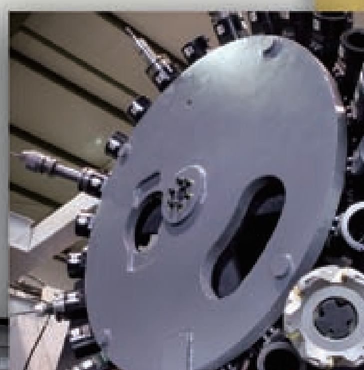
# CW GROUP HOLDINGS LIMITED
# 創興集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock code：1322



**2011**

Annual Report

Disclaimer: CW GROUP HOLDINGS LIMITED (創興集團控股有限公司) is not related to any company registered in Hong Kong under the name "創興", including Chong Hing Bank Limited 創興銀行有限公司.

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Wong Koon Lup *(Chairman and chief executive officer)*
Mr. Lim Chwee Heng
Mr. Wong Mun Sum

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kuan Cheng Tuck
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)
Mr. Chan Hon Chung, Johnny

## COMPANY SECRETARY

Dr. Leung Wai Cheung

## AUDIT COMMITTEE

Mr. Kuan Cheng Tuck *(Chairman)*
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)
Mr. Chan Hon Chung, Johnny

## NOMINATION COMMITTEE

Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) *(Chairman)*
Mr. Kuan Cheng Tuck
Mr. Wong Koon Lup

## REMUNERATION COMMITTEE

Mr. Chan Hon Chung, Johnny *(Chairman)*
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)
Mr. Wong Koon Lup

## AUTHORISED REPRESENTATIVES

Mr. Wong Koon Lup
Dr. Leung Wai Cheung

## COMPLIANCE ADVISOR

Guotai Junan Capital Limited

## HONG KONG LEGAL ADVISERS

Li & Partners

## REGISTERED OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

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## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
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## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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## AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor CITIC TOWER
1 Tim Mei Avenue, Central
Hong Kong

## IR AND PR CONSULTANT

Strategic Financial Relations Limited

## COMPANY WEBSITE

www.cwgroup-int.com

## STOCK CODE

1322

On behalf of the Board and management of CW Group Holdings Limited (the "Company") and its subsidiaries (the "Group"), I take this opportunity to share with you a brief introduction of our Group, the past year in review and the way forward.

## BRIEF INTRODUCTION

We are one of the leading one-stop precision engineering solutions providers serving a wide range of industries worldwide. Our Group's core businesses include supplying precision engineering solutions, selling of cement production equipment and components, CNC machining centres, and components and parts, as well as providing comprehensive maintenance and after-sales technical support. We serve over 200 diversified customers and this customer base spans across various industries, including construction materials, precision machine tool engineering, electronics/semi-conductor, automotive, oil, gas and marine, as well as niche markets in aerospace and solar energy. Our business covers markets in European countries such as Germany, France and the United Kingdom, as well as in the Asia-Pacific region such as the PRC, Japan and India.

On 13 April 2012, the shares of our Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong (the "Stock Exchange"). We are very delighted to see that our business has reached this great milestone. Not only does this listing strengthen the source of our Group's capital, it also provides a foundation for us to advance business collaborations with our business partners to capture future opportunities in the precision engineering solutions industry. In addition, the listing of our shares on the Stock Exchange will also have the benefit of increasing transparency of our business and enhancing corporate governance in the management our Group. We strongly believe that the listing of our shares in Hong Kong will become a key driver for growth which will increase the returns attributable to our shareholders in the long run.

## BUSINESS REVIEW FOR 2011

In this annual report, I would like to share our financial results of the year ended 31 December 2011 ("FY2011"). We had a successful year in 2011. For FY2011, our revenue amounted to HK$753.6 million representing an increase of 60.5% from HK$469.5 million in the previous financial year ("FY2010"). Our profit for the year reached HK$68.0 million, as compared to HK$50.6 million in FY2010.

We successfully secured precision engineering solutions projects in new markets such as India and Indonesia which largely contributed to our growth in revenue in the precision engineering solutions projects segment as it grew by 79.1% from HK$196.5 million in FY2010 to HK$351.8 million in FY2011. Our revenue from sales of components and parts also increased by 543.5% from HK$23.4 million in FY2010 to HK$150.8 million in FY2011 which was mainly attributable to the sales of trading photovoltaic components and parts in 2011.

## LOOKING FORWARD

In the years that lie ahead, we anticipate the demand of our products in the emerging markets in Asia, rapidly growing sectors that we serve in and the machine tool industry worldwide will remain strong and we believe we will continue to capture potential opportunities in these markets. We believe there will be a higher demand for precision engineering solutions because of an increase in the amount of investments in production facilities in the emerging markets by overseas companies, the growth of the aviation markets in the PRC and Singapore, as well as new development and advancement in technologies behind each of our business segments. Furthermore, the global machine tool industry has continued to grow rapidly since 2001 whilst the markets we target such as China, India and Brazil have ranked amongst top ten in the global consumption of machine tools in 2009 and 2010.

Moving forward, we will continue to focus on our fundamentals and business goals to strengthen our competitiveness while striving for sustainable and profitable growth for the Group. We will continue to explore new or burgeoning markets and seek to further extend our geographical presence. Despite problems in the European Union and the sluggish growth in the US, we are optimistic about the outlook for the economies that matter most to us and that these will continue to present business and growth opportunities. Together with the listing of our shares on the Stock Exchange, we are poised for growth opportunities including possible mergers and acquisitions that will supplement our existing business.

## APPRECIATION

In conclusion, on behalf of the Board, I would like to express my sincere thanks to all our shareholders, customers, principals and bankers for their continued trust and support. To the team at CW Group, I thank you for your hard work and dedication, without which we would not have been able to achieve the good results today.

The new financial year will bring forth new challenges and with the help of everyone, I am confident that we will be able to deliver yet another successful year in 2012.

Thank you.

Yours sincerely,
**Wong Koon Lup**
*Chairman and chief executive officer*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| **Borrowings and banking facilities (HK$'000)** | | |
| Bank overdrafts repayable on demand | **1** | 1,368 |
| Bills payable | **56,740** | 70,689 |
| Finance lease payable | **1,182** | 2,586 |
| Short term bank loans repayable within one year | **6,498** | 19,028 |
| Bank loans repayable after one year | **1,614** | 3,295 |
| Redeemable convertible loan | **54,479** | 37,544 |
| Derivative liabilities | **43,434** | 43,014 |
| **Key Financial Ratios** | | |
| Current ratio (times) (Note 1) | **1.3** | 1.2 |
| Gearing ratio (%) (Note 2) | **1.0%** | 4.1% |
| Inventory turnover days (days) (Note 3) | **14** | 21 |
| Trade receivables turnover days (days) (Note 4) | **193** | 147 |
| Trade payables turnover days (days) (Note 5) | **171** | 141 |

*Notes:*

Note 1 Current ratio is calculated based on current assets divided by current liabilities.

Note 2 Gearing ratio is calculated based on total bank debt divided by total assets.

Note 3 Inventory turnover is calculated based on the average inventory (sum of opening and closing balances of inventory of respective years and then divided by two) divided by cost of goods sold of the respective years and multiplied by the number of days in the corresponding year.

Note 4 Trade receivables turnover is calculated based on the average trade receivables (sum of opening and closing balances of trade receivables of respective years and then divided by two) divided by revenue of the respective years and multiplied by the number of days in the corresponding year.

Note 5 Trade payables turnover is calculated based on the average closing balances of trade payables (sum of opening and closing balances of trade payables of respective years and then divided by two) divided by cost of goods sold of the respective years and multiplied by the number of days in the corresponding year.

## BUSINESS REVIEW

**Precision engineering solutions projects**

We offer our customers project-based tailor-made precision engineering solutions by producing customized assembly production lines. The range of these precision engineering solutions include the conducting of feasibility studies, concept and design, sourcing of assemblies, components and parts, to the manufacturing, installation and testing of our products and the provision of after-sales technical support.

During the year ended 31 December 2011, our activities under this segment saw an increase in precision engineering solutions in new markets such as India and Indonesia in the automotive and education sectors.

**Sales of cement production equipment**

Under the brand name "菲斯特", our Group manufactures, assembles and supplies cement production equipment to customers in the construction materials industry in the PRC. We also distribute rotor weighfeeders of international brands and other cement production equipment such as clinker coolers and flow control gates.

During the year ended 31 December 2011, revenue contribution from sales of cement production equipment decreased due to an overall increase in sales in the other business segments of the Group, as well as the stabilisation of demand from customers in the construction materials industry following the heightened demand in 2009 and 2010.

**Sales of CNC machining centres**

We design and manufacture customized CNC vertical machining centres under the brand names of "KIWA-CW" and "KIWA" pursuant to an exclusive license in the PRC granted to us by our Japanese partner, KIWA Machinery Co., Ltd..

During the year ended 31 December 2011, our activities under this segment saw an increase in the sales of "KIWA-CW" and "KIWA" brands of CNC machining centres, as we believe that these brands received increased market awareness in the PRC. The number of CNC machining centres sold increased from 124 units in 2010 to 149 units in 2011.

**Sales of components and parts**

To enable our Group to be a one-stop solution provider, we supplement our core business by distributing and trading a comprehensive range of accessory products together with components and parts. These components and parts are either manufactured by our Group or sourced from our international network of suppliers.

During the year ended 31 December 2011, we secured three orders to source and trade photovoltaic components and parts.

**Provision of comprehensive maintenance and after-sales technical support services**

Our Group offers our customers comprehensive maintenance and after-sales technical support services.

## OUTLOOK FOR 2012

Due to the huge potential of the PRC domestic market, overseas companies are continuing to invest in the establishment of production bases in the PRC.

The rapid evolution of aircraft designs has created constant challenges for companies that manufacture aerospace components. We believe that this will generate greater demand for higher end CNC machining centres and machine tools. The directors of the Company (the "Directors") believe that the PRC is one of the major growing aviation markets in the world.

Restructuring of the aviation sector began in 2002, when ten of the largest domestic airlines merged into three super-carriers – China Southern Airlines, China Eastern Airlines, and Air China, the country's de facto flag carrier.

Similarly, with the Singapore government's focus on developing the aviation manufacturing industry in Singapore since 2008, our Directors believe that there will be an increasing need of aviation manufacturers to procure and set up manufacturing facilities in Singapore. This may also result in the increase in demand for our products and services.

With respect to the oil and gas industries, there is an increasing demand for industrial players to increase their production capacity in Singapore. Our Company is well positioned to serve these customers.

On this basis, our Directors believe that this will result in continuing orders from our aviation customers in Singapore and the PRC and our oil, gas and marine customers in Singapore.

In line with the PRC government's plan to invest in its domestic infrastructure, our Directors believe that investment in infrastructure projects by the PRC government and the private sector will generate greater demand for cement production equipment in the PRC and hence there will be a continued demand for our products.

## FINANCIAL REVIEW

### Revenue

Set out below is a breakdown of our revenue by business segments during the Track Record Period:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2010 | | **2011** | |
| | *HK$'000* | *%* | ***HK$'000*** | ***%*** |
| Precision engineering solutions projects | 196,493 | 41.9 | **351,836** | **46.7** |
| Sales of cement production equipment | 178,316 | 38.0 | **158,969** | **21.1** |
| Sales of CNC machining centres | 48,134 | 10.2 | **71,467** | **9.5** |
| Sales of components and parts | 23,430 | 5.0 | **150,781** | **20.0** |
| After-sales technical support services | 23,077 | 4.9 | **20,513** | **2.7** |
| Total | 469,450 | 100.0 | **753,566** | **100.0** |

Revenue from precision engineering solutions projects relates mainly to the provision of precision engineering solutions specific to machine tools and machinery and equipment encompassing conceptualisation and design to production line set-up, commissioning and maintenance of production lines. For the years ended 31 December 2010 and 2011, approximately 41.9% and 46.7% of our total revenue was derived from precision engineering solutions projects respectively. This is in line with the Group's direction to focus more on precision engineering solutions projects. The increase in contribution of revenue from precision engineering solutions projects in 2010 and 2011 are mainly due to projects secured in new markets such as India and Indonesia.

Revenue from sales of cement production equipment relates mainly to the sale of equipment (rotor weighfeeders and clinker coolers) for the construction materials industry. For the years ended 31 December 2010 and 2011, approximately 38.0% and 21.1% of our total revenue was derived from sales of cement production equipment respectively. The decline in proportion of revenue contribution in 2010 and 2011 was due to an overall increase in sales in the other business segments of the Group, as well as the stabilisation of demand from customers in the construction materials industry following the heightened demands in 2009 and 2010.

Revenue from sales of CNC machining centres primarily relates to sales of precision engineering manufacturing equipment operable under CNC automation. For the years ended 31 December 2010 and 2011, approximately 10.2% and 9.5% of our total revenue was derived from sales of CNC machining centres respectively. Despite the decrease in proportion of revenue contribution due to the overall increase in sales in the other business segments of the Group's revenue, the revenue from sales of CNC machining centres has increased largely due to: (i) the increase in the sales of our in-house CNC machining centres in the PRC in 2011 as a result of the continued demand from customers in the precision engineering sector in the PRC; and (ii) the increased number of our customers demanding for CNC machining centres.

Revenue from sales of components and parts relates mainly to sales of self-manufactured and trading of components and parts. For the years ended 31 December 2010 and 2011, approximately 5.0% and 20.0% of our total revenue was derived from sales of components and parts respectively. Such increase was mainly attributable to the trading sales of photovoltaic components and parts which amounted to approximately HK$115.1 million. For the year ended 31 December 2011, we secured an order of photovoltaic modules in June 2011 amounting to approximately HK$66.2 million and two orders in September 2011 amounting to approximately HK$48.9 million for the constructions of photovoltaic plants by these customers. These sales were order-driven, non-recurring and trading in nature.

Revenue from after-sales technical support services is primarily the provision of technical repairs and maintenance services in relation to our Group's other business segments. For the years ended 31 December 2010 and 2011, approximately 4.9% and 2.7% of our total revenue was derived from after-sales technical support services respectively. The decline in proportion of revenue contribution in 2010 and 2011 was due to an overall increase in sales in the other business segments of the Group although revenue from this segment has remained comparable.

### Cost of sales

The cost of sales of our Group accounted for approximately 69.1% and 76.2% of our revenue during the years ended 31 December 2010 and 2011 respectively. Our cost of sales mainly comprise (i) cost of goods sold, (ii) direct labour costs, and (iii) direct depreciation expenses, which are costs incurred directly in relation to our revenue. Factors affecting our cost of sales include: (a) prices and availability of raw materials such as cast iron; and (b) salaries and related expenses of our engineers and skilled labour.

The following table sets forth the major components of our cost of sales.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2010 | | **2011** | |
| | *HK$'000* | % | ***HK$'000*** | **%** |
| Cost of goods sold | 317,527 | 98.0 | **565,368** | **98.5** |
| Direct labour costs | 4,966 | 1.5 | **6,701** | **1.2** |
| Direct depreciation expenses | 1,713 | 0.5 | **2,028** | **0.3** |
| Total | 324,206 | 100.0 | **574,097** | **100.0** |

For the years ended 31 December 2010 and 2011, cost of goods sold accounted for approximately 98.0% and 98.5% of our Group's total cost of sales respectively. Our Group's cost of goods sold comprise mainly material costs, sub-contractor costs, inbound freight and handling costs, of which material costs accounted for approximately 97.5% and 98.3% of our costs of goods sold for the years ended 31 December 2010 and 2011 respectively. Material costs comprise mainly CNC machining centres, industrial equipment, components and parts, cast iron, casting, sheet metals, electrical box, ball screw, spindle, controller and tool changers from suppliers located worldwide including the PRC, Japan, Europe, Taiwan, Korea, United States of America and Singapore. The increase in cost of materials was in line with the increase in revenue.

Direct labour costs comprise salaries and related costs for engineers as well as production and assembly staff. During the years ended 31 December 2010 and 2011, direct labour costs accounted for approximately 1.5% and 1.2% of our Group's total cost of sales respectively. The slight increase in absolute amount was primarily due to wage increments and increased work hours to meet the higher business activities.

Direct depreciation expenses accounted for approximately 0.5% and 0.3% of our Group's total cost of sales respectively for the years ended 31 December 2010 and 2011. Direct depreciation expenses comprise depreciation charges on production related equipment. The slight increase in absolute amount was a result of additions of production equipment during 2010 to increase our production capacities which are depreciated over a full year in 2011.

**Gross profit and gross profit margin**

Our gross profit was approximately HK$179.5 million representing an increase of 23.6%. This was mainly contributed by the significant increase in revenue brought by our precision engineering solutions projects, sales of components and parts and sales of CNC machining centres which recorded corresponding increases in gross profit. The increase was partly offset by a decrease in gross profit from our after-sales technical support services.

The business of the Group comprises five segments and the higher overall gross profit margin was attributable to: (i) the Group's after-sales technical support services segment; and (ii) the sales of cement production equipment segment.

Notwithstanding the significant increase in our gross profits, gross profit margin of the Group decreased from approximately 30.9% for the year ended 31 December 2010 to approximately 23.8% for the year ended 31 December 2011. The decrease in our profit margin was largely due to the significant increase in our revenue from sales of photovoltaic components and parts which commands lower gross profit margin as compared to our other business segments, as these are trading sales which do not involve a significant amount of value-add. Sales of components and parts accounted for 20.0% of total revenue for the year ended 31 December 2011 as compared to 5.0% for the year ended 31 December 2010.

**Other income and gains**

The other income and gains of our Group amounted to approximately HK$2.1 million and HK$1.4 million for the year ended 31 December 2010 and 2011 respectively. The decrease was mainly due to a tax rebate received in the year ended 31 December 2010 and also the reduction in rental income in the year ended 31 December 2011.

**Selling and distribution expenses**

Selling and distribution expenses refer to the expenses incurred for the promotion and sale of products which comprise mainly salaries and related costs for sales and marketing staff, travelling and transportation costs, outbound freight and handling costs, commissions and marketing expenses and maintenance costs of equipment. Selling and distribution expenses was approximately HK$18.8 million and HK$28.0 million for the years ended 31 December 2010 and 2011 respectively, accounting for approximately 4.0% and 3.7% of our Group's revenue during the years ended 31 December 2010 and 2011 respectively.

The increase in our selling and distribution expenses was mainly reflecting a combination of: increases in marketing staff expenses, transportation costs, freight outwards due mainly to increased sales activities; an increase in after-sales services and maintenance expense primarily as a result of increased after-sales follow-ups required; and an increase in entertainment and gifts arising from higher tender sales.

**Administrative expenses**

Administrative expenses comprise mainly salaries and related costs for finance and administration staff, utilities, rental expenses, depreciation, audit fees and listing expenses comprising the professional costs incurred in the listing application in Singapore and to the Stock Exchange.

The administrative expenses of the Group increased from approximately HK$27.4 million for the year ended 31 December 2010 to HK$34.1 million for the year ended 31 December 2011 mainly as a result of higher salaries and related expenses due mainly to wage increments and higher headcount as well as higher audit fees.

**Finance costs**

Our Group's finance costs comprise mainly of interest on bank loan, bank and other finance charges and interest on finance leases. Our finance costs decreased by approximately HK$3.2 million or 11.1% from about HK$28.7 million for the year ended 31 December 2010 to about HK$25.5 million for the year ended 31 December 2011. Such decrease was mainly due to the decrease in amortised interest on redeemable convertible loan partly offset by the decrease in gain on derecognition of redeemable convertible loan.

**Income tax expense**

Our income tax expense amounted to approximately HK$20.7 million and HK$24.5 million for the years ended 31 December 2010 and 2011 respectively. The increase was attributable mainly to higher net profit before tax recorded for the year ended 31 December 2011. Our effective tax rate was 29.1% and 26.4% for the years ended 31 December 2010 and 2011 respectively. The decrease is largely due to a higher proportion of our profit being derived from our Singapore operations, which is subject to a lower effective tax rate, compared to our PRC operations in the year ended 31 December 2011.

**Net profit margin**

As a combined result of the factors described above, our net profit for the year ended 31 December 2011 increased from about HK$50.6 million in the year ended 31 December 2010 to about HK$68.0 million. Net profit margin for the year ended 31 December 2011 decreased slightly from approximately 10.8% in the year ended 31 December 2010 to approximately 9.1%.

**Financial resources and liquidity**

Our current assets mainly comprised cash and bank balances, pledged deposits, trade receivables, other receivables, and inventories. Our total current assets amounted to approximately HK$516.1 million and HK$774.8 million as at 31 December 2010 and 2011 respectively, and represented approximately 89.7% and 91.9% of our total assets as at 31 December 2010 and 2011 respectively.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

### Cash position

Our cash and bank balances amounted to approximately HK$115.4 million and HK$38.8 million as at 31 December 2010 and 2011 respectively. The functional currencies of the Company include Renminbi and Singapore dollar. As at 31 December 2011, 90.5% and 9.5% of the Group's cash, bank deposits and non-pledged fixed deposits were denominated in functional currencies and other currencies (mainly United States dollars, EUR and Japanese yen), respectively.

The Group's primary sources of funds include cash generated from operating activities and loans and trade facilities provided by the Group's banks in Singapore and PRC. Our Group had cash inflow from operating activities of approximately HK$121.9 million which was (negated by working capital changes of approximately HK$124.5 million) largely due to increase in trade receivables as a result of the Group's continuous expansion in business activities.

Our bank facilities in 2011 remained comparable to 2010. As at 31 December 2011, 83.5% and 16.5% of the Group's bank loans and overdrafts were denominated in functional currencies and United States dollars, respectively. In addition, there was a net decrease in bank loans and overdrafts of approximately HK$15.6 million in 2011.

### Trade receivables

Our total trade receivables balance amounted to approximately HK$232.5 million and HK$566.6 million as at 31 December 2010 and 2011 respectively. It comprises of trade receivables of approximately HK$461.9 million and accrued revenue of approximately HK$104.7 million as at 31 December 2011.

Our trade receivables increased from approximately HK$205.4 million as at 31 December 2010 to HK$461.9 million as at 31 December 2011 mainly in line with the movements in revenue during the year which increased from HK$469.5 million in 2010 to HK$753.6 million in 2011. The increase in trade receivables as at 31 December 2011 was mainly due to our increase in revenue from the precision engineering solutions segment. In addition, our sales of photovoltaic modules to our customers also contributed to the increase in our trade receivables balance.

### Accrued revenue

The accrued revenue of our Group as at 31 December 2011 amounted to approximately HK$104.7 million. All services under accrued revenue have been rendered as certain milestones were achieved such as acceptance by customers. However, due to the agreed payment terms, the relevant payment requests were billed to our customers subsequent to 31 December 2011.

### Current assets

As at 31 December 2011, the Group had net current assets of approximately HK$171.4 million compared to HK$102.9 million as at 31 December 2010. The increase was due mainly to an increase in trade receivables partly offset by a corresponding increase in trade payables as a result of the increase in business activities.

**Current liabilities**

Our current liabilities comprised trade payables, other payables, redeemable convertible loan, bank loans and overdrafts, derivative liabilities, tax payables and finance leases payable. Our total current liabilities amounted to approximately HK$413.2 million and HK$603.4 million as at 31 December 2010 and 2011 respectively, and represented approximately 95.5% and 96.4% of our total liabilities as at 31 December 2010 and 2011 respectively.

**Current ratio**

The Group's current ratio as at 31 December 2011 was 1.3 times which is comparable to 1.2 times as at 31 December 2010.

**Gearing ratio**

Gearing ratio is measured by the total bank debt divided by total assets of the Company. As at 31 December 2011, the gearing ratio was 1.0% whereas the gearing ratio as at 31 December 2010 was 4.1%.

**Risk of exchange rate fluctuation**

The Group mainly operates with currencies in Singapore dollars and Renminbi. In 2011, the exchange rates of Renminbi to Singapore dollars and US dollars kept increasing steadily. The Directors expect that any fluctuation of Renminbi's exchange rate will not have material adverse effect on the operation of the Group.

If Renminbi strengthens by 10% against the functional currency of each entity, with all other variables held constant, profit before tax will decrease by HK$0.66 million. If Singapore dollar strengthens by 10% against the functional currency of each entity, with all other variables held constant, profit before tax will decrease by HK$1.025 million.

For further information on the sensitivity analysis, please see Note 31 to the financial statements.

**Employees and remuneration policy**

As at 31 December 2011, the Group had a total number of 217 full-time employees. The Group determined the remuneration packages of all employees based on factors including individual qualifications, contributions to the Group, performance and years of experience of the respective staff.

The Group provides on-going training to our staff in order to enhance their technical and product skills and to provide them with updates with regards to industry quality standards and work safety standards. In addition, our engineers receive on-going technical training and exchanges with KIWA Machinery Co., Ltd. in both Japan and the PRC.

The Group maintains good relationships with our employees and has not experienced any significant problems with our employees nor have there been any disruptions to the Group's business operations as a result of strikes or other labour disputes.

As required by PRC regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities.

## CORPORATE GOVERNANCE PRACTICES

The Company strives to attain and maintain high standards of corporate governance. It is the belief of the Board that effective corporate governance and disclosure practices are not only crucial in enhancing the Company's accountability and transparency and thus investors' confidence but also important to the Group's long-term success. The Company has adopted the code provisions of the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance.

However, as the Company was not yet listed on the Stock Exchange in 2011, the Code was not applicable to the Company in the year under review. Throughout the period since the listing of the Company on the Main Board of the Stock Exchange on 13 April 2012, the Company has complied with the Code save as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below.

## SECURITIES TRANSACTIONS BY DIRECTORS

On 14 March 2012, prior to the listing of shares of the Company on the Stock Exchange, the Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Thus, the Model Code did not apply to the Directors in the year ended 31 December 2011.

## THE BOARD OF DIRECTORS

The board of Directors (the "Board") is responsible for supervising and overseeing all major matters of the Company, including the formulation and approval of overall management and operation strategies, reviewing the internal control and risk management systems, reviewing financial performance, considering dividend policies and monitoring the performance of the senior management, while the management is responsible for the daily management and operations of the Group.

The Board comprises three executive Directors, namely Mr. Wong Koon Lup, Mr. Lim Chwee Heng and Mr. Wong Mun Sum, and three independent non-executive Directors, namely Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Chan Hon Chung, Johnny.

Mr. Wong Mun Sum is the elder brother of Mr. Wong Koon Lup. Saved as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Corporate Governance Code in Appendix 14 to the Listing Rules provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Koon Lup has been performing both the roles of chairman and chief executive officer of the Company and its subsidiaries (collectively, the "Group"). Mr. Wong Koon Lup is the founder of the Group and has over 23 years of experience in the engineering industry. The Directors consider that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies and is beneficial to the Group. The Directors will continue to review the effectiveness of the current structure and assess whether change in the separation of roles of chairman and chief executive officer is necessary.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, one of whom possesses the appropriate professional qualifications in accounting and financial management. Each of the three independent non-executive Directors has confirmed his independence of the Company and the Company considers each of them to be independent in accordance with the guidelines of assessing independence as set out in Rule 3.13 of the Listing Rules. Each of the three independent non-executive Directors has signed a letter of appointment with the Company for a specific term of three years.

## RESPONSIBILITY OF THE BOARD

The Board is in charge of leadership and control of the Group and is responsible for maximising the Group's financial performance and making decisions in the best interests of the Group and its shareholders. Under the leadership of Mr. Wong Koon Lup, the chairman of the Board, the Board is also responsible for formulating and overseeing the business strategies and policies of the Group, approving and monitoring annual budgets and business plans, reviewing operational and financial performance, reviewing and monitoring the Group's financial control and risk management systems. The Board has delegated the daily operation and day-to-day management of the Group as well as the implementation of the Board's policies and strategies to the executive Directors and management of the Group.

## NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

As the shares of the Company were listed on 13 April 2012, the Code provision mentioned above was not applicable to the Company during the period under review. Since the listing of the Company on 13 April 2012, the Board will schedule to have at least four regular meetings in a year. Other Board meetings will be held if necessary.

## BOARD COMMITTEES

The Board has established three Board committees, namely the audit Committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") to oversee the relevant aspects of the Company's affairs. The three Board committees are provided with sufficient resources to discharge their duties.

## AUDIT COMMITTEE

The Audit Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the Code. The principal functions of the Audit Committee include:

- To make recommendations to the Board on the appointment, reappointment and removal of external independent auditors and to approve the remuneration and terms of such appointments;

- To review and monitor the independence and objectivity of the external independent auditors and effectiveness of the audit process in accordance with applicable standards;

- To review the Group's financial controls, internal control and risk management systems and other major financial matters;

- To review the Group's financial and accounting policies and practices, and to monitor the Group's financial operation and core business status;

- To ensure that the management has fulfilled its duty to maintain an effective internal control system;

- To ensure compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board from time to time; and

- To review and monitor the integrity of the financial statements, annual and interim reports and the auditor's report to ensure that the information presents a true and balanced assessment of the Group's financial position.

The Audit Committee comprises three members, being all independent non-executive Directors, namely Mr. Kuan Cheng Tuck (Chairman), Mr. Ong Su Aun, Jeffrey (Wang Ci' An, Jeffrey) and Mr. Chan Hon Chung, Johnny. None of them is a member of the former or existing auditors of the Company. The Board is of the view that the members of the Audit Committee have sufficient accounting and financial management expertise and experience to discharge their duties. However, the Audit Committee is authorised to obtain external legal or other independent professional advice if it considers necessary.

The Audit Committee held two meetings up to the date of this annual report, at which the members of the Audit Committee have reviewed and approved the unaudited preliminary financial information and the audited financial information of the Group for the year ended 31 December 2011, respectively.

The following table is the attendance record of the Audit Committee meetings up to the date of this annual report:

| | **Attendance at the meeting** |
|---|---|
| Mr. Kuan Cheng Tuck (Chairman) | 2/2 |
| Mr. Ong Su Aun, Jeffrey (Wang Ci'An Jeffrey) | 1/2 |
| Mr. Chan Hon Chung, Johnny | 2/2 |

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the Code.

The primary duties of the Remuneration Committee include: (i) making recommendations to the Board on the Company's policies and structures for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the terms of the specific remuneration package of individual executive Director and senior management; and (iii) reviewing and approving remuneration proposal by reference to corporate goals and objectives resolved by the Directors from time to time.

The Remuneration Committee has three members, namely Mr. Chan Hon Chung, Johnny (Chairman), Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Wong Koon Lup.

As the Company was listed on 13 April 2012, the Remuneration Committee has not conducted any meeting up to the date of this annual report.

## NOMINATION COMMITTEE

The Nomination Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the Code.

The duties of the Nomination Committee include: (i) reviewing the structure, size and composition of the Board at least once a year and to make recommendations to the Board regarding any proposed changed for conforming to the strategy of the Company; (ii) identifying and nominating qualified individuals to act as Directors and to make recommendations to the Board regarding such matters; (iii) assessing the independence of the independent non-executive Directors; and (iv) making recommendations to the Board regarding the appointment or re-appointment of Directors.

The Nomination Committee has three members, namely namely Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) (Chairman), Mr. Kuan Cheng Tuck and Mr. Wong Koon Lup.

As the Company was listed on 13 April 2012, the Nomination Committee has not conducted any meeting up to the date of this annual report.

## AUDITORS' REMUNERATION

During the year ended 31 December 2011, the total fees paid or payable to the external auditors of the Company, Ernst & Young, in respect of their audit services provided to the Group for the purpose of the Group's listing on the Stock Exchange for the financial years ended 31 December 2008, 2009, 2010 and 2011 approximates HK$7.99 million, of which HK$1.8 million was in relation to the audit for the financial year ended 31 December 2011. There was no non-audit services rendered by the auditors during that year.

## DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports in accordance with statutory requirements and applicable accounting standards. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

In preparing the financial statements for the year ended 31 December 2011, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

## INTERNAL CONTROL

The Board has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and shareholders' interests, review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

During the year under review, the Company has engaged external independent consultants to conduct review of the Group in order to maintain high standards of corporate governance. The Board has conducted a review of the effectiveness of the internal control system of the Group and is of the view that our Company has taken all reasonable steps to establish a proper internal control system.

## CORPORATE COMMUNICATION AND INVESTOR RELATIONS

The Company ensures that fair and transparent disclosures are made for its business and financial performance through a variety of formal communication channels. Information regarding the Company will be published on its website: www.cwgroup-int.com. Interim and annual reports, circulars and notices of the Group will be dispatched to shareholders in due course. The website of the Company provides information such as e-mail address, correspondence address, telephone numbers etc. for inquiries, and provides information on business activities of the Company.

The Company's annual general meeting of shareholders is a good opportunity for communication between the Board and the shareholders. Notice of annual general meeting and related documents will be sent to shareholders pursuant to the requirements of the Listing Rules, and will be published on the website of the Stock Exchange.

The Company will also meet with the investment community and respond to their inquiries about the status of the Company from time to time, so as to strengthen the contacts and communication between the Company and its investors.

## EXECUTIVE DIRECTORS

**Mr. Wong Koon Lup**, aged 49, is the founder, chairman and chief executive officer of the Group. He was appointed as an executive Director on 11 June 2010. Mr. Wong has over 23 years of experience in the engineering industry. Mr. Wong is responsible for the overall management, strategic planning and direction of our Group. Mr. Wong has spearheaded the expansion and growth of the business, and oversees the Group's operations and strategic planning. He charts the overall corporate direction of the Group and the development of new services and markets for the Group. Mr. Wong was able to secure partnerships and strategic alliances with well-established players such as KIWA Machinery Co., Ltd. and Deckel Maho Pfronten GmbH, and assisted the Group to become a supplier of parts and components to Hewlett-Packard Singapore (Pte.) Ltd.

Prior to establishing the Group in 1996, Mr. Wong participated in a partnership, Eng Lian Huat Engineering & Trading, which was engaged in mechanical engineering works and the wholesale of industrial machinery and equipment. He divested his interests in Eng Lian Huat Engineering & Trading in 1999. Mr. Wong was awarded the National Trade Certificate in Metal Machining and the National Trade Certificate in Tool and Die Making (injection mould) by the Vocational and Industrial Training Board of Singapore in 1981 and 1982 respectively.

**Mr. Lim Chwee Heng**, aged 48, is the executive Director and chief operating officer. He joined the Group in November 2007 and he was appointed as an executive Director on 14 March 2012. He has over 20 years of experience in the engineering industry. Mr. Lim is responsible for the business operations of the Group. He has been assigned with the task to develop and improve the Group's operational processes and develop the operational capabilities of the Group.

Mr. Lim obtained a Bachelor of Engineering (Mechanical) from The National University of Singapore in 1988 and a Master of Business Administration (Accountancy) from Nanyang Technological University in 1999.

Prior to joining the Group, Mr. Lim had worked for Hewlett-Packard Singapore (Pte.) Ltd. for 18 years. His last position with Hewlett-Packard Singapore (Pte.) Ltd. was operations manager. From May 2006 to August 2007, he joined R-Logic International Pte. Ltd. as the director of operations.

**Mr. Wong Mun Sum**, aged 52, is the executive Director and the director of operations and marketing for the Group's business in the PRC. He joined the Group in 2004 and he was appointed as an executive Director on 11 June 2010. He is responsible for the day-to-day operations of the Group's business in the PRC and he also assists the chief executive officer in the marketing, strategic planning and business development of the Group in Southern PRC.

Mr. Wong obtained a Technician Diploma in Production Engineering from Singapore Polytechnic in 1979 and a Graduate Diploma in Marketing Management from Singapore Institute of Management in 1992.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Kuan Cheng Tuck**, aged 40, was appointed as an independent non-executive Director on 14 March 2012. Mr. Kuan has more than 15 years of experience in the fields of accounting and auditing as well as business and financial advisory. Prior to running his own accounting practice CT Kuan & Co, Mr. Kuan had worked with various international accounting firms in Singapore and Malaysia.

From 1999 to 2001, Mr. Kuan was a manager with Arthur Andersen and responsible for leading a team of auditors. From 2001 to 2004, he worked in Deloitte and Touche as an Audit Manager. In 2004, he started his own accounting practice, CT Kuan & Co, and he also set up his own business consulting companies, KCT Consulting Pte. Ltd. and Kreston Consulting Pte. Ltd., to provide business and financial consulting services.

Mr. Kuan graduated with a Bachelor degree in Accountancy from Nanyang Technological University in Singapore in 1993; he also obtained a Bachelor degree in law from University of London in 2004 as an external student. He is a fellow of The Association of Chartered Certified Accountants, United Kingdom and a member of the Institute of Certified Public Accountants of Singapore. Mr. Kuan is also an associate of the Singapore Association of Institute of Chartered Secretaries and Administrators and an associate of Insolvency Practitioners Association of Singapore Limited.

He is an independent non-executive director of FDS Networks Group Limited and CNMC Goldmine Holdings Limited, both being companies listed on the SGX-ST. Mr. Kuan was also an independent non-executive director of ASA Group Holdings Ltd. and China Oilfield Technology Services Group Limited (both companies are listed on the SGX-ST) from 20 November 2007 to 29 April 2008 and from 1 October 2008 to 18 April 2010 respectively.

**Mr. Ong Su Aun, Jeffrey (alias Mr. Wang Ci'An, Jeffrey)**, aged 34, was appointed as an independent non-executive Director on 14 March 2012. Mr. Ong obtained a Bachelor degree in law from The National University of Singapore in 2002 and completed the Postgraduate Practical Course in Law conducted by the Board of Legal Education Singapore in 2003. Mr. Ong was admitted as an advocate and solicitor of the Supreme Court, Singapore in May 2003 and a solicitor of the Supreme Court, England and Wales in February 2006. He is currently a partner at JLC Advisors LLP and previously practiced in the Litigation and Dispute Resolution department of Allen & Gledhill and the Dispute Resolution and Restructuring department at DLA Piper Rudnick Gray Cary (Singapore) Pte. Ltd.

Mr. Ong is currently an independent non-executive director of Annica Holdings Limited, a company listed on the SGX-ST. He was also an independent director of Integra2000 Limited (currently known as Asiasons Capital Limited), SNF Corporation Ltd. (currently known as Adventus Holdings Limited) and Enzer Corporation Limited (currently known as Vallianz Holdings Limited), all these companies being listed on the SGX-ST.

**Mr. Chan Hon Chung, Johnny**, aged 46, was appointed as an independent non-executive Director on 14 March 2012. Mr. Chan was working in the banking industry for 12 years including in banks such as ABN AMRO Bank, Standard Chartered Bank and The Bank of East Asia Limited. Mr. Chan has extensive knowledge and experience in the banking industry, including but not limited to, business banking, handling borrowing accounts and debt recovery, marketing and operation of commercial banking. Mr. Chan holds a Bachelor degree of Science in Finance from Brigham Young University, US in 1988 and a Master degree in Professional Accounting from the Hong Kong Polytechnic University in 2001.

Mr. Chan has been an executive director of Swing Media Technology Group Limited, a company listed on the SGX-ST, since September 2004, and has been its company secretary and chief financial officer since May 2003.

## SENIOR MANAGEMENT

**Mr. Fu Junwu**, aged 57, is responsible for operations and marketing for the Group's cement production equipment business in the PRC. Mr. Fu joined the Group in 2007.

Mr. Fu graduated from 廈門大學 (Xiamen University) in the PRC with a bachelor's degree in French at Foreign Languages and Cultures Department in 1982.

Prior to joining the Group, he worked as the manager of External Liaison Department for 北京海懋通用技術有限公司 (Beijing Haimao General Technology Co., Ltd) from 1998 to 2001. From 2001 to 2005, Mr. Fu worked in FLS Automation (Tianjin) Co., Ltd. From 2005 onwards, Mr. Fu focused on distributing cement equipment and products.

**Mr. Lee Tiang Soon**, aged 41, is the chief financial officer and he joined the Group in April 2008. He is responsible for the corporate finance function of the Group and matters relating to accounting, financial administration and the compliance and reporting obligations of the Group.

Mr. Lee graduated from Murdoch University, Australia in 1996 with a Bachelor of Commerce. He is a Certified Practising Accountant of CPA Australia since 2006. He has also been a non-practising member of the Institute of Certified Public Accountants of Singapore since 2007.

Prior to joining the Group, he worked in Ernst & Young LLP from 1996 to 2003 where he left as a manager. During this period, he controlled the audits allocated to him and the audit teams working on his engagements. His responsibilities included covering audits of clients in the various industries. From 2003 to 2006, he served as a senior manager at Alvarez & Marsal (SE Asia) Pte. Ltd. (formerly known as RSM Nelson Wheeler Tan Pte. Ltd.) in the areas of insolvency and advisory services, and he served as an associate director at Tay Swee Sze & Associates from 2006 to April 2008.

**Mr. Foo Suan Ping**, aged 35, is the Group's financial controller and joined the Group in June 2004. He is responsible for assisting the chief financial officer in overseeing the day-to-day corporate financing, accounting, financial administration and the compliance and reporting obligations the Group.

Prior to joining the Group in 2004, Mr. Foo worked for Excel Machine Tools Ltd. from February 1999 to July 2003 where he was promoted to finance manager and was assigned with the financial and accounting responsibility of the group.

Mr. Foo graduated from Ngee Ann Polytechnic with a Diploma in Banking and Financial Services in 1996. He has been a fellow of The Association of Chartered Certified Accountants since April 2011 and has also been a non-practising member of the Institute of Certified Public Accountants of Singapore since 2007.

**Mr. Tay Choon Guan, Jimmy**, aged 49, is the Group's head of operations and marketing for the Asia-Pacific Region (excluding the PRC) and joined the Group in October 2006. He is responsible for the day-to-day operations and marketing of the Group in the Asia-Pacific Region, excluding the PRC.

Prior to joining the Group, from 1996 to 2006, he was the sales manager of Press Automation Technologies Pte. Ltd. and was responsible for managing and generating sales.

## COMPANY SECRETARY

**Dr. Leung Wai Cheung**, aged 47, is a qualified accountant and chartered secretary with over 23 years of experience in accounting, auditing and financial management.

He graduated from Curtin University of Technology with a Bachelor degree of Commerce in accounting and subsequently obtained a Postgraduate Diploma in Corporate Administration and a Master degree in Professional Accounting from The Hong Kong Polytechnic University in 1999, a Doctor degree of Philosophy in Management from Empresarial University in Costa Rica and a Doctor degree of Education from the Bulacan State University in 2008. Dr. Leung is an associate of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Company Secretaries (currently known as The Hong Kong Institute of Chartered Secretaries) and The Taxation Institute of Hong Kong and a fellow of The Association of Chartered Certified Accountants.

He is an independent non-executive director of Mobicon Group Limited (stock code: 1213) and Sino Prosper State Gold Resources Holdings Limited (previously known as Sino Prosper Holdings Limited) (stock code: 766) which are companies listed on the Main Board of the Stock Exchange, and also an independent non-executive director of China Netcom Technology Holdings Limited (previously known as China Metal Resources Holdings Limited and Glory Future Group Limited) (stock code: 8071), a company listed on the Growth Enterprise Market of the Stock Exchange. Dr. Leung joined the Group as part-time company secretary on 14 March 2012.

The directors of the Company (the "Directors") present the annual report together with the audited financial statements of the Group for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in Note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 102.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2011.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

## BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2011 are set out in Note 22 to the financial statements.

## SHARE CAPITAL

Details of the Company's issued share capital during the year are set out in Note 28 to the financial statements. There were no movements in either the Company's authorised or issued share capital during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company (the "Articles of Association") or laws of the Cayman Islands where the Company was incorporated.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

As the shares of the Company were listed on the Main Board of the Stock Exchange on 13 April 2012, there was no purchase, redemption or sale of listed securities of the Company in the year ended 31 December 2011.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in the combined statement of changes in equity. There was no reserve of the Company during the year as the Company has not completed the reorganisation until March 2012.

## DISTRIBUTABLE RESERVES

At 31 December 2011, the Company has no reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands as the Company has not completed the reorganisation until March 2012.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 45.0% of the total sales for the year and sales to the largest customer included therein amounted to 13.6%. Purchases from the Group's five largest suppliers accounted for 42.9% of the total purchases for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers of the Group.

## DIRECTORS

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

**Executive Directors:**

Mr. Wong Koon Lup
Mr. Lim Chwee Heng
Mr. Wong Mun Sum

**Independent non-executive Directors:**

Mr. Kuan Cheng Tuck
Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey)
Mr. Chan Hon Chung, Johnny

In accordance with article 108 and article 112 of the Articles of Association, Mr. Wong Koon Lup, Mr. Lim Chwee Heng, Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Chan Hon Chung, Johnny will retire from office of Directors at the forthcoming annual general meeting. Mr. Wong Koon Lup, Mr. Lim Chwee Heng, Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Chan Hon Chung, Johnny, being eligible, will offer themselves for re-election as Directors at the annual general meeting. At the annual general meeting, ordinary resolutions will be proposed to re-elect them as Directors.

### Independence of independent non-executive Directors

The Company has received annual confirmations of independence from Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey and Mr. Chan Hon Chung, Johnny, and as at the date of this report still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 19 to 22 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of our existing executive Directors has entered into a service contract with the Company for an initial term of three years which commenced on 13 April 2012 and is subject to termination by either party giving not less than three months' written notice.

Each of our independent non-executive Directors has entered into a service contract with the Company for a term of three year which commenced on 13 April 2012 and is subject to termination by either party giving not less than three months' written notice. These service contracts of the executive Directors and independent non-executive Directors are exempted from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The Directors' fees are to be approved by shareholders in general meetings.

Other emoluments are determined by the remuneration committee with reference to the duties, responsibilities and performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in Note 10 to the financial statements of the Group.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

For the year ended 31 December 2011, since the shares of the Company were not listed on the Stock Exchange, Division 7 and 8 of Part XV of the Securities and Future Ordinance (the "SFO"), Section 352 of the SFO, and the Model Code as set out in Appendix 10 to the Listing Rules were not applicable to the Company, the Directors and chief executives.

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

For the year ended 31 December 2011, since the shares of the Company were not listed on the Stock Exchange, Divisions 2, 3 and 4 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company and the substantial shareholders.

## SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme (the "Scheme") conditionally approved by a written resolution of the shareholders passed on 14 March 2012 and adopted by a resolution of the board of Directors (the "Board") on 14 March 2012 (the "Adoption Date"). The terms of the Share Option Scheme are in accordance with the provisions of chapter 17 of the Listing Rules.

"Date of Grant" means date of grant of the Option in accordance with the Scheme;

"Grantee" means any Eligible Person (as defined below) who accepts an offer of grant of any Option in accordance with the terms of the Scheme of (where the context so permits) a person who is entitled, in accordance with the laws of succession, to any Option in consequence of the death of the original Grantee;

"Option" means a right to subscribe for Shares granted pursuant to the Scheme;

"Option Period" means the period of time where the Grantee may exercise the Option, which period shall not be more than 10 years from the Date of Grant;

"Shares" means shares of HK$0.01 each in the capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time);

**(a) Who may join**

The Directors may at their absolute discretion grant Options to all Directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group and each of the persons mentioned above is referred to as an "Eligible Person".

**(b) Purpose of the Scheme**

The purpose of the Scheme is to provide person(s) and parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

**(c) Duration and administration**

The Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary of the Adoption Date (the "Scheme Period"), after which period no further Options shall be granted but the provisions of the Scheme shall remain in full force and effect in all other respects in respect of Options remaining outstanding and exercisable on the expiry of the Scheme Period.

The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided in the Scheme) shall be final and binding on all parties.

**(d) Grant of Options**

An offer of the grant of an Option shall be made to an Eligible Person in writing in such form as the Board may from time to time determine specifying, inter alia, the maximum number of Shares in respect of which such offer is made and requiring the Eligible Person to undertake to hold the Option on the terms of which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by the Eligible Person to whom the offer is made for a period of 28 days (or such other period as the Board may determine) from the date upon which the offer is issued provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the Scheme has been terminated in accordance with the terms of the Scheme.

On and subject to the terms of the Scheme, the Board shall be entitled at any time during the Scheme Period to offer to grant an Option to any Eligible Person as the Board may at its absolute discretion select, and subject to such conditions and restrictions as the Board may think fit.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option, duly signed by the Eligible Person, together with the remittance of HK$1 in favour of the Company, irrespective of the number of Shares in respect of which the Option is accepted, as consideration for the grant is received by the Company.

The Date of Grant shall be the date on which the offer relating to such Option is duly approved by the Board in accordance with the Scheme.

**(e) Price sensitive information**

No offer of Options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published by the Company. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company's interim or annual results, and (ii) the deadline of the Company to publish its interim or annual results announcement under the Company's listing agreement, and ending on the date of the results announcement, no Options may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a results announcement.

**(f) Grant of Options to connected persons**

A grant of Option(s) to a connected person (as defined in the Listing Rules) of the Company under the Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the relevant Grantee).

Where any Options granted to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of the Company or its associates or any of their respective associates would result in the number and value of Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding but excluding Options which have lapsed) to such person in the 12-month period up to and including the date of such grant (i) exceeding in aggregate over 0.1% of the Shares in issue; and (ii) exceeding an aggregate value, (based on the closing price of the Shares on the Stock Exchange at the Date of Grant) in excess of HK$5 million, such further grant of Options must be approved by the shareholders by taking of a poll in a general meeting. The Company must send a circular to the shareholders. All connected persons (as defined in the Listing Rules) of the Company must abstain from voting (except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular) at the general meeting. The circular must contain: (i) detail of the number and terms (including the Subscription Price (as defined below) of the Options to be granted to each Eligible Person, which must be fixed before the general meeting concerned; (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the relevant Grantee) to the independent shareholders as to voting; and (iii) the information required under the relevant provisions of Chapter 17 of the Listing Rules.

**(g) Maximum number of Shares available for subscription**

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed in aggregate 30% of the Shares of the Company in issue from time to time (the "Overall Scheme Limit"). No Option may be granted under any schemes of the Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded. The total number of Shares which may be issued upon exercise of all Option to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the Shares of the Company (or the subsidiary) in issue immediately following the completion of the Global Offering (excluding the exercise of Over-allotment Option) and the Capitalization Issue, being 61,641,700 Shares (the "Scheme Mandate Limit") for this purpose. Option lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, the Company may seek approval from its shareholders in general meeting for "refreshing" the "Scheme Mandate Limit". However, the total number of Shares which may be issued upon exercise of all Options to be granted under all of the schemes of the Company under the limit as "refreshed" must not exceed 10% of the Shares in issue as of the date of approval by the shareholders of the renewed limited (the "Refreshed Scheme Mandate Limit"); Option previously granted under any existing schemes (including those outstanding, cancelled or lapsed in accordance with the Scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. The Company must send a circular to its shareholders containing the information required under the relevant provisions of Chapter 17 of the Listing Rules.

Subject to the Overall Scheme Limit, the Company may seek separate approval from its shareholders in a general meeting for granting Options to subscribe for Shares beyond the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit (as the case may be) provided that the Option in excess of the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought and the Company must send a circular to its shareholders containing the information specified in the relevant provisions of the Listing Rules. Unless approved by shareholders in general meeting at which the relevant Eligible Person and his associates abstain from voting in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, the total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue (the "Individual Limit") at such time. With respect to any further grant of Options to an Eligible Person exceeding in aggregate the Individual Limit, the Company must send a circular to its shareholders and the circular must disclose the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted to such Eligible Person), and the information required under the relevant provisions of Chapter 17 of the Listing Rules. The number and terms (including the Subscription Price) of Options to be granted to such Eligible Person must be fixed before the general meeting at which the same are approved, and the date of the Board meeting for proposing such further grant should be taken as the Date of Grant for the purpose of calculating the Subscription Price.

**(h) Subscription price**

The subscription price in respect of any particular Option shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option (the "Subscription Price")), but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Date of Grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the Date of Grant; and (iii) the nominal value of the Shares. For the purpose of calculating the Subscription Price where the Company has been listed for less than five (5) business days, the issue price of the Shares at the time of Listing shall be used as the closing price of any business day falling within the period before Listing.

## CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

## EXEMPTED CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following transaction in the ordinary course of business with a connected person. This transaction constitutes a fully exempted continuing connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

**Lease of plant and premises**

***Background***

Tianjin FeiSiTe (as lessee) entered into a lease agreement with Tianjin Xing Cai (as lessor) in respect of the lease of the plant and premises located at North of Jinba Road, Beichen District, Tianjin, the PRC with a gross floor area of 1,220 sq.m. for a term of three years from 1 May 2011 to 30 April 2014. The rent payable was calculated based on RMB0.25 per day per sq.m.. The independent valuer, DTZ Debenham Tie Leung Limited is of the view that the terms of this lease agreement are normal commercial terms and the rent payable under the lease agreement is in line with the fair market rate.

As at the date of this report, Tianjin Xing Cai was held as to approximately 97.47% by Fu Junwu and 2.53% by Fu Shuang Yi, the son of Fu Junwu.

***Listing Rules implications***

Tianjin Xing Cai is an associate of Fu Junwu, who is our substantial Shareholder and thus, a connected person. Therefore, Tianjin Xing Cai is a connected person of the Company under the Listing Rules. The lease agreements between Tianjin Xing Cai and our Group will constitute a continuing connected transaction for the Company.

The annual rentals payable to Tianjin Xing Cai for the year ended 31 December 2011 and for the two years ending 31 December 2012 and 2013 are expected to be less than HK$1,000,000 each year. As the annual caps in respect of such continuing connected transactions are less than HK$1,000,000, the transactions contemplated under the lease agreements with Tianjin Xing Cai will, therefore, fall within the de minimis exemption for the Company under Rule 14A.33(3) of the Listing Rules and will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## BANK LOANS AND OTHER BORROWINGS AND COMMITMENTS

Details of bank loans and other borrowings as well as personal guarantees given by the Directors of the Group as of 31 December 2011 are set out in Notes 22 and 36 of the financial statements.

Details of commitments of the Group as of 31 December 2011 are set out in Note 34 of the financial statements.

## SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

During the year, there were no significant investment, material acquisition and disposals of subsidiaries by the Company other than those which formed part of the Group's reorganization, as more fully explained in the Prospectus. The Group has no plan to make any substantial investment in or acquisition of capital assets saved as disclosed in the section headed "Future Plans and Uses of Proceeds" in the Prospectus.

## CONTINGENT LIABILITIES

Details of contingent liabilities are set out in Note 35 to the financial statements.

## FOREIGN EXCHANGE RISK MANAGEMENT

Details of the foreign exchange risk management of the Group are set out in Note 31(b)(i) to the financial statements.

## SUBSEQUENT EVENTS

**Personal Guarantee**

Subsequent to 31 January 2012, our Group secured a short-term loan of HK$15 million, which was guaranteed by personal guarantees provided by Wong Koon Lup and Wong Mun Sum, both being the controlling shareholders (as defined in the Listing Rules) and executive Directors of our Company. The loan has been fully settled prior to listing date on 13 April 2012.

**Change of Name**

***Allegations of Intellectual Property right Infringement***

After 20 March 2012, the date of publication of the prospectus of the Company, the Company received a letter (the "Letter") from the solicitors acting for a bank whose shares are listed and traded on the Main Board of the Stock Exchange (the "Bank"). In the Letter, the Bank alleged that the use of the Chinese name "創興集團控股有限公司" by the Company amounted to (i) trade mark infringement and (ii) passing off in relation to the rights of the Bank (the "Allegations").

***Merits of the Allegations***

In response to the Allegations, the Company has sought legal advice on the likelihood of success of any possible claims that might be brought by the Bank against the Company for trade mark infringement or passing off. After taking the legal advice, the Directors are of the view that there is little merit in the Allegations and that in the event of any legal action brought by the Bank against the Company in respect of the Allegations, the Company would have strong defences and should be able to defeat the Bank's claims.

***Settlement with the Bank***

Nonetheless, in order to accommodate the revised timetable of the Listing and to eliminate any potential exposure which may arise from the Allegations, the Company has entered into a settlement agreement with the Bank on 30 March 2012 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Company undertakes to:–

1. change the Chinese name of the Company to such name that does not include the words "創興" and provide the Bank with evidence of the foregoing within three months of the date of the Settlement Agreement (or such other reasonable time required because of any delay resulting from any impediments outside of the Company's control to be consented by the Bank but the Bank's consent shall not be unreasonably withheld);

2. notify the general public in Hong Kong in the supplemental prospectus dated 5 April 2012 that we will change the Chinese name to such name that does not include the words "創興" and clarify by a clear and prominent disclaimer in this supplemental prospectus that it is not in any way related to the Bank;

3. minimize the use of the current Chinese name "創興集團控股有限公司" prior to the official change of the name, and shall include a clear and prominent disclaimer in any materials which refer to the current Chinese name "創興集團控股有限公司" (except for the share certificates of the Company in issue bearing the existing Chinese name "創興集團控股有限公司" which will continue to exist after the change of the Chinese name until the re-issue by the share registrar of the Company of the share certificates);

4. subject to paragraph 3 above, the Company shall not in Hong Kong, use, carry on business under, register any other companies, trade marks or domain names bearing or otherwise exploit the name or mark "創興", "Chong Hing" or any other confusingly similar name or mark without the Bank's express written authorization in the future; and

5. in the event that we fail to change the Chinese name for any reason whatsoever in accordance with paragraph 1 above, the Bank shall be entitled to take all actions necessary to procure the change of name by the Company. Each party to the Settlement Agreement shall bear its own legal costs and fees. The Bank undertakes that it shall not take any legal action (or claim for any losses or damages) against the Company in relation to the use of the name "創興" as part of the Chinese name in Hong Kong before the change of the Chinese name has been effected in accordance with paragraph 1 above. The Company undertakes that we shall not take any legal action (or claim for any losses or damages) against the Bank in relation to the Bank's claims and past actions regarding the Company's past use of the name "創興" as part of the Chinese name in Hong Kong. In view of the aforesaid, the Directors believe that the Allegations should not have any material adverse impact on the Company and the operations.

***Change of Chinese name of the Company***

On 3 April 2012, a written resolution of all the shareholders of the Company has been passed as a special resolution to change the name of the Company from "CW Group Holdings Limited 創興集團控股有限公司" to "CW Group Holdings Limited". No Chinese name will be adopted by the Company upon the effective change of the name.

The Registrar of Companies in the Cayman Islands has issued a Certificate of Incorporation on Adoption of Dual Foreign Name (Removal) dated 5 April 2012. The Company will then carry out the necessary filing procedures in Hong Kong.

## RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in Note 36 to the financial statements.

## COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company entered into a non-competition agreement with Mr. Wong Koon Lup, Mr. Wong Mun Sum and WMS Holding Pte. Ltd. (the "Covenantors") on 14 March 2012 (the "Non-Competition Agreement"), pursuant to which, the Covenantors provided certain non-competition undertakings to the Company. Pursuant to the agreement, the Directors who do not have a material interest in the Non-Competition Agreement are responsible for reviewing the implementation of the undertakings under the agreement on an annual basis. During the year, the independent non-executive Directors of the Company have reviewed the implementation of the Non-Competition Agreement and have confirmed that the Covenantors have been in full compliance with the agreement and there was no breach by the Covenantors.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in April 2012, after deduction of related issuance expenses, amounted to approximately HK$163.8 million. As disclosed in the prospectus of the Company dated 20 March 2012 and the allotment results announcement dated 12 April 2012, the Directors currently intend to apply the net proceeds for the following purposes:

- approximately 53.9%, or approximately HK$88.3 million, will be applied to expand the Company's production facilities and capacities in the PRC and for the implementation of enterprise resource planning ("ERP") system. It is estimated that approximately HK$80.3 million will be applied to enhance and increase the capacity of each of the Company's production facilities in Shanghai and Tianjin and approximately HK$8.0 million will be applied to implement the ERP system and the manufacturing system for our Group;

- approximately 21.5%, or approximately HK$35.2 million, will be applied to achieve further growth through acquisitions, joint ventures and strategic alliances;

- approximately 8.2%, or approximately HK$13.4 million, will be applied to expand the range of CNC machines that the Company designs and manufactures which will include the setting up of overseas marketing and business representative offices in India and other parts of the Asia-Pacific region, including the provision of material support for customer service, which will cost approximately HK$5.3 million. The development costs in respect of the Company's new product range will cost approximately HK$8.1 million;

- approximately 6.5%, or approximately HK$10.7 million, will be applied to increase the Company's sales and marketing efforts in industries with high growth potential. It is intended that approximately HK$5.3 million will be applied to upgrade both the Company's Shanghai and Tianjin offices, and expand the Company's sales and marketing network in northern and western China. In addition, approximately HK$5.4 million will be used to promote the Group's products and services through participation in trade missions, exhibitions and other related marketing and business development activities; and

- approximately 9.9%, or approximately HK$16.2 million, will be applied for working capital and other general corporate purposes.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes and to the extent permitted by the applicable laws and regulations, it is the present intention of the Directors to deposit such net proceeds into short-term demand deposits and/or money market instructions. The Company will issue an announcement if there is any material change in the intended use of the net proceeds as described above.

## SUFFICIENCY OF PUBLIC FLOAT

The shares of the Company were listed on 13 April 2012 on the Main Board of the Stock Exchange. Based on information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this report the Company has maintained sufficient public float since the listing of shares of the Company on the Main Board of the Stock Exchange on 13 April 2012.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Wednesday, 6 June 2012 to Friday, 8 June 2012, both days inclusive. During such period, no transfer of shares of the Company will be registered. In order to qualify for entitlement to attend the forthcoming annual general meeting of the Company, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

ON BEHALF OF THE BOARD

*Chairman*

Hong Kong
27 April 2012

ERNST & YOUNG
安 永

22 Floor, CITIC Tower
1 Tim Mei Avenue
Central,
Hong Kong

**TO THE SHAREHOLDERS OF CW GROUP HOLDINGS LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the combined financial statements of CW Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 102, which comprise the combined statement of financial position as at 31 December 2011, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE COMBINED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of combined financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International & Accounting Standards Board 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these combined financial statements based on our audit. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, 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 International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of combined 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 combined 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 combined financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
27 April 2012

# COMBINED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 6 | **753,566** | 469,450 |
| Cost of sales | | **(574,097)** | (324,206) |
| Gross profit | | **179,469** | 145,244 |
| Other income and gains | 6 | **1,369** | 2,064 |
| Selling and distribution expenses | | **(27,995)** | (18,814) |
| Administrative expenses | | **(34,105)** | (27,401) |
| Finance costs | 7 | **(25,466)** | (28,669) |
| Other operating expenses | | **(745)** | (1,060) |
| **Profit before tax** | 8 | **92,527** | 71,364 |
| Income tax expense | 9 | **(24,512)** | (20,744) |
| **Profit for the year** | | **68,015** | 50,620 |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations | | **6,739** | 2,673 |
| Fair value of derivative | | **–** | (2,000) |
| Other comprehensive income for the year, net of tax | | **6,739** | 673 |
| **Total comprehensive income for the year** | | **74,754** | 51,293 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **68,015** | 26,852 |
| Non-controlling interests | | **–** | 23,768 |
| | | **68,015** | 50,620 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **74,754** | 27,525 |
| Non-controlling interests | | **–** | 23,768 |
| | | **74,754** | 51,293 |

# COMBINED STATEMENT OF FINANCIAL POSITION

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **33,356** | 25,557 |
| Prepaid land lease payments | 15 | **823** | 798 |
| Deferred tax assets | 26 | **96** | 80 |
| Goodwill | 16 | **34,396** | 32,874 |
| Investment in jointly-controlled entities | 17 | **–** | – |
| | | **68,671** | 59,309 |
| **Current assets** | | | |
| Inventories | 18 | **21,685** | 20,946 |
| Trade receivables | 19 | **566,578** | 232,483 |
| Other receivables | 20 | **147,741** | 141,922 |
| Pledged deposits | 21 | **–** | 5,342 |
| Cash and bank balances | 21 | **38,800** | 115,413 |
| | | **774,804** | 516,106 |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 22 | **6,499** | 20,396 |
| Trade payables | 23 | **378,216** | 160,772 |
| Other payables and accruals | 24 | **103,742** | 141,033 |
| Redeemable convertible loan | 27 | **54,479** | 37,544 |
| Derivative liabilities | 27 | **43,434** | 43,014 |
| Finance lease payable | 25 | **561** | 1,461 |
| Tax payables | | **16,443** | 9,032 |
| | | **603,374** | 413,252 |
| **Net current assets** | | **171,430** | 102,854 |
| **Total assets less current liabilities** | | **240,101** | 162,163 |
| **Non-current liabilities** | | | |
| Bank loans | 22 | **1,614** | 3,295 |
| Finance lease payable | 25 | **621** | 1,125 |
| Deferred tax liabilities | 26 | **20,584** | 15,215 |
| | | **22,819** | 19,635 |
| **Net assets** | | **217,282** | 142,528 |
| **Capital and reserves** | | | |
| Issued capital | 28 | **125,472** | 125,472 |
| Retained earnings | | **160,555** | 98,603 |
| Other reserves | 29 | **(68,745)** | (81,547) |
| **Total equity attributable to owners of the Company** | | **217,282** | 142,528 |

**Wong Koon Lup**
*Director*

**Wong Mun Sum**
*Director*

The financial positions of CW Group Holdings Limited have not been presented as the Company was incorporated on 11 June 2010 and has a share capital and cash balance of Hong Kong cents 1 as at 31 December 2010 and 31 December 2011, respectively.

| | Notes | Attributable to owners of the Company: Issued capital HK$'000 (Note 28) | Retained earnings HK$'000 | Other reserves HK$'000 (Note 29) | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2011** | | **125,472** | **98,603** | **(81,547)** | **142,528** | **–** | **142,528** |
| Profit for the year | | **–** | **68,015** | **–** | **68,015** | **–** | **68,015** |
| Exchange differences on translation of foreign operations | | **–** | **–** | **6,739** | **6,739** | **–** | **6,739** |
| **Total comprehensive income for the year** | | **–** | **68,015** | **6,739** | **74,754** | **–** | **74,754** |
| Contributions by and distributions to owners | | | | | | | |
| Transfer to statutory reserves | | **–** | **(6,063)** | **6,063** | **–** | **–** | **–** |
| **Total contributions by and distribution to owners, representing total transactions with owners in their capacity as owners** | | **–** | **(6,063)** | **6,063** | **–** | **–** | **–** |
| **Balance at 31 December 2011** | | **125,472** | **160,555** | **(68,745)** | **217,282** | **–** | **217,282** |
| Balance at 1 January 2010 | | 51,974 | 71,964 | 7,188 | 131,126 | 54,642 | 185,768 |
| Profit for the year | | – | 26,852 | – | 26,852 | 23,768 | 50,620 |
| Fair value of derivative | *29* | – | – | (2,000) | (2,000) | – | (2,000) |
| Exchange differences on translation of foreign operations | | – | – | 2,673 | 2,673 | – | 2,673 |
| **Total comprehensive income for the year** | | – | 26,852 | 673 | 27,525 | 23,768 | 51,293 |
| Contributions by and distributions to owners | | | | | | | |
| Shares buyback | *(i)* | (3,635) | – | – | (3,635) | – | (3,635) |
| Issuance of new shares | *(ii)* | 19,563 | – | – | 19,563 | – | 19,563 |
| Transfer to statutory reserves | | – | (213) | 213 | – | – | – |
| Capital contribution | | – | – | 391 | 391 | – | 391 |
| Dividends | *12* | – | – | – | – | (75,516) | (75,516) |
| **Total contributions by and distribution to owners** | | 15,928 | (213) | 604 | 16,319 | (75,516) | (59,197) |
| Changes in ownership interests in subsidiaries | | | | | | | |
| Acquisition of non-controlling interests | *(iii)* | 57,570 | – | (90,012) | (32,442) | (2,894) | (35,336) |
| **Total changes in ownership interests in subsidiaries** | | 57,570 | – | (90,012) | (32,442) | (2,894) | (35,336) |
| **Total transactions with owners in their capacity as owners** | | 73,498 | (213) | (89,408) | (16,123) | (78,410) | (94,533) |
| **Balance at 31 December 2010** | | 125,472 | 98,603 | (81,547) | 142,528 | – | 142,528 |

*Notes:*

(i) On 15 May 2010, SG Tech Holdings Limited repurchased 90,000 own shares from a shareholder for cash consideration of S$675,000 (equivalent to HK$3,635,000).

(ii) (a) On 13 July 2010, SG Tech Holdings Limited issued 500,000 new shares to WMS Holding Pte Ltd for a consideration of S$500,000 (equivalent to HK$3,063,000).

(b) On 13 July 2010, SG Tech Holdings Limited issued 137,906 new shares to Septwolves Group (Asia) Investments Limited for a consideration of HK$16,500,000.

(iii) On 8 November 2010, SG Tech Holdings Limited entered into an agreement with Mr. Fu Junwu to acquire the balance 49% stake in Fu Yang International Co., Ltd (BVI). As part of the purchase consideration, on 14 December 2010, SG Tech Holdings Limited issued 800,000 shares to Mr. Fu Junwu at the consideration of S$9,481,259 (equivalent to HK$57,570,000).

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **92,527** | 71,364 |
| Adjustments for: | | | |
| Amortisation of prepaid land lease payments | 8 | **12** | 12 |
| Depreciation | 8 | **4,195** | 3,904 |
| Inventory written off | 8 | **–** | 66 |
| Allowance for inventories | 8 | **208** | 234 |
| Allowance for/(write-back of) impairment on doubtful debts | 8 | **(81)** | 269 |
| Loss on disposal of property, plant and equipment, net | 8 | **2** | 3 |
| Interest income | 6 | **(557)** | (443) |
| Amortised interest on redeemable convertible loan | 7 | **19,824** | 18,425 |
| Fair value change of embedded derivative liabilities | 7 | **312** | 19,185 |
| Gain on derecognition of redeemable convertible loan | 7 | **–** | (13,523) |
| Finance costs | | **5,330** | 4,582 |
| Allowance for unutilised leave provision | 8 | **144** | – |
| Cash flows from operating activities before movements in working capital | | **121,916** | 104,078 |
| Movements in working capital: | | | |
| Trade receivables | | **(334,014)** | (88,015) |
| Other receivables | | **(5,819)** | (28,766) |
| Inventories | | **(947)** | (5,722) |
| Trade payables | | **217,444** | 70,410 |
| Other payables and accruals | | **(1,159)** | (23,064) |
| Cash generated from operations | | **(2,579)** | 28,921 |
| Income taxes paid | | **(12,472)** | (12,957) |
| Net cash flows (used in)/generated from operating activities | | **(15,051)** | 15,964 |
| **Cash flows from investing activities** | | | |
| Consideration for the acquisition of non-controlling interests | | **(36,276)** | – |
| Interest received | 6 | **557** | 443 |
| Purchase of property, plant and equipment | (i) | **(12,610)** | (9,731) |
| Proceeds from disposal of property, plant and equipment | | **2,092** | 45 |
| Decrease in pledged deposits | | **5,342** | 393 |
| Net cash flows used in investing activities | | **(40,895)** | (8,850) |

# COMBINED STATEMENT OF CASH FLOWS

| | Notes | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Interest and finance charges paid | | **(5,330)** | (4,582) |
| Repayment of obligations under finance leases | | **(1,601)** | (1,761) |
| Payment of shares buyback | | **–** | (3,635) |
| Proceeds from redeemable convertible loan | | **–** | 50,027 |
| Proceeds from issuance of shares | | **–** | 19,563 |
| Dividends paid to non-controlling interests | | **–** | (33,820) |
| Repayment of bank loans | | **(14,682)** | (8,321) |
| Proceeds from bank loans | | **–** | 10,174 |
| Net cash flows (used in)/generated from financing activities | | **(21,613)** | 27,645 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(77,559)** | 34,759 |
| Cash and cash equivalents at the beginning of the year | | **114,045** | 70,599 |
| Effect of exchange rate changes, net | | **2,313** | 8,687 |
| **Cash and cash equivalents at the end of the year** | | **38,799** | 114,045 |
| **Cash and cash equivalents consist of:** | | | |
| Cash and bank balances | *21* | **38,800** | 115,413 |
| Bank overdrafts | *22* | **(1)** | (1,368) |
| Cash and cash equivalents | | **38,799** | 114,045 |

*Note:*

(i) Purchase of property, plant and equipment

| | | | |
|---|---|---|---|
| Property, plant and equipment were purchased by: | | | |
| Cash payments | | **12,610** | 9,731 |
| Finance lease | | **150** | – |
| | *14* | **12,760** | 9,731 |

## 1. CORPORATION INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Clifton Houses, 75 Fort Street, PO box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company's principal place of business is located at 22nd floor, World Wide House, Central, Hong Kong. The Company is an investment holding company.

The principal business activities of the Group include provision for precision engineering solutions, machine tool manufacturing and distribution as well as cement production equipment and components manufacturing and distribution.

The Company underwent reorganisation in March 2012 in connection with an initial public offering of which the shares were listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited. Details of reorganisation set out in Note 28 to the financial statements.

As at the end of the years ended 31 December 2011 and 2010, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below:

| Name of subsidiary | Legal form, date and place of incorporation/ establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Group | Principal activities |
|---|---|---|---|---|
| *Directly held:* | | | | |
| SG (BVI) Limited (formerly known as Goldgain Pacific Limited) | Limited liability company 18 May 2010 British Virgin Islands | Ordinary shares US$100 | 100% | Investment holding |
| *Indirectly held:* | | | | |
| SG Tech Holdings Limited | Public limited company 6 August 2007 Singapore | Ordinary shares S$21,867,698 | 100% | Investment holding |
| CW Group Pte. Ltd. | Limited private company 28 May 1996 Singapore | Ordinary shares S$9,651,621 | 100% | Manufacture of dies, moulds, tools, jigs and fixtures and wholesale of industrial machinery and equipment |
| CW International (S) Pte. Ltd. | Limited private company 20 April 2004 Singapore | Ordinary shares S$10,000 | 100% | Investment holding |

## 1. CORPORATION INFORMATION (cont'd)

| Name of subsidiary | Legal form, date and place of incorporation/ establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Group | Principal activities |
|---|---|---|---|---|
| *Indirectly held: (cont'd)* | | | | |
| 創興機械設備(上海)有限公司 CW International (Shanghai) Co., Ltd.[(1)] | Wholly owned foreign enterprise 18 May 2005 People's Republic of China ("PRC") | Registered capital US$2,500,000 Paid-up capital US$1,730,000 | 100% | Dealing in industrial machinery and equipment, technical testing and analysis services |
| CW Tech Pte. Ltd. | Limited private company 26 October 2004 Singapore | Ordinary shares S$6,351,624 | 100% | Investment holding |
| FNW International Pte. Ltd. | Limited private company 6 March 2007 Singapore | Ordinary shares S$100 | 100% | Investment holding |
| FNW International Limited (formerly known as City Eagle Investments Limited) | Limited liability company 8 June 2010 British Virgin Islands | US$100 | 100% | Investment holding |
| Fu Yang International Co., Ltd.[(2)] | Limited liability company 20 April 2001 British Virgin Islands | Ordinary shares US$100 | 100% | Investment holding |
| 天津菲斯特機械設備有限公司 Tianjin FeiSiTe Machinery Co., Ltd.[(1)] | Wholly owned foreign enterprise 14 August 2003 PRC | Registered and paid-up capital US$3,650,500 | 100% | Dealing in industrial machinery and equipment and providing industrial technical consultancy services |

## 1. CORPORATION INFORMATION (cont'd)

| Name of subsidiary | Legal form, date and place of incorporation/ establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Group | Principal activities |
|---|---|---|---|---|
| *Indirectly held: (cont'd)* | | | | |
| CW Advanced Technologies Pte. Ltd. | Limited private company 27 February 2003 Singapore | Ordinary shares S$450,000 | 100% | Dealing in industrial machinery and equipment and providing industrial technical consultancy services |
| 塑鼎貿易(上海)有限公司 SD Trading (Shanghai) Co., Ltd.[(1)] | Wholly owned foreign enterprise 26 February 2004 PRC | Registered capital US$140,000 Paid-up capital US$140,000 | 100% | Dealing in industrial machinery and equipment, technical testing and analysis services |
| CW International (M) Sdn. Bhd. | Limited liability company 25 July 2005 Malaysia | Ordinary shares RM510,002 | 100% | Inactive |
| SG Technologies Pte. Ltd. (formerly known as SD Industrial Trading Pte. Ltd.) | Limited private company 26 October 2004 Singapore | Ordinary shares S$100,002 | 100% | Dealing in industrial machinery and equipment, technical testing and analysis services |

(1) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(2) On 20 February 2012, Fu Yang International Co., Ltd. entered into an equity transfer agreement with Honor Well Group Holdings Limited ("Honor Well") to transfer the entire equity interest in Tianjin FeiSiTe Machinery Co., Ltd. to Honor Well.

No statutory audited financial statements have been prepared for Fu Yang International Co., Ltd., FNW International Limited and SG (BVI) Limited since their respective dates of incorporation as they were incorporated in a jurisdiction where there are no statutory audit requirements.

## 1. CORPORATION INFORMATION (cont'd)

The statutory financial statements of SG Tech Holdings Limited, CW Group Pte. Ltd., CW Advanced Technologies Pte. Ltd., CW International (S) Pte. Ltd., CW Tech Pte. Ltd., SG Technologies Pte. Ltd. and FNW International Pte. Ltd. were prepared in accordance with accounting principles generally accepted in Singapore. The statutory financial statements of these companies were audited by Ernst & Young LLP, certified public accountants registered in Singapore.

The statutory financial statements of CW International (M) Sdn. Bhd. for the year ended 31 December 2011 was prepared in accordance with accounting principles generally accepted in Malaysia. The statutory financial statements of CW International (M) Sdn. Bhd. for the year ended 31 December 2011 was audited by Cheng & Co., certified public accountants registered in Malaysia.

The statutory financial statements of CW International (Shanghai) Co., Ltd. and SD Trading (Shanghai) Co., Ltd. for the year ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of CW International (Shanghai) Co., Ltd. and SD Trading (Shanghai) Co., Ltd. for the year ended 31 December 2011 were audited by 上海榮業會計師事務所, certified public accountants registered in the PRC.

The statutory financial statements of Tianjin FeiSiTe Machinery Co., Ltd. for the year ended 31 December 2011 was prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and was audited by 天津正泰有限責任會計師事務所, certified public accountants registered in the PRC.

## 2.1 BASIS OF PRESENTATION

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the years ended 31 December 2011 and 2010 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholders, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2011 and 31 December 2010 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders' perspective.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholders, and changes therein, are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on combination.

## 2.2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with IFRS (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the IASB.

The IASB issued a number of new or revised IFRSs which are generally effective for annual periods beginning on 1 January 2010 and 1 January 2011.

For the purpose of preparing and presenting the financial statements, the Group has early adopted all these new and revised IFRSs that are relevant to the Group's operations as at the beginning of the years ended 31 December 2011 and 2010.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the financial statements.

| | |
|---|---|
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[3] |
| IFRS 11 | Joint Arrangements[3] |
| IFRS 12 | Disclosure of Interests in Other Entities[3] |
| IFRS 13 | Fair Value Measurement[3] |
| IAS 1 Amendments | Amendments to IAS 1 Presentation of Financial Statements[2] |
| IAS 12 Amendments | Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets[1] |
| IAS 19 Amendments | Amendments to IAS 19 Employee Benefits[3] |
| IAS 27 (Revised) | Separate Financial Statements[3] |
| IAS 28 (Revised) | Investments in Associates and Joint Ventures[3] |

1 Effective for annual periods beginning on or after 1 January 2012
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results and financial position.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (cont'd)

IFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC-Int 12 Consolidation – Special Purpose Entities.

IFRS 11 describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 Consolidated and Separate Financial Statements, IAS 31 Interests in Joint Ventures and IAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

The Group has also adopted the consequential amendments made to IAS 27 and IAS 28 as a result of the issuance of the above new standards.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change when the Group is required to use fair value, but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IAS 1 Amendments change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items which will never be reclassified.

IAS 12 Amendments clarify the determination of deferred tax in investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments introduce the requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis of the assets.

IAS 19 Amendments introduces a number of changes in the accounting for pensions and other post-employment benefits that impact on the amount of net plan assets or liabilities for defined benefit pension plans and the results of entities with defined benefit pension plans. The standard also requires termination benefits outside of a wider restructuring to be recognised only when the offer becomes legally binding and cannot be withdrawn, and termination benefits under a wider restructuring to be recognised at the same time as the other restructuring costs.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of combinations**

The financial statements incorporate the financial statements of the Company and its subsidiaries for the years ended 31 December 2011 and 2010. The financial statements of the combining entities or businesses under common control are prepared for the same reporting period as the Company, using consistent accounting policies.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combinations occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination.

**Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

**Jointly-controlled entities**

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expense with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Impairment of non-financial assets (cont'd)**

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assets of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

**Related parties**

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly-controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 1.48% |
| Plant and machinery | 6% to 31.67% |
| Renovation | 9% to 33.33% |
| Office equipment, furniture and fittings | 18% to 33.33% |
| Computers | 18% to 33.33% |
| Motor vehicles | 9% to 20% |

Assets under construction are not depreciated as these assets are not yet available for use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Leases (cont'd)**

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include trade and other receivables, amounts due from related parties, pledged deposits, and cash and cash equivalents.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Impairment of financial assets (cont'd)**

***Financial assets carried at amortised cost (cont'd)***

If there is objective evidence that an impairment loss has been incurred, 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties, redeemable convertible loan, derivative financial instruments and interest-bearing bank and overdrafts and finance leases payables.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial liabilities (cont'd)**

***Loans and borrowings (cont'd)***

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

***Redeemable convertible loan***

The component of redeemable convertible loan that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of redeemable convertible loan, the fair value of the liability component is determined using a market rate for an equivalent non-convertible loan; and this amount is carried on the amortised cost basis until extinguished on conversion or redemption.

If the conversion option of redeemable convertible loan exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the redeemable convertible loan is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the redeemable convertible loan based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Income tax (cont'd)**

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the straight-line basis over the specified period of time as further explained in the accounting policy for "Rendering of services" below;

(c) commission income for rendering of services is recognized when the services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(e) rental income, on a time proportion basis over the lease terms; and

(f) dividend income, when the shareholders' right to receive payment has been established.

**Rendering of services**

Revenue from the rendering of services is recognised on a straight-line basis over the specified period of time as the services are performed by an indeterminate number of acts over a specified period of time as stated in the service contract.

**Employee benefits**

***Defined contribution plan***

The Group's subsidiaries which operate in Singapore make contributions to the Central Provident Fund ("CPF") scheme in Singapore, a defined contribution pension scheme. CPF contributions are recognised as an expense in the period in which the related service is performed.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on 20% of the employee's salary and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Employee benefits (cont'd)**

***Employee leave entitlement***

Employee entitlements to annual leave are recognised when they are accrued to employees. An accrual is made for the estimated liability for leave as a result of services rendered by employees up to the end of reporting period.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders, they are recognised as a liability.

**Foreign currencies**

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Foreign currencies (cont'd)**

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the combined statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***(a) Impairment of assets***

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

***(b) Determination of functional currencies***

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

**Judgements (cont'd)**

***(c) Income taxes***

Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities/(assets) for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

***(d) Revenue recognition***

The Group recognizes revenue of its equipment on a gross basis as compared to net basis for equipment which the Group has entered into several distributorship agreements to source customers, customize and trade such equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that revenue should be recognized on a gross basis. In making this judgment, the Group evaluates, among other factors, whether the Group has discretions in the selection of suppliers and setting of selling price, bears credit and inventory risks and whether the Group is the primary obligor in the arrangement.

***(e) Withholding tax provision on profit appropriation***

The Group provides for withholding taxes of 5% and 10% on its People's Republic of China ("PRC") subsidiaries' distributable profits generated from 1 January 2008 onwards in compliance with the PRC Corporate Tax Law. The Group has provided for such withholding taxes on the basis that the Group is expected to appropriate substantially the profits which the PRC subsidiaries generate in the foreseeable future. For the financial years ended 31 December 2011 and 2010, the amounts provided were HK$20,741,000 and HK$15,394,000, respectively.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***(a) Impairment of loans and receivables***

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed.

The carrying amount of the Group's loans and receivables at the end of each reporting period disclosed in Note 31(a).

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

**Estimation uncertainty (cont'd)**

***(b) Impairment of non-financial assets (excluding goodwill)***

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

***(c) Depreciation of property, plant and equipment***

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 3 to 67 years. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

***(d) Fair value of financial instruments***

Where the fair values of financial instruments recorded on the combined statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are derived from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in Note 31(c).

***(e) Impairment of goodwill***

The Group determines whether goodwill is impaired at least on annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill is disclosed in Note 16 to the financial statements.

## 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

(a) Precision engineering solution projects – relates to provision of industrial solutions specific to machine tools and industrial machinery and equipment encompassing conceptualization and design to production set-up, commissioning and maintenance of production lines.

(b) Sales of Computer Numeric Control ("CNC") machining centres – relates to sales of precision engineering manufacturing equipment operable under CNC automation.

(c) Sales of cement production equipment – relates to sales of equipment (rotor weighfeeders and clinker coolers) primarily for the construction materials industry.

(d) Sales of components and parts – relates to sales of self-manufactured and trading of components and parts.

(e) After-sales technical support services – relates to provision of repairs and maintenance services for the above segments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank and other borrowings, the amount due to related company, redeemable convertible loan, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 5. OPERATING SEGMENT INFORMATION (cont'd)

| Year ended 31 December 2011 | Precision engineering solution projects HK$'000 | Sales of CNC machining centres HK$000 | Sales of cement production equipment HK$000 | Sales of components and parts HK$000 | After-sales technical support services HK$000 | Total HK$000 |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Sales to external customers | 351,836 | 71,467 | 158,969 | 150,781 | 20,513 | 753,566 |
| Intersegment sales | 478 | 796 | – | 1,381 | – | 2,655 |
| | 352,314 | 72,263 | 158,969 | 152,162 | 20,513 | 756,221 |
| *Reconciliation* | | | | | | |
| Elimination of intersegment sales | | | | | | (2,655) |
| Revenue | | | | | | 753,566 |
| **Segment results** | 58,684 | 14,643 | 75,705 | 14,983 | 15,535 | 179,550 |
| *Reconciliation* | | | | | | |
| Interest income | | | | | | 557 |
| Unallocated other income and gains | | | | | | 812 |
| Corporate and other unallocated expenses | | | | | | (62,926) |
| Finance costs | | | | | | (25,466) |
| Profit before tax | | | | | | 92,527 |
| **Segment assets** | 378,414 | 29,857 | 57,997 | 128,899 | 6,473 | 601,640 |
| *Reconciliation* | | | | | | |
| Corporate and other unallocated assets | | | | | | 241,835 |
| Total assets | | | | | | 843,475 |
| **Segment liabilities** | 246,346 | 11,277 | 25,388 | 86,927 | 4,419 | 374,357 |
| *Reconciliation* | | | | | | |
| Corporate and other unallocated liabilities | | | | | | 251,836 |
| Total liabilities | | | | | | 626,193 |
| **Other segment information** | | | | | | |
| Other non-cash expenses* | (61) | 22 | 120 | – | – | 81 |
| Depreciation | – | (431) | (574) | (991) | (32) | (2,028) |
| Capital expenditure** | – | (155) | (877) | (7,837) | – | (8,869) |

## 5. OPERATING SEGMENT INFORMATION (cont'd)

| Year ended 31 December 2010 | Precision engineering solution projects *HK$'000* | Sales of CNC machining centres *HK$000* | Sales of cement production equipment *HK$000* | Sales of components and parts *HK$000* | After-sales technical support services *HK$000* | Total *HK$000* |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Sales to external customers | 196,493 | 48,134 | 178,316 | 23,430 | 23,077 | 469,450 |
| Intersegment sales | 601 | 1,786 | – | 1,984 | – | 4,371 |
| | 197,094 | 49,920 | 178,316 | 25,414 | 23,077 | 473,821 |
| *Reconciliation* | | | | | | |
| Elimination of intersegment sales | | | | | | (4,371) |
| Revenue | | | | | | 469,450 |
| **Segment results** | 40,450 | 7,392 | 72,436 | 2,465 | 22,232 | 144,975 |
| *Reconciliation* | | | | | | |
| Interest income | | | | | | 443 |
| Unallocated other income and gains | | | | | | 1,621 |
| Corporate and other unallocated expenses | | | | | | (47,006) |
| Finance costs | | | | | | (28,669) |
| Profit before tax | | | | | | 71,364 |
| **Segment assets** | 144,642 | 24,629 | 53,872 | 41,895 | 4,124 | 269,162 |
| *Reconciliation* | | | | | | |
| Corporate and other unallocated assets | | | | | | 306,253 |
| Total assets | | | | | | 575,415 |
| **Segment liabilities** | 107,028 | 17,678 | 15,709 | 16,282 | 4,075 | 160,772 |
| *Reconciliation* | | | | | | |
| Corporate and other unallocated liabilities | | | | | | 272,115 |
| Total liabilities | | | | | | 432,887 |
| **Other segment information** | | | | | | |
| Other non-cash expenses* | (292) | 45 | – | (22) | – | (269) |
| Depreciation | – | (409) | (236) | (400) | (51) | (1,096) |
| Capital expenditure** | – | (212) | (1,042) | (3,994) | – | (5,248) |

* Other non-cash expenses constitute allowances for doubtful debts that are directly attributable to the respective business segments.

** Capital expenditure relates to additions of property, plant and equipment.

## 5. OPERATING SEGMENT INFORMATION (cont'd)

**Reconciliation of other segment information**

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Depreciation and amortization** | | |
| Directly attributable to operating segments | **(2,028)** | (1,096) |
| Corporate and other unallocated depreciation and amortization costs | **(2,167)** | (2,808) |
| Total depreciation and amortization costs | **(4,195)** | (3,904) |
| **Capital expenditure** | | |
| Directly attributable to operating segments | **(8,869)** | (5,248) |
| Corporate and other unallocated capital expenditure | **(3,891)** | (4,483) |
| Total capital expenditure | **(12,760)** | (9,731) |

**Geographical information**

The Group's revenues from external customers by geographical locations are as follows:

| | 2011 HK$'000 | % | 2010 HK$'000 | % |
|---|---|---|---|---|
| Asia Pacific region: | | | | |
| The PRC | **246,583** | **32.7** | 256,089 | 54.6 |
| Singapore | **111,672** | **14.8** | 68,492 | 14.6 |
| Indonesia | **107,479** | **14.3** | 24,720 | 5.3 |
| Malaysia | **51,275** | **6.8** | 25,686 | 5.5 |
| Thailand | **29,241** | **3.9** | 7,717 | 1.6 |
| India | **94,238** | **12.5** | 45,218 | 9.6 |
| Others | **7,738** | **1.0** | 24,610 | 5.2 |
| Europe | **105,222** | **14.0** | 12,878 | 2.7 |
| Others | **118** | **0.0** | 4,040 | 0.9 |
| Total | **753,566** | **100.0** | 469,450 | 100.0 |

## 5. OPERATING SEGMENT INFORMATION (cont'd)

**Geographical information (cont'd)**

The Group's non-current assets (other than goodwill) by geographical locations are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PRC | **33,883** | 24,747 |
| Singapore | **393** | 810 |
| Malaysia | **–** | – |
| | **34,276** | 25,557 |

**Information about major customers**

During the years ended 31 December 2011 and 2010, except for a sale to PT. Buana Prima Raya Precision Machine Tools and Emerald Machines Pvt. Ltd. which accounted for approximately 13.6% and 10.3% of the Group's total revenue for the year ended 31 December 2011, respectively, no revenue from transactions with a single external customer amounted to 10% of the Group's total revenue.

## 6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year:

An analysis of revenue, other income and gains is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Sale of goods | **733,054** | 446,373 |
| Rendering of services | **20,512** | 21,596 |
| Commission income | **–** | 1,481 |
| | **753,566** | 469,450 |
| **Other income** | | |
| Bank interest income | **557** | 443 |
| Rental income | **114** | 591 |
| Government subsidy | **523** | 596 |
| Others | **175** | 434 |
| | **1,369** | 2,064 |

## 7. FINANCE COSTS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Interest on finance leases | **156** | 255 |
| Bank overdraft interest and charges | **714** | 197 |
| Bank and other finance charges | **4,035** | 2,168 |
| Interest on bank loans wholly repayable within five years | **425** | 1,962 |
| Amortised interest on redeemable convertible loan | **19,824** | 18,425 |
| Fair value change of embedded derivatives | **312** | 19,185 |
| Gain on derecognition of redeemable convertible loan | **–** | (13,523) |
| | **25,466** | 28,669 |

## 8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Cost of inventories sold | **565,368** | 317,527 |
| Depreciation* | **4,195** | 3,904 |
| Amortisation of prepaid land lease payments* | **12** | 12 |
| Auditors' remuneration*# | **1,803** | 1,044 |
| Inventory written off* | **–** | 66 |
| Allowance for inventories** | **208** | 234 |
| Allowance for unutilised leave provision* | **144** | – |
| Employee benefits expenses* (including directors' remuneration *(Note 10)*) | **27,455** | 22,054 |
| Contributions to retirement benefits schemes* | **3,522** | 2,505 |
| Allowance for/(write-back of) impairment on doubtful debts* | **(81)** | 269 |
| Loss on disposal of property, plant and equipment, net* | **2** | 3 |
| Net foreign exchange loss** | **459** | 1,058 |

* These amounts are included in "Administrative expenses" in the combined statements of comprehensive income.

** These amounts are included in "Other operating expenses" in the combined statements of comprehensive income.

# Total auditors' remuneration incurred in respect of their audit services provided to the Group for the purpose of the Group's listing on the Stock Exchange for the financial years ended 31 December 2008, 2009, 2010 and 2011 approximates HK$7,999,000 of which HK$1,803,000 has been incurred by the Group for the audit of the financial year ended 31 December 2011.

## 9. INCOME TAX EXPENSE

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Current tax: | | |
| – Current year | **19,859** | 15,963 |
| – Over provision in prior year | **24** | (1,702) |
| Deferred tax *(Note 26)* | | |
| – Current year | **4,629** | 6,483 |
| Total income tax recognised in profit or loss | **24,512** | 20,744 |

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the years ended 31 December 2011 and 2010.

Taxes on profits assessable in Singapore and Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

***Singapore income tax***

The corporate income tax rate applicable to Singapore companies of the Group was 17% for the year ended 31 December 2011 (2010: 17%).

***PRC income tax***

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law was approved and became effective on 1 January 2008. The Corporate Income Tax Law introduced a wide range of changes which included, but are not limited to, the unification of the income tax rates for domestic-invested and certain foreign-invested enterprises, which resulted in a reduction of corporate income tax rate from 33% to 25%.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

## 9. INCOME TAX EXPENSE (cont'd)

The major tax concessions applicable to the subsidiaries and jointly-controlled entity established in the PRC are detailed as follows:

| Name of subsidiaries/ jointly-controlled entity | Details of tax concessions |
|---|---|
| CW International (Shanghai) Co., Ltd. | CW International (Shanghai) Co., Ltd. is a foreign invested enterprise ("FIE") which engages in manufacturing and is exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax reduction for the subsequent three years (the "FIE Tax Holiday"). The first year of its FIE Tax Holiday is financial year ended 31 December 2007. Accordingly, it was exempted from corporate income tax for the years ended 31 December 2007 and 2008 and is subject to corporate income tax at a reduced rate of 12.5% for the three years ended 31 December 2009, 2010 and 2011. |
| Tianjin FeiSiTe Machinery Co., Ltd. | Tianjin FeiSiTe Machinery Co., Ltd. is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. The first year of its FIE Tax Holiday is 31 December 2005. Accordingly, it was exempted from corporate income tax for the years ended 31 December 2005 and 2006 and was subject to corporate income tax at a reduced rate of 12%, 12.5% and 12.5% for the years ended 31 December 2007, 2008 and 2009 respectively. For the years ended 31 December 2010 and 31 December 2011, the tax rate was 15% under High-Tech Enterprise Certification. |
| KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. | KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. The first year of its FIE Tax Holiday is financial year ended 31 December 2008. Accordingly, it was exempted from corporate income tax for the years ended 31 December 2008 and 2009 and was subject to corporate income tax at a reduced rate of 12.5% for the three years ended/ending 31 December 2010, 2011 and 2012. |

## 9. INCOME TAX EXPENSE (cont'd)

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate are as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Profit before tax | **92,527** | 71,364 |
| Tax at the domestic rates applicable to profits in the countries where the Group operates | **21,766** | 17,927 |
| Expenses not deductible for tax | **4,411** | 5,586 |
| Income not subject to tax | **(335)** | (235) |
| Over provision in respect of previous year | **(3)** | (1,702) |
| Effect of tax incentives | **(6,751)** | (7,686) |
| Effect of withholding tax on the undistributed profits *(Note 26)* | **4,641** | 6,434 |
| Others | **783** | 420 |
| Income tax expense for the year | **24,512** | 20,744 |

## 10. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Fees | **–** | – |
| Other remuneration: | | |
| – Salaries and bonuses | **3,437** | 3,084 |
| – Retirement benefit scheme contributions | **144** | 132 |
| | **3,581** | 3,216 |

**(a) Independent non-executive directors**

Mr. Kuan Cheng Tuck, Mr. Ong Su Aun and Mr. Johnny Chan were appointed as independent non-executive directors of the Company on 14 March 2012. There were no fees or other remuneration payable to independent non-executive directors during the years ended 31 December 2011 and 2010.

## 10. DIRECTORS' REMUNERATION (cont'd)

### (b) Executive directors

In respect of individuals, who act as executive directors of the Company as at the date of this report, the remuneration received or receivable from the Group during each of the years ended 31 December 2011 and 2010 is as follows:

| | Fees<br>*HK$'000* | Salaries and bonuses<br>*HK$'000* | Retirement benefit scheme contributions<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| **Year ended 31 December 2011** | | | | |
| Mr. Wong Koon Lup | **–** | **1,298** | **52** | **1,350** |
| Mr. Lim Chwee Heng | **–** | **974** | **52** | **1,026** |
| Mr. Wong Mun Sum | **–** | **1,165** | **40** | **1,205** |
| | **–** | **3,437** | **144** | **3,581** |
| Year ended 31 December 2010 | | | | |
| Mr. Wong Koon Lup | – | 1,194 | 44 | 1,238 |
| Mr. Lim Chwee Heng | – | 796 | 44 | 840 |
| Mr. Wong Mun Sum | – | 1,094 | 44 | 1,138 |
| | – | 3,084 | 132 | 3,216 |

During the years ended 31 December 2011 and 2010, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the years ended 31 December 2011 and 2010.

## 11. FIVE HIGHEST PAID EMPLOYEES

The five employees with the highest remuneration in the Group for the years ended 31 December 2011 and 2010 were as follows:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Directors | **3,581** | 3,216 |
| Employees | **2,106** | 1,999 |
| | **5,687** | 5,215 |

## 11. FIVE HIGHEST PAID EMPLOYEES (cont'd)

The five highest paid employees for the years ended 31 December 2011 and 2010 include three directors, details of whose remuneration are set out in Note 10 above. Details of the remaining two non-director, highest paid employees for the years ended 31 December 2011 and 2010 were as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and bonuses | **2,025** | 1,909 |
| Retirement benefit scheme contributions | **81** | 90 |
| | **2,106** | 1,999 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Nil to HK$1,000,000 | **1** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| HK$1,500,001 to HK$2,000,000 | **–** | – |
| | **2** | 2 |

During the years ended 31 December 2011 and 2010, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any remuneration during the years ended 31 December 2011 and 2010.

## 12. DIVIDENDS

No dividend is to be paid or proposed by the Directors of the Company for the year ended 31 December 2011.

During the year ended 31 December 2010, a subsidiary of the Company, Fu Yang International Co., Ltd., declared a first interim dividend of US$8,817,000 (equivalent to HK$68,475,000), a second interim dividend of US$6,316,000 (equivalent to HK$49,058,000), and a third interim dividend of US$4,718,000 (equivalent to HK$36,582,000). Non-controlling interest's share of the first interim dividend, second interim dividend and third interim dividend amounted to HK$33,553,000, HK$24,038,000 and HK$17,925,000, respectively.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For illustrative purpose only, the calculation of earnings per share is based on the profit for the year attributable to the owners of the Company and the number of shares, 616,417,000, in issue upon completion of the initial public offering on 13 April 2012 as if such number of shares would have been issued in the earliest period of presentation of the financial statements.

| | **2011** | 2010 |
|---|---|---|
| Earnings per share | **HK$0.11** | HK$0.04 |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Building HK$'000 | Plant and machinery HK$'000 | Renovation HK$'000 | Office equipment, furniture and fittings HK$'000 | Computers HK$'000 | Motor vehicles HK$'000 | Construction -in-progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2011 | 1,094 | 21,961 | 3,733 | 3,636 | 1,486 | 7,631 | 1,502 | 41,043 |
| Exchange differences | 49 | 990 | (109) | (60) | (49) | 353 | 236 | 1,410 |
| Additions | – | 1,032 | 1,580 | 113 | 204 | 1,686 | 8,145 | 12,760 |
| Disposals | (57) | (2,245) | – | – | (35) | (72) | – | (2,409) |
| Reclassification | – | – | 1,596 | – | – | – | (1,596) | – |
| At 31 December 2011 | 1,086 | 21,738 | 6,800 | 3,689 | 1,606 | 9,598 | 8,287 | 52,804 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2011 | 103 | 5,058 | 2,536 | 3,266 | 1,028 | 3,495 | – | 15,486 |
| Exchange differences | 6 | 279 | (227) | (75) | (55) | 154 | – | 82 |
| Charge for the period | 69 | 1,929 | 473 | 233 | 234 | 1,257 | – | 4,195 |
| Disposals | (24) | (208) | – | – | (30) | (53) | – | (315) |
| At 31 December 2011 | 154 | 7,058 | 2,782 | 3,424 | 1,177 | 4,853 | – | 19,448 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2011 | 932 | 14,680 | 4,018 | 265 | 429 | 4,745 | 8,287 | 33,356 |

At 31 December 2011, the carrying amount of the Group's assets held under finance lease amounted to HK$4,962,000.

| | Building HK$'000 | Plant and machinery HK$'000 | Renovation HK$'000 | Office equipment, furniture and fittings HK$'000 | Computers HK$'000 | Motor vehicles HK$'000 | Construction -in-progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2010 | 1,000 | 14,606 | 3,426 | 3,190 | 1,234 | 6,116 | 70 | 29,642 |
| Exchange differences | 40 | 751 | 211 | 302 | 79 | 311 | 43 | 1,737 |
| Additions | 54 | 5,248 | 96 | 144 | 173 | 1,204 | 2,812 | 9,731 |
| Disposals | – | (67) | – | – | – | – | – | (67) |
| Reclassification | – | 1,423 | – | – | – | – | (1,423) | – |
| At 31 December 2010 | 1,094 | 21,961 | 3,733 | 3,636 | 1,486 | 7,631 | 1,502 | 41,043 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2010 | 47 | 3,273 | 1,967 | 2,441 | 778 | 2,306 | – | 10,812 |
| Exchange differences | 3 | 171 | 148 | 290 | 31 | 146 | – | 789 |
| Charge for the year | 53 | 1,633 | 421 | 535 | 219 | 1,043 | – | 3,904 |
| Disposals | – | (19) | – | – | – | – | – | (19) |
| At 31 December 2010 | 103 | 5,058 | 2,536 | 3,266 | 1,028 | 3,495 | – | 15,486 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2010 | 991 | 16,903 | 1,197 | 370 | 458 | 4,136 | 1,502 | 25,557 |

At 31 December 2010, the carrying amounts of the Group's assets held under finance leases amounted to approximately HK$5,481,000.

## 15. PREPAID LAND LEASE PAYMENTS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| At 1 January | **798** | 781 |
| Additions | **–** | – |
| Exchange differences | **37** | 29 |
| Charge to profit or loss | **(12)** | (12) |
| At the end of the year | **823** | 798 |
| Amount to be amortised | | |
| – Not later than one year | **12** | 12 |
| – Later than one year but not later than five years | **52** | 49 |
| – Later than five years | **759** | 737 |
| | **823** | 798 |

The Group's leasehold lands are located in Mainland China and are held under a lease term from 12 June 2006 to 11 June 2076.

## 16. GOODWILL

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Cost and carrying amount | **34,396** | 32,874 |

The carrying amount of goodwill has been allocated to cash generating units ("CGUs") as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| CW Advanced Technologies Pte. Ltd. | **158** | 157 |
| Tianjin FeiSiTe Machinery Co., Ltd. | **34,238** | 32,717 |
| | **34,396** | 32,874 |

The recoverable amounts of the above CGUs were determined based on value-in-use calculations which use cash flow projections based on financial budgets approved by the management for the next financial year, and discount rates ranging from 18.7% to 19.4% per annum for those financial years reported. Cash flows beyond the budget period were extrapolated using an estimated constant growth rate of 3% per annum. This growth rate did not exceed the average long-term growth rate for the relevant markets.

Management estimated discount rates using post-tax rates that reflected current market assessments of the time value of money and the risks specific to the CGUs. The growth rates were based on industry growth forecasts. Changes in selling prices and direct costs were based on past practices and expectations of future changes in the relevant markets.

## 17. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

| Name of entity | Legal form and place of incorporation/ establishment/ operations | Percentage of ownership interest and voting power held 2011 % | 2010 % | Principal activities |
|---|---|---|---|---|
| KIWA-CW Machine Manufacturing Pte. Ltd. | Limited private company Singapore | **50** | 50 | Investment holding |
| 紀和機械制造(上海)有限公司 KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. [1] | Wholly owned foreign enterprise PRC | **50** | 50 | Manufacturing and trading of CNC machining centres |

[1] The English translation of the company name is for reference only. The official name of the company is in Chinese.

The summarised financial information in respect of the Group's interests in the jointly-controlled entities which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

| | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|
| Current assets | **25,861** | 23,774 |
| Non-current assets | **4,968** | 4,630 |
| Current liabilities | **21,065** | 20,253 |
| Non-current liabilities | **505** | 825 |
| Income | **51,708** | 34,383 |
| Expense | **49,874** | 31,624 |

## 18. INVENTORIES

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **13,228** | 10,900 |
| Work-in-progress | **3,251** | 4,706 |
| Finished goods | **5,206** | 5,340 |
| At end of the year | **21,685** | 20,946 |
| Movement in allowance accounts: | | |
| At 1 January | **249** | – |
| Allowance recognized during the year | **208** | 234 |
| Translation differences | **(8)** | 15 |
| At end of the year | **449** | 249 |

## 19. TRADE RECEIVABLES

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **462,246** | 205,845 |
| Less: Impairment | **(334)** | (433) |
| | **461,912** | 205,412 |
| Accrued revenue | **104,666** | 27,071 |
| | **566,578** | 232,483 |

The Group's trading terms with its customers are mainly on credit except for certain new customers where payment in advance is required. The average trade credit period ranged from 30 days to 360 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

Accrued revenue represents amounts due from customers with respect to machinery and equipment delivered to customers or where customers have taken over the ownership of the equipment for which billings have not been performed.

## 19. TRADE RECEIVABLES (cont'd)

Included in trade receivables are retention sums as follows:

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Retention sums | **2,481** | 2,230 |

The following is an aged analysis of the Group's trade receivables (net of allowance for doubtful debts and excluding accrued revenue) at the end of each of the years ended 31 December 2011 and 2010, presented based on invoice date:

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| 0 to 90 days | **181,359** | 156,558 |
| 91 to 180 days | **121,024** | 11,490 |
| 181 to 360 days | **122,314** | 35,873 |
| Over 360 days | **37,215** | 1,491 |
| | **461,912** | 205,412 |

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Past due but not impaired | | |
| – Less than 3 months past due | **62,023** | 29,934 |
| – 3 months to 6 months past due | **53,712** | 2,867 |
| – 6 months to 12 months past due | **21,990** | 7,498 |
| – More than 12 months past due | **1,009** | 1,182 |
| | **138,734** | 41,481 |
| Neither past due nor impaired | **323,178** | 163,931 |
| Total trade receivables (net of allowance for doubtful debts and excluding accrued revenue) | **461,912** | 205,412 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## 19. TRADE RECEIVABLES (cont'd)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The Group's trade receivables that are impaired at the end of the years ended 31 December 2011 and 2010 and the movement of the allowance accounts used to record the impairment are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables – nominal amounts | **334** | 433 |
| Less: Allowance for impairment | **(334)** | (433) |
| At 31 December | **–** | – |
| Movement in allowance accounts: | | |
| At 1 January | **433** | 1,180 |
| Exchange differences | **(18)** | 75 |
| Impairment losses recognised on receivables | **61** | 295 |
| Amounts written off during the year | **–** | (1,095) |
| Impairment losses reversed | **(142)** | (22) |
| At 31 December | **334** | 433 |

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Included in trade receivables were the following amounts denominated in currencies other than the functional currencies of the relevant group companies:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Singapore dollar | **–** | 32 |
| Chinese renminbi | **54,199** | – |
| United States dollar | **151,150** | 85,502 |
| EUR | **199,164** | 27,146 |
| Japanese yen | **9,969** | 5,404 |
| Swiss franc | **14,379** | 18,688 |

## 20. OTHER RECEIVABLES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Other receivables | **40,117** | 21,931 |
| Deposits | **928** | 1,145 |
| Prepayments for expenses | **22,453** | 15,471 |
| Prepayments to suppliers | **84,243** | 98,381 |
| Staff advances | **–** | 73 |
| Advances to non-controlling interests of subsidiaries | **–** | 5,066 |
| | **147,741** | 142,067 |
| Less: Impairment | **–** | (145) |
| | **147,741** | 141,922 |

The amounts due from related parties were unsecured, interest-free and repayable on demand.

Included in other receivables were the following amounts denominated in currencies other than the functional currencies of the relevant group companies:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Singapore dollar | **–** | 987 |
| United States dollar | **2,784** | 1,095 |
| EUR | **–** | 609 |
| Japanese yen | **4,537** | 2,043 |
| Chinese renminbi | **758** | – |

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Other receivables – nominal amounts | **–** | 145 |
| Less: Allowance for impairment | **–** | (145) |
| | **–** | – |
| Movement in allowance accounts: | | |
| At 1 January | **145** | 144 |
| Exchange differences | **(5)** | 5 |
| Amounts written off during the year | **(140)** | – |
| Impairment losses reversed | **–** | (4) |
| At 31 December | **–** | 145 |

## 20. OTHER RECEIVABLES (cont'd)

The individually impaired other receivables relate to other debtors that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

## 21. PLEDGED DEPOSITS AND CASH AND BANK BALANCES

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash on hand | **126** | 145 |
| Bank balances | **32,349** | 104,333 |
| Non-pledged fixed deposits | **6,325** | 10,935 |
| Cash and bank balances | **38,800** | 115,413 |
| Pledged deposits | **–** | 5,342 |

Pledged deposits represent deposits pledged to banks to secure general banking facilities, bank overdrafts and short-term bank loans granted to the Group, and bank guarantees provided to customers (Note 22). The pledged deposits will be released upon the settlement of relevant bank borrowings and the expiry of relevant bank guarantees.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in bank deposits and cash and bank balances were the following amounts denominated in currencies other than the functional currencies of the relevant group companies:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| United States dollar | **132** | 3,244 |
| EUR | **3,284** | 2,092 |
| Japanese yen | **198** | 382 |

## 22. BANK LOANS AND OVERDRAFTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Bank overdrafts repayable on demand | 1 | 1,368 |
| Bank loans | 8,112 | 22,323 |
| | 8,113 | 23,691 |
| Carrying amount repayable: | | |
| On demand or within one year | 6,499 | 20,396 |
| Two years to five years, inclusive | 1,614 | 3,295 |
| | 8,113 | 23,691 |

The bank overdrafts bore interest at the prime lending rate of the bank during the years ended 31 December 2011 and 2010. The Group's banking facilities were secured by personal guarantees from a director of the Company, namely, Mr. Wong Koon Lup and a shareholder of the Company, namely Mr. Tay Choon Siong.

The bank loans bore interest at rates ranging from 5.0% to 13.5% and 5.0% to 10.53% per annum at 31 December 2011 and 2010 respectively. These bank loans were secured by corporate guarantees given by a subsidiary of the Company, namely, CW Group Pte. Ltd., and pledged deposits with carrying amounts of HK$ nil and HK$5,342,000 at 31 December 2011 and 2010 respectively. In addition to the above, a bank loan of KIWA-CW (Shanghai) Machine Manufacturing Co., Ltd was further secured by the corporate guarantee given by KIWA Machinery Co., Ltd. and a bank loan of CW Advanced Technologies Pte. Ltd. with a carrying amount of HK$3,152,000 and HK$4,762,000 as at 31 December 2011 and 31 December 2010 respectively was further secured by personal guarantees of the directors of the Company, namely, Mr. Wong Koon Lup and Mr. Wong Mun Sum.

Included in bank loans and overdrafts were the following amounts denominated in currency other than the functional currencies of the relevant group companies:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| United States dollar | 1,341 | 1,797 |

## 23. TRADE PAYABLES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Trade payables | **321,476** | 90,083 |
| Bills payables | **56,740** | 70,689 |
| | **378,216** | 160,772 |

The following is an aged analysis of the Group's trade payables (excluding bills payable) at the end of the years ended 31 December 2011 and 2010, presented based on invoice date:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| 0 to 90 days | **236,817** | 73,837 |
| 91 to 180 days | **58,156** | 5,206 |
| 181 to 360 days | **16,031** | 8,088 |
| Over 360 days | **10,472** | 2,952 |
| | **321,476** | 90,083 |

Bills payables were payable to the bank within 180 days for the years ended 31 December 2011 and 2010.

Included in trade payables were the following amounts denominated in currencies other than the functional currency of the relevant group companies:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Singapore dollar | **4,081** | – |
| United States dollar | **74,294** | 38,248 |
| EUR | **187,887** | 33,411 |
| Japanese yen | **21,069** | 34,557 |
| Malaysia ringgit | **50** | – |

## 24. OTHER PAYABLES AND ACCRUALS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Other payables | **30,379** | 44,183 |
| Deposits received | **59,086** | 50,417 |
| Accrued expenses | **12,468** | 8,337 |
| Dividend payable | **1,809** | 1,820 |
| Consideration payable for acquisition of subsidiaries *(Note 32)* | **–** | 36,276 |
| | **103,742** | 141,033 |

The amounts due to related parties were unsecured, interest-free and repayable on demand.

Included in other payables were the following amounts denominated in currencies other than the functional currencies of the relevant group companies:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| United States dollar | **6,833** | 14 |
| EUR | **22,415** | 96 |
| Japanese yen | **896** | 3,469 |
| Singapore dollar | **6,379** | 36,285 |
| Malaysian ringgit | **2,069** | – |
| Hong Kong dollar | **–** | 147 |
| Chinese Renminbi | **6,568** | 286 |

## 25. FINANCE LEASE PAYABLE

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| Amounts payable: | | | | |
| Within one year | **581** | 1,611 | **561** | 1,461 |
| In the second to fifth years, inclusive | **714** | 1,228 | **621** | 1,125 |
| Total minimum finance lease payments | **1,295** | 2,839 | **1,182** | 2,586 |
| Less: Future finance charges | **(113)** | (253) | | |
| Total net finance lease payable | **1,182** | 2,586 | | |
| Portion classified as current liabilities | | | **(561)** | (1,461) |
| Non-current portion | | | **621** | 1,125 |

## 25. FINANCE LEASE PAYABLE (cont'd)

The Group leased certain of its plant and equipment under finance leases. The average lease term is 5 years. Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 3.50% to 8.04% and 6.16% to 8.72% per annum for the years ended 31 December 2011 and 2010 respectively. All leases were on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations were denominated in the functional currencies of the respective entities.

The Group's obligations under finance leases were secured by the charge over the leased assets.

## 26. DEFERRED TAX

The following are the deferred tax assets recognised and movements thereon during the years ended 31 December 2011 and 2010:

| | Revenue deferred<br>*HK$'000* | Provisions<br>*HK$'000* | Unutilised tax losses<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| At 1 January 2010 | 146 | 45 | 124 | 315 |
| Exchange differences | 2 | 2 | 1 | 5 |
| Charge to profit or loss during the year *(Note 9)* | (115) | – | (125) | (240) |
| At 31 December 2010 and 1 January 2011 | 33 | 47 | – | 80 |
| Exchange differences | 1 | 3 | – | 4 |
| (Charge)/credit to profit or loss during the year *(Note 9)* | 12 | – | – | 12 |
| At 31 December 2011 | **46** | **50** | **–** | **96** |

**Unrecognised tax losses**

At the end of the years ended 31 December 2011 and 2010, the Group has tax losses of approximately HK$7,013,000 and HK$5,718,000 respectively, that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognized due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

## 26. DEFERRED TAX (cont'd)

The following are the deferred tax liabilities recognised and movements thereon during the years ended 31 December 2011 and 2010:

| | Accelerated tax depreciation HK$'000 | Provisions HK$'000 | Undistributed profits of PRC subsidiaries HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2010 | (47) | 33 | (8,450) | (8,464) |
| Exchange differences | 1 | 1 | (510) | (508) |
| (Charge)/credit to profit or loss during the year *(Note 9)* | 191 | – | (6,434) | (6,243) |
| At 31 December 2010 and 1 January 2011 | 145 | 34 | (15,394) | (15,215) |
| Exchange differences | 4 | (26) | (706) | (728) |
| (Charge)/credit to profit or loss during the year *(Note 9)* | – | – | (4,641) | (4,641) |
| At 31 December 2011 | **149** | **8** | **(20,741)** | **(20,584)** |

Pursuant to the PRC Corporate Income Tax Law, withholding tax is levied on dividends declared to foreign investor in respect of profits earned by the PRC subsidiary effective from 1 January 2008. Deferred taxation has been provided for in the combined statement of financial position in respect of temporary differences attributable to the profits earned by Tianjin FeiSiTe Machinery Co., Ltd. and CW International (Shanghai) Co., Ltd. for the years ended 31 December 2011 and 2010.

## 27. REDEEMABLE CONVERTIBLE LOAN AND DERIVATIVE LIABILITIES

Redeemable convertible loan and derivative liabilities comprise:

| | *Notes* | **2011** ***HK$'000*** | 2010 *HK$'000* |
|---|---|---|---|
| Redeemable convertible loan | | **54,479** | 37,544 |
| Derivative liabilities | | | |
| – Pre-IPO investment | *(i)* | **9,400** | 9,354 |
| – Redeemable convertible loan | *(ii)* | **34,034** | 33,660 |
| | | **43,434** | 43,014 |

## 27. REDEEMABLE CONVERTIBLE LOAN AND DERIVATIVE LIABILITIES (cont'd)

### (i) Pre-IPO investment

The derivative relates to an anti-dilution clause stipulated in the sale and purchase agreement entered into between SG Tech Holdings Limited and Septwolves Group (Asia) Investments Limited ("Septwolves") dated 9 April 2010 and supplemented by a supplemental agreement on 31 May 2010. The anti-dilution clause stipulates that Septwolves shareholdings would maintain at 6% of the enlarged share capital prior to the successful listing of the Group on an approved Stock Exchange through issuance and allotment of new shares to Septwolves in the event of new shares being issued so as to maintain Septwolves shareholdings at 6% of the enlarged share capital. Accordingly, pursuant to the anti-dilution clause, SG Tech Holdings Limited allotted and issued 141,944 shares to Septwolves after the allotment of 800,000 shares of SG Tech Holdings Limited to Mr. Fu Junwu on 14 December 2010 and the conversion of 923,796 shares of SG Tech Holding Limited pursuant to the terms of the redeemable convertible loan agreement (see details below).

### (ii) Redeemable convertible loan

Pursuant to a redeemable convertible loan agreement entered into, amongst others, SG Tech Holdings Limited and a number of investors (the "Investors") dated 21 April 2010 (as supplemented by a supplemental and novation agreement dated 31 May 2010), SG Tech Holdings Limited was granted by the Investors a redeemable convertible loan of S$9,000,000 (equivalent to HK$50,027,000).

The redeemable convertible loan may be converted into fully-paid shares of SG Tech Holdings Limited on or before 31 December 2011 subject to grant of approval in-principle of the listing of the Company's shares on the Stock Exchange. If the redeemable convertible loan has not been converted, it will be redeemed on 31 December 2011 at the principal amount but the Investors have rights to extend the maturity date of the redeemable convertible loans to 30 September 2012.

The redeemable convertible loan may be converted into fully-paid shares of SG Tech Holdings Limited on or before 30 September 2011 subject to grant of approval in-principle of the listing of the Company's shares on the Stock Exchange. The redemption date has been extended to 30 September 2011 based on the supplemental agreement dated 30 September 2010 and further extended to 31 December 2011 by a letter dated 16 August 2011. If the redeemable convertible loan has not been converted, it will be redeemed on 31 December 2011 at the principal amount but the Investors have rights to extend the maturity date of the redeemable convertible loans to 30 September 2012. Salient changes to the terms of the redeemable convertible loan as amended in the supplemental deed dated 30 September 2010 include an additional interest of 5% and a fixed aggregate sum of S$2,977,396. This substantial modification of the term of the redeemable convertible loan has been accounted for as an extinguishment of the original loan and the recognition of a new loan and a gain on derecognition of redeemable convertible loan of approximately HK$13,523,000 has been recognised in the income statement for the financial year ended 31 December 2010.

Interest of 25% per annum will be charged if the redeemable convertible loan is not converted or redeemed on or before 31 December 2011 and the interest will be charged at 30% per annum if the maturity date of the redeemable convertible loan is further extended by the Investors on or after 31 December 2012.

As at 31 December 2011, the Investors agreed to extend the redemption date of the redeemable convertible loans to 31 March 2012.

## 27. REDEEMABLE CONVERTIBLE LOAN AND DERIVATIVE LIABILITIES (cont'd)

### (ii) Redeemable convertible loan (cont'd)

The redeemable convertible loan contains two components, embedded derivatives and liability component. Embedded derivatives comprise 3 components: conversion option, redemption option and liquidity event option. These options are presented in liabilities under the heading "Derivative liabilities". The effective interest rates of the liability component on initial recognition ranged from 140% to 161% per annum.

The movement of the liability component and various options of the redeemable convertible loan for the year ended 31 December 2011 is set out below:

| | **Liability component** *HK$'000* | **Derivative liabilities** *HK$'000* |
|---|---|---|
| Proceeds of issue | 30,700 | – |
| Conversion/Redemption | – | 18,936 |
| Balances on initial recognition | 30,700 | 18,936 |
| Interest charged to profit or loss | 18,425 | – |
| Less: Gain on derecognition of redeemable convertible loan | (13,523) | – |
| Change in fair value charged to profit or loss | – | 13,356 |
| Foreign currency translation | 1,942 | 1,368 |
| At 31 December 2010 and 1 January 2011 | 37,544 | 33,660 |
| Interest charged to profit or loss | 19,824 | – |
| Change in fair value charged to profit or loss | – | 266 |
| Foreign currency translation | (2,889) | 108 |
| At 31 December 2011 | **54,479** | **34,034** |

The liability component is measured at amortised cost. No interest was paid during the year ended 31 December 2011 and 2010. The fair value of redeemable convertible loan and derivative liabilities were valued by an independent professional valuer, Asset Appraisal Limited. Valuations were based on discounted future cash flows taking into considerations certain parameters such as probability of conversion.

The total proceeds from convertible loans were HK$50,027,000, segregated into liability component, derivative liabilities and capital contribution (Note 29) of HK$30,700,000, HK$18,936,000 and HK$391,000, respectively.

On 5 March 2012, SG Tech Holdings Limited received a notice of conversion from the Investors. According to the terms of the redeemable convertible loan agreement, the principal amount of the redeemable convertible loan was fully converted into 923,796 shares in SG Tech Holdings Limited and such shares were allotted and issued to the Investors in proportion to their respective contributions to the redeemable convertible loan.

## 28. ISSUED CAPITAL

For the purpose of the preparation of the combined statements of financial position, the balance of the issued capital at the years ended 31 December 2011 and 2010 represented the issued share capital of its subsidiary, SG Tech Holdings Limited.

Pursuant to a shares sale and purchase agreement entered into between SG Tech Holdings Limited and Septwolves Group (Asia) Investments Limited ("Septwolves") dated 9 April 2010 (as supplemented by a supplemental deed dated 31 May 2010), SG Tech Holdings Limited allotted and issued to Septwolves 137,906 new shares for cash consideration of HK$16,500,000 on 13 July 2010.

On 13 July 2010, SG Tech Holdings Limited issued 500,000 new shares to WMS Holding Pte Ltd. (a controlling shareholder of SG Tech Holdings Limited) to extinguish a shareholder's loan with a carrying amount of S$500,000 owing to WMS Holding Pte Ltd. by SG Tech Holdings Limited. WMS Holding Pte Ltd. is owned by Mr. Wong Koon Lup and Mr. Wong Mun Sum (both executive directors of the Company) as to 80% and 20%, respectively.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 11 June 2010 with an initial authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each.

**Reorganisation of the Company**

Pursuant to a sale and purchase agreement dated 9 March 2012, the Company allotted and issued, on 13 March 2012, shares credited as fully paid to the shareholders of SG Tech Holdings Limited in the same proportion as their respective shareholdings in SG Tech Holdings Limited, in consideration of the shareholders of SG Tech Holdings Limited transferring all the issued shares of SG Tech Holdings Limited to SG (BVI) Limited. Accordingly, the Company allotted and issued 1,070,524 shares, 225,000 shares, 278,000 shares, 231,000 shares, 72,000 shares, 279,850 shares, 1,493,999 shares, 90,000 shares, 513,220 shares, 153,966 shares, 102,644 shares, 35,925 shares, 25,661 shares, 25,661 shares, and 66,719 shares to Mr. Fu Junwu, Mr. Wong Mun Sum, Mr. Tay Choon Siong, Mr. Wong Koon Lup, Charter Field Enterprises Limited, Septwolves, WMS Holding, World Leap Corporation, Phillip Ventures Enterprise Fund 2 Ltd., 3VS1 Asia Growth Fund Ltd., Skylight Enterprises Group Ltd, Julian Lionel Sandt, Long Chee Tim, Daniel, Terrance Tan Kong Hwa and Polygon Capital Limited, respectively.

On 14 March 2012, the shareholders of the Company resolved to increase the authorised share capital of the Company from HK$390,000 to HK$100,000,000 by the creation of additional of 9,961,000,000 shares, each ranking pari passu with the shares then in issue in all respects. In addition, the shareholders also made a resolution to capitalise an amount of HK$4,617,528.3 standing to the credit of the share premium account of the Company and to appropriate such amount as to capital to pay up in full at par 461,752,830 shares for allotment and to issue to the person(s) whose name(s) will appear on the register of members of the Company at 8:00 am (Hong Kong time) on 29 March 2012 in proportion to its/their then existing shareholding(s) in the Company, each ranking pari passu in all respects with the then existing issued shares.

Upon completion of the reorganisation, the Company becomes the holding company of the Group.

## 28. ISSUED CAPITAL (cont'd)

The Company issued the prospectus and the supplemental prospectus on 20 March 2012 and 5 April 2012, respectively, pursuant to which the Company and certain shareholders offered 150,000,000 shares and 12,500,000 shares, respectively to the public for subscription by way of initial public offering. Consequently, the subscription price was determined at HK$1.33 per share and the Company received net proceeds of approximately HK$163.8 million. The Company's shares were subsequently listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited on 13 April 2012.

Upon initial public offering, the share capital of the Company is as follow:–

| | *HK$* |
|---|---|
| Authorised share capital | |
| 10,000,000,000 shares of HK$0.01 per share | 100,000,000 |
| Issued and fully paid share capital | |
| 616,417,000 shares of HK$0.01 per share | 6,164,170 |

## 29. OTHER RESERVES

| | *Notes* | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|---|
| Statutory reserve | *(a)* | **7,497** | 1,434 |
| Foreign currency reserve | *(b)* | **15,379** | 8,640 |
| Capital contribution | *(c)* | **391** | 391 |
| Fair value of derivative | *(d)* | **(2,000)** | (2,000) |
| Premium paid for acquisition of non-controlling interest | | **(90,012)** | (90,012) |
| | | **(68,745)** | (81,547) |

**(a) Statutory reserve**

In accordance with the Foreign Enterprise Law applicable to the subsidiaries of the Group in the People's Republic of China ("PRC"), the subsidiaries are required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the respective subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

**(b) Foreign currency translation reserve**

The foreign currency translation reserve represents exchange differences arising from translation of the financial statements of foreign operations, whose functional currencies are different from the Group's presentation currency.

## 29. OTHER RESERVES (cont'd)

### (c) Capital contribution

Capital contribution relates to the fair value of the put option granted by the existing major shareholders to subscribers of the redeemable convertible loan (as described in Note 27) to acquire the converted shares as and when desired by the subscribers to the redeemable convertible loan.

### (d) Fair value of derivative

Fair value of derivatives relates to fair value of anti-dilution clause at inception as described in Note 27(i). Subsequent fair value changes have been taken to the profit or loss.

## 30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the years ended 31 December 2011 and 2010.

The capital structure of the Group consists of net debt (which includes amounts due to related companies, and bank and other borrowings), cash and cash equivalents and equity attributable to owners of the Company (comprising issued share capital and reserves).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of the capital. The Group seeks to balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

## 31. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | **556,578** | 232,483 |
| Other receivables (current and non-current) | **41,045** | 28,070 |
| Pledged deposits | **–** | 5,342 |
| Cash and cash equivalents | **38,800** | 115,413 |
| | **636,423** | 381,308 |
| **Financial liabilities** | | |
| Bank loans and overdrafts (current and non-current) | **8,113** | 23,691 |
| Trade payables | **378,216** | 160,772 |
| Other payables and accruals | **44,656** | 90,616 |
| Derivative liabilities | **54,479** | 43,014 |
| Redeemable convertible loan | **43,434** | 37,544 |
| Finance lease payable (current and non-current) | **1,182** | 2,586 |
| | **530,080** | 358,223 |

## 31. FINANCIAL INSTRUMENTS (cont'd)

### (b) Financial risk management objectives and policies

The Group has various financial assets and liabilities such as trade and other receivables and trade and other payables which arise directly from its operations. The Group does not hold or issue derivative financial instruments for speculative purposes. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

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

The Group's transacts business in various foreign currencies, including the United States dollar, EUR, Chinese Renminbi, British pound and Japanese yen and therefore is exposed to foreign exchange risk.

The Group manages its foreign exchange exposure as far as possible by matching the currency that it transact with its customers to the currency that it purchased in to create a natural hedge.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. No hedge has been taken up to mitigate this exposure as it does not impact cash flows.

At the reporting date, the carrying amounts of significant monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Liabilities** | | |
| United States dollar | **187,380** | 40,059 |
| EUR | **214,030** | 33,507 |
| Japanese yen | **24,942** | 38,026 |
| Singapore dollar | **10,283** | 36,285 |
| Malaysia ringgit | **1,415** | – |
| Chinese Renminbi | **6,568** | 286 |
| Hong Kong dollar | **3** | 147 |
| **Assets** | | |
| United States dollar | **156,516** | 89,841 |
| EUR | **276,726** | 29,847 |
| Japanese yen | **25,859** | 7,829 |
| Singapore dollar | **37** | 1,019 |
| Malaysia ringgit | **1,201** | – |
| Swiss franc | **–** | 18,688 |

## 31. FINANCIAL INSTRUMENTS (cont'd)

### (b) Financial risk management objectives and policies (cont'd)

#### *(i) Foreign exchange risk management (cont'd)*

*Foreign currency sensitivity*

The following table details the sensitivity to a 10% increase in the relevant foreign currencies against the functional currency of each entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible maximum change in foreign exchange rates of major trading currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates.

If the relevant foreign currency strengthens by 10% against the functional currency of each entity, with all other variables held constant, profit before tax will increase/(decrease) by:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| **Impact of:** | | |
| United States dollar | **(3,086)** | 4,978 |
| EUR | **6,270** | (366) |
| Japanese yen | **92** | (3,020) |
| Singapore dollar | **(1,025)** | (3,527) |
| Swiss franc | **–** | 1,869 |
| Malaysia ringgit | **(21)** | – |
| Chinese Renminbi | **(657)** | (29) |
| Hong Kong dollar | **(1)** | (15) |

If the relevant foreign currency weakens by 10% against the functional currency of the each entity, the effects on profit or loss will be vice versa.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the years ended 31 December 2011 and 2010.

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

Interest rate risk arises from potential changes in interest rates that may have an adverse effect on the Group's results in the years ended 31 December 2011 and 2010 and in future years.

The sensitivity analysis below have been determined based on the exposures to interest rates for significant non-derivatives instruments at the end of each reporting period and the stipulated change taking place at the beginning of each reporting period and held constant throughout the period in the case of instruments that have floating rates.

At 31 December 2011 and 2010, it is estimated that a 50 basis point increase in interest rates would decrease the Group's profit before tax by approximately HK$26,000 and HK$89,000 respectively.

## 31. FINANCIAL INSTRUMENTS (cont'd)

### (b) Financial risk management objectives and policies (cont'd)

#### *(iii) Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure of its counterparties is consistently monitored. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the management on ongoing basis.

The maximum exposure to credit risk in the event that counterparties fail to perform their obligations as at the end of each reporting period in relation to trade receivables is the carrying amount of trade receivables as stated in the combined statements of financial position at the end of each reporting period.

The Group manages credit risk by trading only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

#### *(iv) Liquidity risk management*

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. In the management of the liquidity risks, the Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient level of cash to meet its working capital requirement. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

#### *(v) Non-derivative financial liabilities*

The following tables detail the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | On demand or within 1 year *HK$'000* | Within 2 to 5 years *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **31 December 2011** | | | |
| Bank loans and overdrafts | **6,949** | **1,667** | **8,616** |
| Trade payables | **378,216** | **–** | **378,216** |
| Other payables and accruals | **44,656** | **–** | **44,656** |
| Redeemable convertible loan | **54,479** | **–** | **54,479** |
| Finance lease payable | **581** | **635** | **1,216** |

## 31. FINANCIAL INSTRUMENTS (cont'd)

### (b) Financial risk management objectives and policies (cont'd)

#### *(v) Non-derivative financial liabilities (cont'd)*

| | On demand or within 1 year *HK$'000* | Within 2 to 5 years *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **31 December 2010** | | | |
| Bank loans and overdrafts | 21,563 | 3,478 | 25,041 |
| Trade payables | 160,772 | – | 160,772 |
| Other payables and accruals | 90,616 | – | 90,616 |
| Finance lease payable | 1,611 | 1,228 | 2,839 |
| Redeemable convertible loan | 37,544 | – | 37,544 |

### (c) Fair value and fair value hierarchy

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Cash and bank balances, pledged deposits, trade receivables, trade payables, financial assets included in other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties and jointly-controlled entities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of bank loans and finance lease payables are reasonable approximation of fair values either due to the relatively short term nature or that they are floating rate instruments that are re-priced to market interest rates on or near balance sheet date.

***Fair value hierarchy***

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## 31. FINANCIAL INSTRUMENTS (cont'd)

### (c) Fair value and fair value hierarchy (cont'd)

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Level 3** | | |
| Derivative liabilities | **43,434** | 43,014 |
| | **43,434** | 43,014 |

**Reconciliation of Level 3 fair value measurements of financial liabilities**

| | Unlisted options HK$'000 |
|---|---|
| Pre-IPO investment and redeemable convertible loan | |
| Fair value at the inception date | 20,936 |
| Total gain or losses in profit or loss | 19,185 |
| Foreign currency translation recognized in other comprehensive income | 2,893 |
| At 31 December 2010 | 43,014 |
| At 1 January 2011 | **43,014** |
| Total gains or losses in profit or loss | **312** |
| Foreign currency translation recognized in other comprehensive income | **108** |
| At 31 December 2011 | **43,434** |

## 32. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

On 30 November 2010, the Group acquired the balance 49% equity interest in Fu Yang International Co., Ltd. for a consideration of approximately S$15,481,000 (equivalent to HK$92,906,000) to be satisfied by part cash of S$6,000,000 and the issue of 800,000 new shares in a subsidiary of the Company, namely SG Tech Holdings Limited. Fu Yang International Co., Ltd. and its wholly owned subsidiary, namely Tianjin FeiSiTe Machinery Co., Ltd. (collectively, referred to as "Fu Yang International subgroup"). The carrying value of the net assets of Fu Yang International subgroup on 30 November 2010 was HK$5,906,000 and the carrying value of the additional interest acquired was HK$2,894,000. The difference of HK$90,012,000 between the consideration and the carrying value of the additional interest acquired has been recognized as "Premium paid on acquisition of non-controlling interests" within equity. The following summarises the effect of the change in the Group's ownership interest in Fu Yang International subgroup on the equity attributable to owners of the parent:

## 32. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES (cont'd)

**Consideration paid for acquisition of non-controlling interests:**

| | *HK$'000* |
|---|---|
| – Cash | 35,336 |
| – Issuance of shares | 57,570 |
| | 92,906 |
| Decrease in equity attributable to non-controlling interests | (2,894) |
| Premium paid on acquisition of non-controlling interests | 90,012 |
| Add: Issuance of shares | (57,570) |
| Decrease in equity attributable to owners of the parent | 32,442 |

## 33. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2011 and 2010, the Group entered into the following non-cash investing and financing activities which are not reflected in the combined statements of cash flows:

(i) During the year ended 31 December 2010, dividend payable to non-controlling interest of HK$23,616,000 (equivalent to RMB20,000,000) and HK$49,954,000 (equivalent to RMB41,488,000), respectively were set off against amounts due from the non-controlling interest.

(ii) During the year ended 31 December 2010, 800,000 new shares in a subsidiary of the Company, SG Tech Holdings Limited, were issued to satisfy the consideration for acquisition of 49% equity interest in Fu Yang International Co., Ltd.

## 34. OPERATING LEASES

### (a) Operating leases – as lessee

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Minimum lease payments paid under operating leases | | |
| Premises | **2,847** | 2,102 |
| Office equipment | **84** | 108 |
| | **2,931** | 2,210 |

## 34. OPERATING LEASES (cont'd)

### (a) Operating leases – as lessee (cont'd)

At 31 December 2011 and 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and office equipment which fall due as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **2,946** | 2,208 |
| In the second to fifth years, inclusive | **2,817** | 3,592 |
| | **5,763** | 5,800 |

## 35. CONTINGENT LIABILITIES

The Group leases certain of its properties for office and production purposes. These leases maybe considered as invalid leases under the laws of the jurisdiction in which the Group operates in. The Group also did not register its leases with the relevant authorities as required under the laws and regulations of the same jurisdiction in which the Group operates in.

As a result, the Group may be required to relocate its office and production facilities in the event there is a dispute with the landlord. The Group may incur relocation costs of not more than HK$2.3 million for which the management believe the livelihood of dispute and relocation is remote.

## 36. RELATED PARTY DISCLOSURES

### (a) Transactions with related parties

During the years ended 31 December 2011 and 2010, the Group entered into the following significant transactions with related parties:

| | **2011** | 2010 |
|---|---|---|
| **Relationship/Name of related party/Nature of transaction** | ***HK$'000*** | *HK$'000* |
| ***Company controlled by Mr. Fu Junwu*** | | |
| 天津市興彩科工貿有限公司 | | |
| Rental expenses | **135** | 105 |
| ***Jointly-controlled entities*** | | |
| KIWA-CW (Shanghai) Manufacturing Co., Ltd. | | |
| Sales of goods | **1,520** | 1,130 |
| Purchases of goods | **1,841** | 1,841 |

## 36. RELATED PARTY DISCLOSURES (cont'd)

### (a) Transactions with related parties (cont'd)

***A shareholder of the jointly-controlled entities***

| Relationship/Name of related party/Nature of transaction | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| KIWA Machinery Co., Ltd. | | |
| Sales of goods | **2,816** | 1,217 |
| Purchases of goods | **1,977** | 327 |
| Royalty expenses | **260** | 165 |

The directors considered that the above transactions were conducted on normal commercial terms and in the ordinary course of the Group's business.

During the years ended 31 December 2011 and 2010, certain general banking facilities and bank borrowings were secured by personal guarantees from the directors of the Company, namely, Mr. Wong Koon Lup, Mr. Wong Mun Sum and a shareholder of the Company, namely, Mr. Tay Choon Siong. The directors of the Company confirmed that these personal guarantees would be replaced by the Company's guarantees upon the listing of the Company's shares on the Stock Exchange.

### (b) Outstanding balances with related parties

An analysis of the balances with related parties is as follows:

***Due from related parties (Trade receivables)***

| Name of related party | *Notes* | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. | *(i)* | – | 97 |
| KIWA Machinery Co., Ltd. | *(ii)* | **501** | 152 |
| | | **501** | 249 |

*Notes*

(i) Jointly-controlled entity.

(ii) A shareholder of the jointly-controlled entities.

## 36. RELATED PARTY DISCLOSURES (cont'd)

### (b) Outstanding balances with related parties (cont'd)

***Due from related parties (Other receivables)***

| Name of related party | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| 天津市興彩科工貿有限公司 | *(i)* | **40** | – |
| Mr. Fu Junwu | *(ii)* | **–** | 223 |
| KIWA-CW Machine Manufacturing Pte. Ltd. | *(iii)* | **1,728** | 1,750 |
| KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. | *(iii)* | **485** | 682 |
| KIWA Machinery Co., Ltd. | *(iv)* | **47** | 59 |
| Septwolves Group (Asia) Investments Limited | *(v)* | **–** | 4,843 |
| | | **2,260** | 7,557 |

*Notes*

(i) A substantial shareholder of the Company, Mr. Fu Junwu, had beneficial interests in this company during the years ended 31 December 2011 and 2010.

(ii) A substantial shareholder of the Company.

(iii) Jointly-controlled entity.

(iv) A shareholder of the jointly-controlled entities.

(v) Pre-IPO investors.

The amounts due from related parties were unsecured, interest-free and repayable on demand.

***Due to related parties (Trade payables)***

| Name of related party | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| KIWA-CW Machine Manufacturing Pte. Ltd. | *(i)* | **–** | 568 |
| KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. | *(i)* | **2,550** | 363 |
| | | **2,550** | 931 |

*Note*

(i) Jointly-controlled entity.

## 36. RELATED PARTY DISCLOSURES (cont'd)

### (b) Outstanding balances with related parties (cont'd)

***Due to related parties (Other payables)***

| Name of related party | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| WMS Holdings | (i) | – | 2,975 |
| 天津市興彩科工貿有限公司 | (ii) | 12 | 11 |
| Mr. Wong Koon Lup, a director of the Company | | 6,108 | 1 |
| Mr. Wong Mun Sum, a director of the Company | | 24 | 25 |
| Mr. Chan Cheow Hai, a director of the Company | | 431 | – |
| Mr. Fu Junwu | (iii) | 4,920 | 58,440 |
| KIWA-CW Machine Manufacturing Pte. Ltd. | (iv) | 66 | 33 |
| KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. | (iv) | 1,911 | 2,993 |
| KIWA Machinery Co., Ltd. | (v) | 1,521 | 418 |
| | | 14,993 | 64,896 |

*Notes*

(i) Directors, Mr. Wong Koon Lup and Mr. Wong Mun Sum had beneficial interest in this Company. WMS Holdings Pte. Ltd. is also one of the Company's controlling shareholdings.

(ii) A substantial shareholder of the Company, Mr. Fu Junwu, had beneficial interests in this company during the years ended 31 December 2011 and 2010.

(iii) A substantial shareholder of the Company.

(iv) Jointly-controlled entity.

(v) A shareholder of the jointly-controlled entities.

The amounts due to related parties were unsecured, interest-free and repayable on demand.

### (c) Compensation of key management personnel

The remuneration of the Company's directors, who are also identified as members of key management of the Group, are set out in Note 10.

## 37. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

(a) Save as disclosed elsewhere in the financial statements, on 20 February 2012, Fu Yang International Co., Ltd. entered into an equity transfer agreement with Honor Well, a company incorporated in Hong Kong with limited liability, which is wholly-owned by the Group, to transfer the entire equity interest in Tianjin FeiSiTe to Honor Well at consideration of US$3,650,500. Tianjin Municipal People's Government issued the Certificate of Approval on 2 March 2012 and Tianjin FeiSiTe has issued the capital contribution certificate to Honor Well.

(b) On 20 February 2012, FNW International Limited and Fu Junwu entered an equity transfer agreement pursuant to which FNW International Limited transferred all the equity interest in Fu Yang International Co., Ltd. to Mr. Fu Junwu at a consideration of US$1.

(c) In February 2012, the Group secured a short-term loan of HK$15 million, which was guaranteed by personal guarantees provided by Woon Koon Lup and Wong Mun Sum, both being the Controlling Shareholders and executive directors of the Company. Such loan has been fully settled prior to listing date on 13 April 2012.

(d) After 20 March 2012, the date of publication of the prospectus of the Company, the Company received a letter (the "Letter") from the solicitors acting for a bank whose shares are listed and traded on the Main Board of the Stock Exchange (the "Bank"). In the Letter, the Bank alleged that the use of the Chinese name "創興集團控股有限公司" by the Company amounted to (i) trade mark infringement and (ii) passing off in relation to the rights of the Bank (the "Allegations").

In order to accommodate the revised timetable of the initial public offering and to eliminate any potential exposure which may arise from the Allegations, the Company has entered into a settlement agreement with the Bank on 30 March 2012 (the "Settlement Agreement").

On 3 April 2012, a written resolution of all the Shareholders of the Company has been passed as a special resolution to change the name of the Company from "CW Group Holdings Limited 創興集團控股有限公司" to "CW Group Holdings Limited". No Chinese name will be adopted by the Company upon the effective change of the name. The Registrar of Companies in the Cayman Islands has issued a Certificate of Incorporation on Adoption of Dual Foreign Name (Removal) dated 5 April 2012. The Company will then carry out the necessary filing procedures in Hong Kong.

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2012.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 October 2011 |
|---|---|---|---|
| Unit 3-3-1202 TEDA Triones City, Southeast of the junction of Kunwei Road and Jingzhonghe Avenue, Hebei District, Tianjin, the People's Republic of China | The property comprises a residual unit on Level 12 of a 32-storey building which was completed in 2009.<br><br>The property has a gross floor area of 186.40 sq m.<br><br>The land use term of the property has been granted for a term from 12 June 2006 to 11 June 2076 for residential use. | As at the date of valuation, the Property was owner-occupied as residential use. | RMB2,530,000 |

## RESULTS

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | **2011** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Revenue | 291,643 | 289,711 | 469,450 | **753,566** |
| Cost of sales | (198,410) | (185,017) | (324,206) | **(574,097)** |
| Gross profit | 93,233 | 104,694 | 145,244 | **179,469** |
| Other income and gains | 3,502 | 4,149 | 2,064 | **1,369** |
| Selling and distribution expenses | (15,652) | (18,365) | (18,814) | **(27,995)** |
| Administrative expenses | (23,559) | (24,122) | (27,401) | **(34,105)** |
| Finance costs | (4,521) | (4,053) | (28,669) | **(25,466)** |
| Other operating expenses | (3,256) | (1,674) | (1,060) | **(745)** |
| **Profit before tax** | 49,747 | 60,629 | 71,364 | **92,527** |
| Income tax expense | (8,142) | (14,179) | (20,744) | **(24,512)** |
| **Profit for the year** | 41,605 | 46,450 | 50,620 | **68,015** |
| **Profit for the year attributable to:** | | | | |
| Owners of the Company | 25,640 | 24,939 | 26,852 | **68,015** |
| Non-controlling interests | 15,965 | 21,511 | 23,768 | **–** |
| | 41,605 | 46,450 | 50,620 | **68,015** |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | **2011** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 330,366 | 404,116 | 575,415 | **843,475** |
| Total liabilities | (191,821) | (218,348) | (432,887) | **(626,193)** |
| Non-controlling interests | (33,152) | (54,642) | – | **–** |
| | 105,393 | 131,126 | 142,528 | **217,282** |