184**	117,297	**46,295**	37,548
Between 1 and 2 years	**6,614**	10,241	**6,614**	10,241

The Group had pledged its land use rights and buildings with carrying amounts of approximately RMB13,847,000 *(note 14)* and RMB25,911,000 *(note 15)* respectively (2009: RMB14,156,000 and RMB53,091,000 respectively) as at 31 December 2010 in order to secure the general banking facilities granted to it.

The fair value of current borrowings as at 31 December 2010 equals their carrying amount because the impact of discounting is not significant. The fair value was determined based on cash flows discounted using a rate of borrowing at 2.37% per annum (2009: 3.11% per annum).

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

30 BORROWINGS – GROUP AND COMPANY *(Continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**10,100**	34,000	**–**	–
HK dollars	**49,594**	22,745	**–**	–
US dollars	**116,104**	70,793	**52,909**	47,789
	175,798	127,538	**52,909**	47,789

The Group had the following undrawn borrowing facilities as at 31 December 2010:

	Group	
	2010	2009
	RMB'000	RMB'000
Floating rate loans:		
– Expiring within one year	**115,590**	132,681

The facilities expiring within one year are annual facilities granted by banks which are subject to review at various dates throughout 2011.

31 DEFERRED INCOME TAX – GROUP

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

	Group	
	2010	2009
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**5,545**	5,235
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**2,097**	–
– Deferred tax liability to be recovered within 12 months	**13,691**	4,943

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX – GROUP *(Continued)*

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**5,235**	6,461
Credit to/(Charge to) consolidated statement of comprehensive income	**310**	(1,226)
At 31 December	**5,545**	5,235

	Group			
Deferred tax assets	**Allowance for doubtful receivables**	**Allowance for inventories**	**Warranty provision**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	5,700	141	620	6,461
Charge to/(Credit to) consolidated statement of comprehensive income	(1,820)	504	90	(1,226)
At 31 December 2009	3,880	645	710	5,235
Charge to/(Credit to) consolidated statement of comprehensive income	463	(549)	396	310
At 31 December 2010	4,343	96	1,106	5,545

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**4,943**	2,859
Charge to consolidated statement of comprehensive income	**6,206**	4,943
Settlement	**(4,426)**	(2,859)
Deferred tax liabilities arising from a business combination *(note 34)*	**8,700**	–
Exchange difference	**365**	–
At 31 December	**15,788**	4,943

Notes to the Consolidated Financial Statements

31 DEFERRED INCOME TAX – GROUP *(Continued)*

	Group		
Deferred tax liabilities	**Withholding tax on distributable profit of subsidiaries in the PRC**	**Business combination**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2009	2,859	–	2,859
Charge to/(Credit to) consolidated statement of comprehensive income	4,943	–	4,943
Settlement	(2,859)	–	(2,859)
At 31 December 2009	4,943	–	4,943
Charge to/(Credit to) consolidated statement of comprehensive income	7,693	(1,487)	6,206
Settlement	(4,426)	–	(4,426)
Deferred tax liabilities arising from a business combination *(note 34)*	–	8,700	8,700
Exchange difference	–	365	365
At 31 December 2010	8,210	7,578	15,788

At the balance sheet date, the Group has unused tax losses of approximately RMB14,551,000 (2009: RMB12,993,000) available for offsetting 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:

	2010	2009
	RMB'000	RMB'000
With expiry in:		
2013	**6,814**	3,060
2014	**6,142**	140
2015	**1,595**	9,793

Notes to the Consolidated Financial Statements

32 CASH GENERATED FROM OPERATIONS

	2010 **RMB'000**	2009 RMB'000
Profit before income tax	**193,806**	107,684
Adjustments for:		
– Amortisation of land use rights *(note 7)*	**943**	943
– Depreciation of property, plant and equipment *(note 7)*	**18,191**	15,963
– Depreciation of investment properties *(note 7)*	**133**	329
– Amortisation of intangible assets *(note 7)*	**2,041**	998
– Loss on disposal of property, plant and equipment (see below)	**732**	282
– Interest income *(note 6)*	**(1,321)**	(688)
– Finance costs *(note 9)*	**3,461**	4,564
– Effect on currency exchange difference	**41**	–
– Excess of net fair value of identifiable assets, liabilities and contingent liabilities of a business acquired over cost *(note 34)*	**(19,006)**	–
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– (Increase)/decrease in inventories	**(104,429)**	3,497
– Increase in debtors, deposits and prepayments	**(166,158)**	(93,047)
– Increase in amounts due from customers for contract work	**(5,745)**	(2,539)
– Decrease/(increase) in amount due from ultimate holding company	**449**	(588)
– (Increase)/decrease in amounts due from a fellow subsidiary and an associate of ultimate holding company	**(3,436)**	1
– Increase in creditors, other payables and accrued charges	**155,603**	111,983
– (Decrease)/increase in amounts due to customers for contract work	**(2,902)**	11,174
– (Decrease)/increase in amount due to immediate holding company	**(4,235)**	4,156
– Increase in amount due to a joint venture company	**7,335**	–
– Increase in warranty provision	**2,895**	778
– Decrease in amount due to ultimate holding company	**–**	(160)
Cash generated from operations	**78,398**	165,330

Notes to the Consolidated Financial Statements

32 CASH GENERATED FROM OPERATIONS *(Continued)*

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

Group	**2010** RMB'000	2009 RMB'000
Net book amount *(note 15)*	**2,688**	1,858
Loss on disposal of property, plant and equipment	**(732)**	(282)
Proceeds from disposal of property, plant and equipment	**1,956**	1,576

33 COMMITMENTS

(a) Capital commitments

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

Group	**2010** RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection into jointly controlled entities	**10,067**	4,300
– Acquisition of machinery and equipment	**27,097**	3,425
	37,164	7,725

Notes to the Consolidated Financial Statements

33 COMMITMENTS *(Continued)*

(b) Operating lease commitments

The Group as lessee

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

Group	**2010** **RMB'000**	2009 RMB'000
No later than 1 year	**2,402**	2,478
Later than 1 year and no later than 5 years	**2,795**	2,061
Later than 5 years	**456**	608
	5,653	5,147

The Group as lessor

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

Group	**2010** **RMB'000**	2009 RMB'000
No later than 1 year	**–**	683
Later than 1 year and no later than 5 years	**–**	680
	–	1,363

34 BUSINESS COMBINATIONS

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

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

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

Notes to the Consolidated Financial Statements

34 BUSINESS COMBINATIONS *(Continued)*

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

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

(a) an assumed royalty rate of 1.75%;

(b) an assumed useful life of 10 years; and

(c) an assumed discount rate of 16.68%.

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

(a) an assumed useful life of 10 years;

(b) an assumed discount rate of 16.68%.

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

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

Notes to the Consolidated Financial Statements

35 RELATED-PARTY TRANSACTIONS

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

(a) Transactions

Name of company	Relationship	Nature of transactions	2010 RMB'000	2009 RMB'000
Hangzhou Feeler Takamatsu Machinery Co., Ltd.	Associate of ultimate holding company	Sales of goods	**499**	774
Fairskq (Taiwan) Co., Ltd	Associate of ultimate holding company	Sales of goods	**–**	31
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	**1,627**	972
		Purchases of goods	**248**	21,023
Good Friend (H. K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	**148,123**	108,410
Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine")	Fellow subsidiary	Sales of goods	**152**	4
Hangzhou Anest Iwata Feeler Corporation ("Anest Iwata Feeler")	Jointly controlled entity	Sales of goods	**813**	–
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	**236**	–

Note:

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

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Balances

Name of company	Relationship	Nature of balances	2010 RMB'000	2009 RMB'000	Max amount outstanding during 2010
Fair Fine	Fellow subsidiary	Trade receivable *(note (a))*	**22**	–	2,481
Best Friend	Associate of ultimate holding company	Prepayments for purchase and trade receivable *(note (a))*	**3,276**	–	3,276
Feeler Takamatsu	Associate of ultimate holding company	Trade receivable *(note (a))*	**138**	–	441
Fair Friend	Ultimate holding company	Trade receivable *(note (a))*	**139**	588	1,237
Hong Kong GF	Immediate holding company	Trade payable *(note (b))*	**(2,213)**	(10,084)	(17,450)
		Trade receivable *(note (a))*	**–**	3,636	–
			(2,213)	(6,448)	(17,450)
Anest Iwata Feeler	Jointly controlled entities	Trade payable *(note (b))*	**(7,335)**	–	(7,335)

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Balances *(Continued)*

Notes:

(a) The Group allowed a normal credit period of 90 days for sales made to the fellow subsidiary and the ultimate holding company and its associates. Balances are unsecured and interest free. As of 31 December 2010 and 2009, the aging of above balances were mostly within 6 months.

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

(c) Key management compensation

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

	2010	2009
	RMB'000	RMB'000
Salaries and other allowances	**2,917**	2,595

36 HOLDING COMPANIES

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

37 COMPARATIVE FIGURES

In prior years/periods, the Company presented its research and development expenses separately in cost of revenue, distribution and selling expenses, and administrative expenses. During the year ended 31 December 2010, the Company changed its mode of presentation of these expenses by aggregating them as a component of its administrative expenses only. The directors of the Company consider this presentation format would give readers of the financial statements more useful information. Accordingly, the prior period comparative figures were reclassified to conform with the current period's presentation.

38 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant subsequent events occurred from 1 January 2011 up to the date of approval of these financial statements.

Five-Year Summary

OPERATING RESULTS

For the year ended 31 December

	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Revenue	611,003	821,367	730,517	776,838	**1,374,183**
Gross profit	153,158	214,351	180,017	214,801	**355,535**
Profit before taxation	57,370	95,954	32,141	107,684	**193,806**
Profit for the year attributable to equity holders of the Company	53,082	84,885	21,853	84,145	**158,746**
Earnings per share – basic (RMB)	0.16	0.25	0.07	0.25	**0.41**

ASSETS AND LIABILITIES

As at 31 December

	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Non-current assets	145,077	177,064	232,939	245,109	**322,262**
Net current assets	151,775	170,513	99,030	132,930	**318,503**
Total assets less current liabilities	296,852	347,577	331,969	378,039	**640,765**
Share capital	2,882	3,431	3,431	3,431	**4,022**
Reserves	293,970	344,146	325,679	359,424	**614,341**
Shareholders' equity	296,852	347,577	329,110	362,855	**618,363**
Non-current liabilities	–	–	2,859	15,184	**22,402**
	296,852	347,577	331,969	378,039	**640,765**