GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2398

ANNUAL REPORT 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

LO Tai On

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
CHIU Rung-Hsien

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

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

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

STOCK CODE

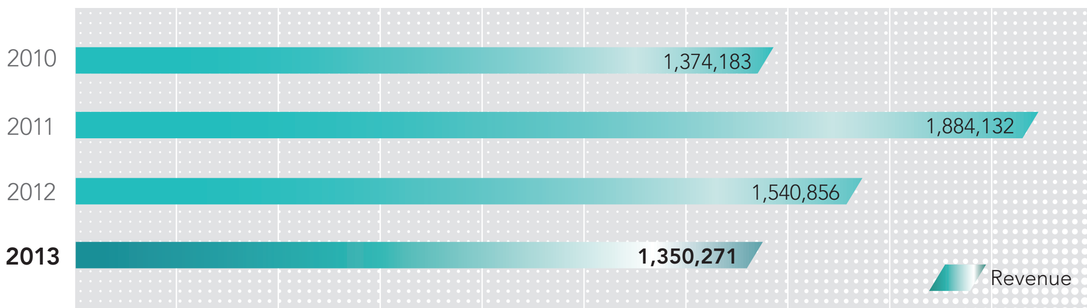
2398

WEBSITE

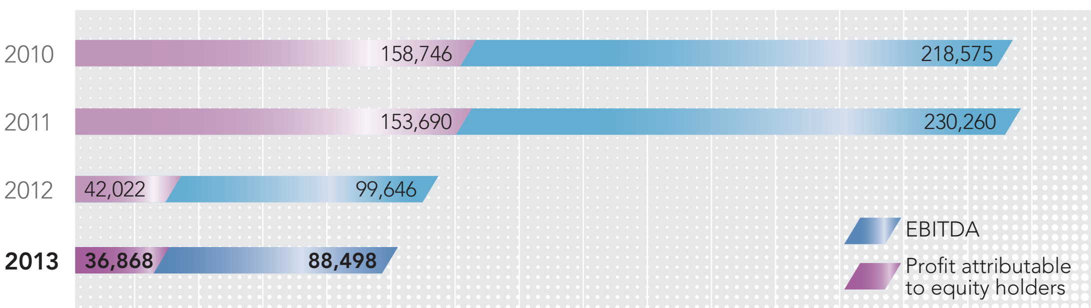
http://www.goodfriend.hk

Financial Highlights

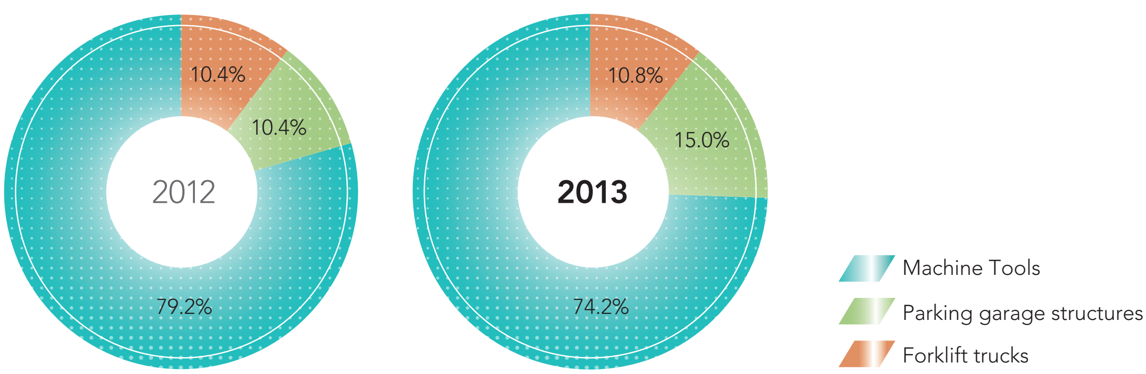
REVENUE (RMB'000)



PROFIT (RMB'000)



BUSINESS SEGMENTS (In terms of revenue)



Financial Highlights

TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2013 RMB'000	2012 RMB'000	Change (%)
Revenue	**1,350,271**	1,540,856	-12.4%
Gross profit	**309,771**	308,947	0.3%
EBITDA	**88,498**	99,646	-11.2%
Profit attributable to equity holders	**36,868**	42,022	-12.3%
Shareholders' equity	**673,000**	661,891	1.7%
Total assets	**1,584,014**	1,568,798	1.0%
Earnings per share – basic (RMB)	**0.09**	0.10	-10.0%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2013	2012	Change (%)
Gross profit margin *Note 1*	**22.9%**	20.1%	13.9%
Net profit margin *Note 2*	**2.7%**	2.7%	0.0%
Inventory turnover days *Note 3*	**97.9**	105.3	-7.0%
Debtors' turnover days *Note 4*	**153.4**	130.8	17.3%
Creditors' turnover days *Note 5*	**76.6**	47.7	60.6%
Current ratio (Times) *Note 6*	**1.4**	1.4	0.0%
Quick ratio (Times) *Note 7*	**1.1**	1.0	10.0%
Gearing ratio (%) *Note 8*	**23.2%**	23.8%	-2.5%
EBITDA/Finance costs (Times) *Note 9*	**11.1**	8.9	24.7%
Return on equity (%) *Note 10*	**5.5%**	6.3%	-12.7%

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

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

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

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

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

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

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

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

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

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

Chairman's Statement

Chu Chih-Yaung
Chairman

I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the report on the results of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2014 (the "year").

FINANCIAL PERFORMANCE

For the year ended 31 December 2013, the Group recorded revenue of approximately RMB1,350.27 million, representing a decrease of approximately 12.4% compared to the previous year. Whilst profit attributable to equity holders for the year amounted to approximately RMB36.87 million, representing a decrease of approximately 12.3% compared to RMB42.02 million in 2012.

FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 13 June 2014, a final dividend out of the share premium account of the Company of RMB0.05 (equivalent to approximately HK$0.063 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 31 March 2014) per share for the year ended 31 December 2013, amounting to RMB20.16 million (equivalent to approximately HK$25.40 million) payable to shareholders whose names appear on the register of members of the Company on Wednesday, 25 June 2014. The payment date of the final dividend will be announced later.

Chairman's Statement

BUSINESS REVIEW

The global economy saw sluggish growth in 2013 and China's economic growth continued to slow down. According to the data released by the National Bureau of Statistics of China, the gross domestic product (GDP) of China grew by 7.7% year on year in 2013, indicating a drop of the growth rate. The mainstream product of the Group CNC machine tools focus mainly on China market. Sales orders for the Group's CNC machine tools business were also affected by that. For the year ended 31 December 2013, sales volume and sales revenue of CNC machine tools amounted to 2,073 units and approximately RMB1,001.92 million respectively, both representing a decrease when compared to 2012. Nevertheless, the gross profit margin of CNC machine tools business increased to approximately 25.8% during the year. This was mainly attributable to the stabilization of the raw material prices.

Despite being affected by the slowdown of China's economic growth, the Group's high-end CNC machine tools products still recorded satisfactory sales revenue during the year. Sales revenue of double column machining centre (manufactured at factory in Hangzhou) and milling and machining centre (manufactured by Italian vendors) amounted to approximately RMB134.45 million for the year, accounted for approximately 13.4% of sales revenue of the Group's CNC machine tools business. These high-end products could optimise the product portfolio of the Group, and strengthen its core competitiveness.

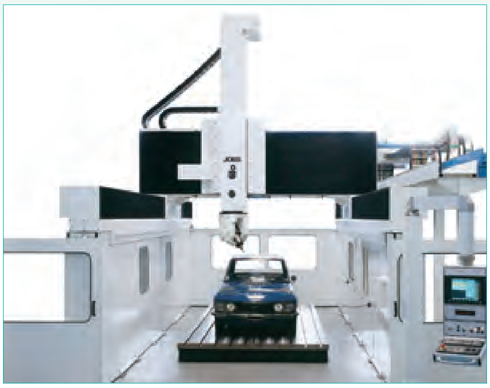
STRATEGIC ACQUISITION

In October 2013, the Group (together with the other shareholders) incorporated FFG Werke GmbH ("FFG Werke") in Germany, with the Group holding 13.50% share capital of FFG Werke. In December 2013, the Group provided further equity contribution and shareholder's loan to FFG Werke in the total amount of Euro 1,717,500 for its acquisition of the industrial equipment division of MAG IAS GmbH ("MAG", a limited liability company incorporated in Germany).

MAG is a leading manufacturing technology group with over 2,200 employees, generating an annual turnover of approximately 750 million Euros (or approximately USD1,000 million). The industrial equipment division of MAG covers renowned machine tools brands including "Huller Hille", "Hessapp", "Honsberg", "Modul", "Witzig & Frank", "Boehringer-VDF" and a Russian sales and service entity.

The management believes that, the acquisition of the industrial equipment division of MAG by FFG Werke could benefit the Group by providing access to the renowned brands of the business. The product portfolio of the Group could be further enhanced which would be beneficial to the business development as well as the operating results of the Group.

Chairman's Statement



Chairman's Statement

PROSPECTS

Looking ahead to 2014, with the improvement of the global economic environment, a stable growth in the economy of China is anticipated. China is the largest machine tools consuming country. The formulation of the 12th Five Year Plan (2011-2015) by the central government of China would stimulate the demand of machine tools from the industries of high-speed railway, aerospace, motor vehicle and energy especially demand of those hi-tech CNC machine tools. This in turn will benefit the Group's CNC machine tools business. The management believes that with its extensive sales network and comprehensive after-sales service, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continue to strengthen its market position.

Looking ahead, with the current business environment, the Group will continue to strengthen its business foundation under a consistent cautions manner under tough market environment. The management is optimistic on the long-term development prospects of the Group.

The management will also strive to control operating costs for achieving better operating results, in order to bring favorable returns to the shareholders of the Company.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank all the staff and management team for their hard work in the past year. I would also like to express heartfelt thanks to all of the customers and suppliers.

Chu Chih-Yaung
Chairman
Hong Kong, 31 March 2014

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2013, the Group recorded revenue of approximately RMB1,350.27 million, representing a decrease of approximately 12.4% as compared to 2012. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,073 units, 12,396 units and 2,221 units respectively (2012 comparative figures: 2,360 units, 9,904 units and 2,524 units). CNC machine tools remained the major source of the Group's revenue. During the year, sales revenue of CNC machine tools business amounted to approximately RMB1,001.92 million, representing a decrease of approximately 17.9% as compared to 2012. Revenue of CNC machine tools accounted for approximately 74.2% of the Group's total revenue. On the other hand, sales revenue of the Group's forklift trucks business during the year was also decreased by approximately 8.8%, as compared to 2012, to approximately RMB145.87 million and approximately 10.8% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB202.48 million during the year, representing an increase of approximately 26.1% as compared to 2012 and accounted for approximately 15.0% of the total revenue.

Gross profit and margin

For the year ended 31 December 2013, gross profit of the Group amounted to approximately RMB309.77 million. Overall gross profit margin was approximately 22.9%, compared to 20.1% for 2012. The gross profit margin of CNC machine tools (the Group's major product) during the year increased as compared to 2012. As a result, the overall gross profit margin for the year increased.

Distribution and selling expenses

Distribution and selling expenses amounted to approximately RMB147.53 million for the year ended 31 December 2013, and remained fairly stable as compared to 2012. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 10.9%, compared to approximately 9.6% for 2012.

Administrative expenses

Under the stringent control of the operating expenses by the management, the administrative expenses for the year ended 31 December 2013 decreased by approximately 23.9% as compared to 2012. Included in the administrative expenses for the year were those research and development expenses amounted to approximately RMB41.70 million. (2012: RMB50.02 million). Such decrease of the research and development expenses was in line with the decrease of the sales revenue of CNC machine tools (the Group's major product) during the year.

Management Discussion and Analysis

Finance costs

During the year, finance costs decreased to approximately RMB7.96 million. The decrease was primarily due to the decrease of average bank borrowings of the Group during 2013.

Share of loss of an associate

The amount represented the Group's share of loss of the associate "FFG Europe", located in Italy, for the year ended 31 December 2013.

Profit attributable to the equity holders of the Company

For the year ended 31 December 2013, profit attributable to the equity holders of the Company amounted to approximately RMB36.87 million, representing a decrease of approximately 12.3% as compared to 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group had net current assets of approximately RMB361.66 million (2012: RMB339.80 million), shareholders' fund of approximately RMB673.00 million (2012: RMB661.89 million) and short-term bank borrowings of approximately RMB367.75 million (2012: RMB372.82 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Cash and cash equivalents as at 31 December 2013 amounted to approximately RMB235.83 million (2012: RMB109.55 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.4 times (2012: 1.4 times). The gearing ratio (ratio of total debts to total assets) was approximately 23.2% (2012: 23.8%), indicating that the Group continued to maintain solid financial position.

CAPITAL STRUCTURE AND TREASURY POLICIES

The share capital of the Company as at 31 December 2013 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2012: HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As of 31 December 2013, the total outstanding short-term borrowings stood at approximately RMB367.75 million (2012: RMB372.82 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year.

Management Discussion and Analysis

SIGNIFICANT INVESTMENT

The Group had no significant investment held for the year ended 31 December 2013.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2013.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2013 are set out in note 5 to the consolidated financial statements.

STAFF AND REMUNERATION POLICIES

As at 31 December 2013, the Group employed a total of 1,400 (2012: 1,600) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB123.70 million (2012: RMB161.35 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

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

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year under review, the Group contributed approximately RMB9.58 million (2012: RMB8.74 million) to the said schemes.

CAPITAL COMMITMENTS AND CONTINGENCIES

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB0.98 million (2012: RMB2.40 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2013 (2012: Nil).

Management Discussion and Analysis

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2013, restricted bank deposits with an amount of approximately RMB60.17 million (2012: RMB22.96 million) represented deposits placed in banks for guarantees issued for trade finance facilities used by the Group.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB5.39 million (2012: RMB5.53 million) to secure general banking facilities granted to them. As at 31 December 2013, the subsidiaries have utilised such secured bank facilities of RMB1.25 million.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2013. However, the Group will continue to seek new business development opportunities.

FOREIGN EXCHANGE RISK

The Group mainly operates in China. During the year ended 31 December 2013, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group has no hedging activities as it is considered that their impact to the Group is insignificant.

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chu Chih-Yaung（朱志洋先生）, aged 67, was appointed as an executive Director in September 2005 and Chairman of the Board. He is responsible for the Group's overall strategic planning, management, business development, and the formulation of the Group's corporate policies. Mr. Chu has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. Mr. Chu is also a director of Hangzhou Global Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co., Ltd., both are wholly-owned subsidiaries of the Company.

Mr. Chen Hsiang-Jung（陳向榮先生）, aged 68, was appointed as an executive Director in December 2005 and chief executive officer. He is also a member of the remuneration committee and the nomination committee of the Company. He is responsible for general management of the Group. Mr. Chen has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. Mr. Chen joined the Group in 1993.

Mr. Chen Min-Ho（陳明河先生）, aged 63, was appointed as an executive Director in December 2005. He is responsible for the overall business operation of the Group. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Rich Friend (Shanghai) Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. He joined the Group in 1993.

Mr. Wen Chi-Tang（溫吉堂先生）, aged 49, was appointed as an executive Director in December 2005. He was the vice general manager of machine tools division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the general manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Wen has more than 28 years of experience in the machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. He joined the Group in 2003.

Biographical Details of Directors and Senior Management

Mr. Chiu Rung-Hsien (邱榮賢先生), aged 56, was appointed as an executive Director in December 2005. He was the manager of the parking garage structures division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the senior manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Chiu has more than 29 years of experience in the mechanics and manufacturing industry. He joined the Group in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis (顧福身先生), aged 57, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He is the founder and managing director of Hercules Capital Limited, a corporate finance advisory firm. He has more than 20 years of experience in investment banking and professional accounting. Mr. Koo currently act as an independent non-executive director of Li Ning Company Limited, Midland Holdings Limited, Xingda International Holdings Limited and Richfield Group Holdings Limited, which are companies listed on the Main Board of the Stock Exchange. He is a certified public accountant.

Mr. Koo resigned as an independent non-executive director of Weichai Power Co., Ltd., which is listed on the Main Board of the Stock Exchange in June 2012.

Mr. Chiang Chun-Te (江俊德先生), aged 53, was appointed as an independent non-executive Director in December 2005. He is also a member of the audit committee, the remuneration and the nomination committee of the Company. He is the general manager of Istra Corporation and is also served as the president with effect from 2000. He was the 17th Representative of the Importers and Exporters Association of Taipei and then now served as the director.

He is the president and general manager of PK Investment Corp, and the director of Long Chen Paper Co., Ltd. He is also a director of Chinatrust Commercial Bank.

From 2003 to February 2010, Mr. Chiang served as the director of Premier Capital Management Corp. and Premier Venture Capital Corp. From 2006 to June 2009, he served as the independent director of Yin King Industrial Co., Ltd., which is a listed company at over-the-counter market on the Taiwan Stock Exchange Corporation. From 2009 to March 2012, he served as the independent director of Feng Sheng Technology Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). From 2011 to June 2013, he served as an independent director of Swancor Ind. Co., Ltd. (listed on the Taiwan Stock Exchange Corporation).

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Biographical Details of Directors and Senior Management

Mr. Yu Yu-Tang (余玉堂先生), aged 77, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee of the Company. He was a consultant of the Taiwan Hsin Chu County Government (台灣新竹縣政府) and the Provincial Government.

SENIOR MANAGEMENT

Mr. Chiang Chia-Shin (強家鑫先生), aged 55, was appointed as the marketing manager of Hangzhou Global Friend and is responsible for the business of forklifts trucks in Mainland China. Mr. Chiang graduated from mechanical engineering department of Taiwan Fushin Institute Technology School (台灣復興工業專科學校) in 1979. He joined the Group in April 2006 and has over 28 years of experience in the design, manufacturing and production of the motor vehicle parts and forklifts trucks.

Mr. Wu Li-Chen (吳立城先生), aged 52, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend. He joined the Group in October 2000 and has over 29 years of experience in the machine tools industry.

Mr. Yeh Ming-Pin (葉明彬先生), aged 46, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Yeh graduated from Tamkang University, Taiwan (台灣淡江大學) in 1994 with a degree in Accounting. Before he joined the Group in January 2007, Mr. Yeh worked in TNS CPA firm in Taiwan from 1994 to 1998 and has over 16 years of experience in the fields of auditing, accounting and finance.

Mr. Yip Sai Keung, Esmond (葉世強先生), aged 48, was appointed as the financial controller of the Company and is responsible for the finance and accounting functions of the Group. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yip joined the Group in November 2007 and has over 20 years of experience in the fields of corporate finance, auditing and accounting.

Report of the Directors

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2013 is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 44 to 121.

The Directors declared an interim dividend of RMB0.05 (equivalent to approximately HK$0.0629) per share to those shareholders whose names appear on the register of members on 17 October 2013, amounting to approximately RMB20.16 million (equivalent to approximately HK$25.36 million) which was paid on 24 October 2013.

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 13 June 2014, a final dividend out of the share premium account of the Company of RMB0.05 (equivalent to approximately HK$0.063 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 31 March 2014) per share for the year ended 31 December 2013, amounting to RMB20.16 million (equivalent to approximately HK$25.40 million) payable to shareholders whose names appear on the register of members of the Company on Wednesday, 25 June 2014. The payment date of the final dividend will be announced later.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 10 June 2014 to Friday, 13 June 2014, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attendance and voting at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 9 June 2014.

The register of members will also be closed from Monday, 23 June 2014 to Wednesday, 25 June 2014, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 20 June 2014.

Report of the Directors

RESERVES

Movements in the reserves of the Company during the year are set out in note 30 to the consolidated financial statements.

ANNUAL GENERAL MEETING

The 2014 annual general meeting will be held on Friday, 13 June 2014. Details of the 2014 annual general meeting are set out in the circular of the Company dated 30 April 2014, notice of annual general meeting and form of proxy despatched to shareholders of the Company together with the 2013 annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2013 are set out in note 29 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2013 are set out in note 33 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

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

Independent Non-Executive Directors

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

In accordance with article 87(1) of the articles of association of the Company ("Articles"), Messrs. Chu Chih-Yaung, Chiu Rung-Hsien and Koo Fook Sun, Louis will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

INDEPENDENCE CONFIRMATION

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme of the Company adopted on 22 December 2005, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' SERVICE CONTRACTS

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

Each of the independent non-executive Directors entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of two years commencing from 11 January 2006. A new service agreement has been entered into between each of the independent non-executive Directors and the Company for a fixed term of 2 years commencing from 10 January 2014, and may be terminated by not less than three months' notice in writing served by either party to the other.

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

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as those set out in note 38 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2013, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

SHARE OPTION SCHEME

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

Report of the Directors

The principal terms of the Scheme are summarised as follows:

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

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

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

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

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

Report of the Directors

(e) Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

(f) The Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Scheme, i.e. 22 December 2005.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2013, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

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

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited) ("Taiwan FF")	Beneficial owner	24,243,347 shares	15.40%
Mr. Chu Chih-Yaung *(Note 1)*	Taiwan FF	Spouse interest	4,281,925 shares	2.72%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	2,994,841 shares	1.90%
Mr. Chu Chih-Yaung	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 3)*	Beneficial owner	21,988 shares	0.22%

Report of the Directors

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

Report of the Directors

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung ("Mr. Chu"), held 2.72% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

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

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

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

5. Ms. Wang held 0.59% of the issued share capital of Decaview Asia Corporation. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Decaview Asia Corporation under the SFO.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2013, none of the Directors or chief executive of the Company had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are set out below:

Report of the Directors

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

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

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2013.

Report of the Directors

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transaction by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2013, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

EMOLUMENT POLICY

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

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

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 38 to the consolidated financial statements. Details of any related party transaction which also constitute connected transaction or continuing connected transaction not exempted under Rule 14A.31 or Rule 14A.33 of the Listing Rules are disclosed below. The Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of such transactions.

Non-exempt connected transaction(s)

As disclosed in the announcement dated 20 December 2013, FFG Werke GmbH ("FFG Werke") was incorporated in Germany on 17 October 2013. The initial amount of capital contributed by the shareholders of FFG Werke was held as to 10.00% by FFG Europe S.p.A. ("FFG Europe"), 33.75% by World Ten Limited, 33.75% by Golden Friendship International Limited ("Golden Friendship"), 13.50% by Sky Thrive Hong Kong Enterprise Limited ("Sky Thrive") (a wholly-owned subsidiary of the Company) and 9.00% by Golden Wealth Inc Limited. The initial contribution of Euro 4,050 was paid by Sky Thrive. On 20 December 2013, Sky Thrive agreed to provide further equity contribution and shareholder's loan in the total amount of Euro 1,717,500 and procure the issuance of offshore credit instruments for a total credit amount of Euro 2,800,000 to secure credit facilities provided to FFG Werke ("Further Contribution") as the funds for its acquisition of the industrial equipment division of MAG IAS GmbH, as well as for its future operations.

Report of the Directors

As Golden Friendship, FFG Europe and FFG Werke were associates of Taiwan FF, a controlling shareholder of the Company, and were accordingly connected persons of the Company, the establishment of FFG Werke together with the Further Contribution constituted connected transactions of the Company under the Listing Rules. As the applicable percentage ratios in respect of the capital and financial contribution of Sky Thrive in FFG Werke were more than 0.1% but less than 5%, such connected transactions were subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Non-exempt continuing connected transaction(s)

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

The transactions under the Components Agreement and the Machine Tools Agreement constituted continuing connected transactions subject to reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules. The resolutions approving the Components Agreement and the Machine Tools Agreement, the transactions contemplated thereunder and the annual caps thereof were duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 15 June 2011. The annual caps for the supply of CKD components to FF Parties by the GF Parties and the purchase of CKD components from the FF Parties by the GF Parties for the year ended 31 December 2013 under the Components Agreement were RMB3.15 million and RMB516.80 million respectively. The annual cap for the purchase of CNC machine tools from the FF Parties by the GF Parties for the year ended 31 December 2013 under the Machine Tools Agreement was RMB201.96 million.

Report of the Directors

The independent non-executive directors of the Company have reviewed the Components Agreement and the Machine Tools Agreement and the transactions thereunder conducted during the year and confirmed that they have been:–

(i) entered into in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms;

(iii) in accordance with the respective terms of the the Components Agreement and the Machine Tools Agreement and on terms which were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

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

The auditor of the Company has undertaken to report its factual findings to the board of directors of the Company in accordance with Rule 14A.38 of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2013.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 8.48% of the Group's total turnover for the year and the largest customer accounted for approximately 2.47% of the Group's total turnover. The five largest suppliers accounted for approximately 17.93% of the Group's total purchases for the year and the largest supplier accounted for approximately 7.32% of the Group's total purchases.

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

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

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2013.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 30 to 41.

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 122.

AUDITOR

The financial statements for the year ended 31 December 2013 have been audited by the auditor of the Company, PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the 2014 annual general meeting.

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

Hong Kong, 31 March 2014

Corporate Governance Report

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted its corporate governance practices which are reproduced from the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and has reviewed and updated regularly to follow the latest practices in corporate governance. During the year under review, the Company has complied with the code provisions set out in the CG Code except for the following deviation:

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting held on 30 May 2013 due to his business trip and Mr. Chen Hsiang-Jung, an executive Director, took the chair pursuant to the Articles of Association of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2013, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

BOARD OF DIRECTORS

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

Corporate Governance Report

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

Executive Directors

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

Independent Non-Executive Directors

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

Such balanced board composition is formed to ensure a strong independent objectivity exists across the Board and has adhered to the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors is set out on pages 14 to 16 under the section headed "Biographical Details of Directors and Senior Management".

Directors have given sufficient time and attention to the Group's affairs. The directors have disclosed to the Company annually the number and the nature of offices held in public companies or organizations and other significant commitments. The Board believes that the balance between executive directors and independent non-executive directors is reasonable and adequate to provide sufficient balances that protect the interests of the Shareholders and the Group.

Chairman and Chief Executive Officer

The positions and roles of Chairman of the Board and Chief Executive Officer of the Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman, being Mr. CHU Chih-Yaung, is in-charge of the leadership of the Board and strategies planning of the Group. The Chief Executive Officer, being Mr. CHEN Hsiang-Jung, is responsible for the day-to-day management of the Group's business.

Independent non-executive Directors

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

Corporate Governance Report

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

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

Role of the Board

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

Corporate Governance Functions

The Board is also responsible for performing the corporate governance duties as set out below:–

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

Corporate Governance Report

Directors' training

Based on the training records provided to the Company by the directors and the Company's record, the directors have participated in the following training during 2013:

Directors	Type of trainings
Executive Directors	
CHU Chih-Yaung	A, B
CHEN Hsiang-Jung	A, B
CHEN Min-Ho	A, B
WEN Chi-Tang	A, B
CHIU Rung-Hsien	A, B
Independent Non-Executive Directors	
KOO Fook Sun, Louis	A, B
CHIANG Chun-Te	A, B
YU Yu-Tang	A, B

A: attending seminars and/or conferences and/or forums

B: reading information, newspapers, journals and materials relating to responsibilities of directors, economy, financial, investments and business of the Company.

Frequency of Board Meetings and Attendance

Board meetings are held at least four times a year and the Board meets as and when required. During the financial year ended 31 December 2013, the Board convened a total of four regular meetings and the attendances of the Directors at these Board meetings are as follows:

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

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

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

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

Corporate Governance Report

AUDIT COMMITTEE

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

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

The chief responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of the internal control system of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited financial statements of the Company for the six months ended 30 June 2013. The audited financial statements of the Company for the year ended 31 December 2013 has also been reviewed by the Audit Committee.

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

Frequency of Meetings and Attendance

During the year 2013, the Audit Committee met three times, during which the management of the Company and the external auditor were also in attendance, if appropriate. Details of the attendance by members of the Audit Committee of such meetings are as follows:

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

NOMINATION OF DIRECTORS

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

Corporate Governance Report

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

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

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

In accordance with the Articles, at least one-third of the Directors will retire from office at the forthcoming annual general meeting. In accordance with the Articles 87(1) of the Articles, Mr. Chu Chih-Yaung, Chiu Rung-Hsien and Koo Fook Sun, Louis will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2013 and details of the attendance of its meeting are as follows:

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

Board Diversity Policy

The Company has formulated and adopted the board diversity policy in August 2013 aiming at setting out the approach on diversity of the Board of the Company.

The Board recognizes the importance of having a diverse Board in enhancing the board effectiveness and corporate governance. A diverse Board will include and make good use of differences in the skills, industry knowledge and experience, education, background and other qualities of directors of the Company (the "Directors") and does not discriminate on the ground of race, age, gender or religious belief. These differences will be taken into account in determining the optimum composition of the Board and when possible should be balanced appropriately.

Corporate Governance Report

The Nomination Committee of the Company has responsibility for identifying and nominating for approval by the Board, candidates for appointment to the Board. It takes responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the Board and assessing the extent to which the required skills are represented on the Board and overseeing the Board succession. It is also responsible for reviewing and reporting to the Board in relation to Board diversity.

Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates to join the Board will be, in part, dependent on the pool of candidates with the necessary knowledge, experience, skills, educational background and other qualities. The final decision will be based on merit and contribution the chosen candidate will bring to the Board.

At present, the Nomination Committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable objects from time to time.

REMUNERATION OF DIRECTORS

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

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

Corporate Governance Report

Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2013 to review the existing remuneration packages of each of the Directors and senior management of the Company and details of the attendance of its meeting are as follows:

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

Emolument policy

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

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

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

Remuneration of Directors and Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

Remuneration bands (HK$)	Number of persons
Less than $1,000,000	3
$1,000,001 to $1,500,000	1
$1,500,001 to $2,000,000	1

Further particulars regarding Director's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8(a) and 8(b) to the financial statements, respectively.

Corporate Governance Report

COMPANY SECRETARY

The Company has engaged and appointed Mr. Lo Tai On, a representative from an external secretarial services provider, as the company secretary of the Company. The primary contact person with the company secretary of the Company is Mr. Esmond Yip, the Financial Controller of the Company. Mr. Lo has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

During the year under review, there is no change in the Company's constitutional documents.

AUDITOR'S REMUNERATION

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

Services rendered to the Group	**Fee paid/payable** HK$'000
Audit services	1,700
Non-audit services	48

INTERNAL CONTROL SYSTEM

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls, etc.. The Board is committed to implementing an effective and sound internal control system to safeguard the interests of the shareholders and the Group's assets. During the year, the Company has engaged a professional firm to assist the board in conducting a review of certain key parts of the internal control system of the Group. The board also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. The report and findings of the review, had been submitted to the Board and follow up plan had been adopted. The review did not find any material deficiencies in the internal control system of the Group.

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's accounts for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2013, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATION

The Board recognises the importance of good communication with the shareholders of the Company (the "Shareholders"). Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars of the Company.

The general meetings of the Company are valuable forum for the Board to communicate directly with the Shareholders. The Shareholders are encouraged to attend the general meetings of the Company.

An annual general meeting of the Company was held on 30 May 2013 (the "2013 AGM"). A notice convening the 2013 AGM contained in the circular dated 12 April 2013 was dispatched to the Shareholders together with the 2012 Annual Report. Mr. Chen Hsiang-Jung, the Chief Executive Officer, Mr. Chiu Rung-Hsien, the Executive Director and Mr. Louis Koo Fook Sun, the Chairman of the committees of the Board, attended the 2013 AGM to answer the questions from the Shareholders. Other directors were unable to attend the 2013 AGM due to their other business commitment.

The Chairman of the 2013 AGM explained detailed procedures for conduction a poll. All the resolutions proposed at the 2013 AGM were passed separately by the Shareholders by way of poll. The results of the poll were published on the websites of the Stock Exchange and the Company after the meetings. No other general meeting was held during the year.

The forthcoming annual general meeting of the Company will be held on 13 June 2014 (the "2014 AGM"). A notice convening 2014 AGM will be published on the websites of the Stock Exchange and the Company and dispatched together with the 2013 Annual Report to the Shareholders as soon as practicable in accordance wit the Articles of Association and the CG Code.

The Company is committed to enhancing communications and relationships with its investors. Designated senior management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

Corporate Governance Report

The Company also maintains a website at www.goodfriend.hk, where updates on the Company's business developments and operations, financial information and news can always be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:–

Room 2003, 20/F., Kai Tak Commercial Building,
317-319 Des Voeux Road Central, Hong Kong
Fax: (852) 3586 2620
Email: investor@goodfriend.hk

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year at such place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM"). Set out below is procedures by which shareholders may (a) convene an EGM; (b) put forward enquiries to the Board; and (c) put forward proposals at general meetings. The procedures are subject to the Company's articles of association and applicable legislation and regulations.

Procedures for shareholders to convene EGM:

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The written requisition must state the business to be transacted at the meeting, signed by the requisitionist(s) and deposited at the Company's principal place of business in Hong Kong or the Company's registered office for the attention of the Board or the Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. The requisition will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the requisition is proper and in order, the Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the requirements under the articles of association of the Company to all the registered shareholders. On the contrary, if the requisition has been verified as invalid, the requisitionist(s) will be advised of this outcome and accordingly, an EGM will not be convened as requested.

Corporate Governance Report

If within twenty-one (21) days from the date of that deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requsitionist(s) as a result of the failure of the Board shall reimbursed to the requsitionist(s) by the Company.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the requistionist(s) concerned at the EGM varied according to the nature of the proposal, as follows:

– Not less than 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company; and

– Not less than 21 clear days' and not less than 20 clear business days' notice in writing if the proposal constitutes a special resolution of the Company.

Procedures for putting forward proposals at general meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written request, duly signed by the shareholder concerned, setting out the proposals at the Company's principal place of business in Hong Kong for the attention of the Board and the Secretary of the Company. The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Secretary of the Company will pass the request to the Board. Whether a proposal will be put to a general meeting will be decided by the Board in its discretion, unless the proposal put forward by a shareholder is (a) pursuant to a requisition by a shareholder to convene an EGM referred to above or (b) forms part of ordinary business to be considered at an annual general meeting as described in article 61(1) of the articles of association of the Company.

The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website at www.goodfriend.hk

AUDITOR'S STATEMENT

The auditor of the Company acknowledge their responsibilities in the auditor's report on the financial statements of the Group for the year ended 31 December 2013.

Hong Kong, 31 March 2014

Independent Auditor's Report

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 121, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2014

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	5	**1,350,271**	1,540,856
Cost of revenue	7	**(1,040,500)**	(1,231,909)
Gross profit		**309,771**	308,947
Other income	6	**28,738**	28,712
Distribution and selling expenses	7	**(147,533)**	(147,964)
Administrative expenses	7	**(86,025)**	(112,999)
Other operating expenses	7	**(2,561)**	(3,426)
Operating profit		**102,390**	73,270
Finance costs	9	**(7,964)**	(11,168)
Share of loss of jointly controlled entities	19	**(3,975)**	(1,859)
Share of (loss)/profit of an associate	21	**(26,321)**	197
Loss on disposal of a subsidiary and an associate	20	**(9,742)**	–
Profit before income tax		**54,388**	60,440
Income tax expense	10	**(17,520)**	(18,418)
Profit attributable to equity holders of the Company		**36,868**	42,022
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of an associate		**3,665**	–
Currency translation differences	30	**10,896**	(2,012)
Total comprehensive income for the year attributable to equity holders of the Company		**51,429**	40,010
Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	12	**0.09**	0.10

The notes on pages 51 to 121 are an integral part of these consolidated financial statements.

Dividends	13	**40,320**	40,320

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Assets			
Non-current assets			
Land use rights	14	**38,481**	39,424
Property, plant and equipment	15	**256,100**	278,454
Investment properties	16	**249**	1,343
Intangible assets	17	**1,458**	1,406
Investments in jointly controlled entities	19	**17,576**	18,093
Investment in an associate	21	**9,604**	–
Available-for-sale financial asset	24	**571**	–
Deferred income tax assets	34	**4,520**	4,541
Deposits for purchases of plant and equipment		**1,560**	2,010
		330,119	345,271
Current assets			
Inventories	25	**279,016**	354,545
Debtors, deposits and prepayments	23	**622,553**	621,284
Amount due from an investee	24	**13,988**	–
Amounts due from customers for contract work	26	**24,651**	27,902
Amount due from ultimate holding company	38	**1,912**	–
Amounts due from and prepayment to fellow subsidiaries and an associate of ultimate holding company	38	**1,786**	2,374
Amount due from a jointly controlled entity	38	**1,498**	315
Amount due from subsidiaries	38	**12,495**	411
Restricted bank deposits	27	**60,167**	22,964
Cash and cash equivalents	28	**235,829**	109,547
		1,253,895	1,139,342
Assets of disposal companies classified as held for sale	20	**–**	84,185
		1,253,895	1,223,527
Total assets		**1,584,014**	1,568,798
Equity			
Equity attributable to equity holders of the Company			
Share capital	29	**4,022**	4,022
Share premium	30	**82,281**	122,601
Capital reserves	30	**77,338**	77,338
Other reserves	30	**56,332**	41,771
Retained earnings	30	**453,027**	416,159
Total equity		**673,000**	661,891

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	34	**18,775**	23,180
Current liabilities			
Creditors, other payables and accrued charges	31	**449,133**	406,327
Amounts due to customers for contract work	26	**49,959**	37,479
Amount due to ultimate holding company	38	**1,029**	5,898
Amount due to immediate holding company	38	**2,156**	1,980
Amount due to a fellow subsidiary	38	**321**	1,911
Amount due to subsidiaries of an associate	38	**293**	521
Amount due to a jointly controlled entity	38	**131**	–
Current income tax liabilities		**14,691**	7,903
Warranty provision	32	**6,774**	6,702
Borrowings	33	**367,752**	372,823
		892,239	841,544
Liabilities of disposal companies classified as held for sale	20	**–**	42,183
		892,239	883,727
Total liabilities		**911,014**	906,907
Total equity and liabilities		**1,584,014**	1,568,798
Net current assets		**361,656**	339,800
Total assets less current liabilities		**691,775**	685,071

The notes on pages 51 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 44 to 121 were approved by the Board of Directors on 31 March 2014 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Company Balance Sheet

		As at 31 December	
	Note	**2013** **RMB'000**	2012 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**21**	18
Investment in subsidiaries	18	**52,837**	52,837
Investment in jointly controlled entities	19	**24,427**	20,969
		77,285	73,824
Current assets			
Debtors, deposits and prepayments	23	**18,407**	5,882
Amounts due from subsidiaries	18	**331,616**	331,989
Restricted bank deposits	27	**2,052**	–
Cash and cash equivalents	28	**1,618**	1,658
		353,693	339,529
Total assets		**430,978**	413,353
Equity			
Equity attributable to equity holders of the Company			
Share capital	29	**4,022**	4,022
Share premium	30	**83,096**	123,101
Other reserves	30	**7,632**	8,941
Retained earnings	30	**46,560**	48,655
Total equity		**141,310**	184,719

Company Balance Sheet

		As at 31 December	
		2013	2012
	Note	**RMB'000**	RMB'000
Current liabilities			
Other payables and accrued charges	31	**20,454**	3,642
Amounts due to ultimate holding company		**–**	709
Amounts due to subsidiaries	18	**–**	3,046
Borrowings	33	**269,214**	221,237
		289,668	228,634
Total liabilities		**289,668**	228,634
Total equity and liabilities		**430,978**	413,353
Net current assets		**64,025**	110,895
Total assets less current liabilities		**141,310**	184,719

The notes on pages 51 to 121 are an integral part of these financial statements.

The financial statements on pages 44 to 121 were approved by the Board of Directors on 31 March 2014 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2012		4,022	183,088	77,338	43,783	374,137	682,368
Comprehensive income:							
Profit for the year		–	–	–	–	42,022	42,022
Other comprehensive income:							
Currency translation difference		–	–	–	(2,012)	–	(2,012)
Total comprehensive income		–	–	–	(2,012)	42,022	40,010
Dividends paid	13	–	(60,487)	–	–	–	(60,487)
Balance at 31 December 2012		4,022	122,601	77,338	41,771	416,159	661,891
Comprehensive income:							
Profit for the year		–	–	–	–	36,868	36,868
Other comprehensive income:							
Share of other comprehensive income of an associate		–	–	–	3,665	–	3,665
Currency translation difference		–	–	–	10,896	–	10,896
Total comprehensive income		–	–	–	14,561	36,868	51,429
Dividends paid	13	–	(40,320)	–	–	–	(40,320)
Balance at 31 December 2013		4,022	82,281	77,338	56,332	453,027	673,000

The notes on pages 51 to 121 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow

	Note	2013 RMB'000	2012 RMB'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	35	**231,471**	64,320
Income tax and withholding tax paid		**(10,443)**	(20,657)
Net cash generated from operating activities		**221,028**	43,663
Cash flows from investing activities			
Investment in a jointly controlled entity		**(3,458)**	–
Investment in an associate		**–**	(13,374)
Investment in an available-for-sale financial asset		**(571)**	–
Increase in loans to investee		**(13,988)**	–
Purchases of property, plant and equipment ("PPE")		**(4,802)**	(16,889)
Proceeds from sale of PPE	35	**5,667**	728
Purchases of intangible assets		**(727)**	(4,406)
Interest received		**5,363**	2,385
(Decrease)/increase in restricted bank deposits		**(37,203)**	12,241
Net cash paid from disposal of a subsidiary	20	**(2,277)**	–
Net cash used in investing activities		**(51,996)**	(19,315)
Cash flows from financing activities			
Proceeds from borrowings		**799,718**	913,555
Repayments of borrowings		**(796,461)**	(894,906)
Dividends paid to equity holders		**(40,320)**	(60,487)
Interests paid		**(7,964)**	(11,168)
Net cash used in financing activities		**(45,027)**	(53,006)
Net increase/(decrease) in cash and cash equivalents		**124,005**	(28,658)
Cash and cash equivalents at beginning of year	28	**111,824**	140,482
Cash and cash equivalents at end of year	28	**235,829**	111,824

The notes on pages 51 to 121 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 31 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2013 but do not have a material impact on the Group:

Amendment to HKAS 1	Presentation of financial statements
HKAS 19 Amendment	Employee benefits
HKAS 27 (2011)	Separate financial statements
HKAS 28 (2011)	Investments in associates and joint ventures
HKFRS 7 Amendment	Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement

The adoption of these new standards and amendments to existing standards does not have significant impact on the Group's financial information except for additional disclosures as required by HKAS 1 Amendment "Presentation of financial statements" and HKFRS 12 "Disclosure of interests in other entities".

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(a) Business combination (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.9).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Jointly controlled entity

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2012. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

2.5 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

(c) Group companies

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences are recognised in the other comprehensive income.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost mainly represented consideration paid for the rights to use the land from the date the respective rights were granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the rights, i.e. 50 years.

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income statement during the financial period in which they are incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment *(Continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Construction in progress represents property in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

2.9 Investment properties

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Intangible assets

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

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

2.11 Impairment of non-financial assets

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

2.12 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. On initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, financial assets (other than investments in subsidiaries and associates) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Financial assets

2.13.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's receivables comprise 'Debtors, deposits and prepayments', 'Amount due from ultimate holding company', 'Amounts due from and prepayment to a fellow subsidiary and associates of ultimate holding company', 'Amount due from an associate and its subsidiaries', 'Amount due from a jointly controlled entity', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (notes 2.16 and 2.17).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.13.2 Recognition and measurement

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Offsetting financial instruments

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

2.15 Impairment of financial assets

(a) Asset carried at amortised cost

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Impairment of financial assets *(Continued)*

(b) Assets classified as available for sale

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

2.16 Inventories

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

2.17 Trade and other receivables

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

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

2.18 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Share capital

Ordinary shares are classified as equity.

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

2.20 Trade payables

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

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

2.21 Borrowings

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

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

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

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Current and deferred income tax *(Continued)*

(c) Offseting

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

2.24 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

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

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

(c) Bonus plans

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

2.25 Government grants

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Provisions

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

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

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

2.27 Revenue recognition

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Parking garage structures contracts

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

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

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

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

2.29 Operating Leases

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

2.30 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) *Foreign exchange risk*

The Group and the Company are mainly exposed to foreign exchange risk arising from Hong Kong dollars, United States dollars and Euro against RMB. This foreign exchange risk arises from future commercial transactions or recognised assets and liabilities denominated in a currency that is not the entity's functional currency of RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it has not hedged its foreign exchange risk.

Group

At 31 December 2013, if RMB had strengthened/weakened by 5% (2012: 5%) against the Hong Kong dollars with all other variables held constant, profit for the year would have been approximately RMB4,403,000 higher/lower (2012: approximately RMB4,470,000 higher/lower).

At 31 December 2013, if RMB had strengthened/weakened by 5% (2012: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB11,070,000 higher/lower (2012: approximately RMB11,322,000 higher/lower).

The Group did not have significant foreign exchange risk arising from Euro as at 31 December 2013 as the Group did not have significant financial assets and financial liabilities denominated in Euro.

Company

At 31 December 2013, if RMB had strengthened/weakened by 5% (2012: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB8,157,000 higher/lower (2012: approximately RMB7,006,000 higher/lower).

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest bearing assets and liabilities except for the deposits in banks and certain bank loans, details of which have been disclosed in Note 27 and Note 33, respectively.

Group

At 31 December 2013, if interest rates had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB67,000 (2012: RMB76,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Company

At 31 December 2013, if interest rates had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB27,000 (2012: RMB27,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk arises from debtors and deposits, amounts due from customers for contract work, amounts due from an investee, ultimate holding company, a fellow subsidiaries and an associate of ultimate holding company, a jointly controlled entity, an associate and its subsidiaries as well as restricted bank deposits and cash and cash equivalents as stated in the consolidated balance sheet.

As at 31 December 2013, the Company's maximum exposure to credit risk arises from deposits, amounts due from subsidiaries as well as restricted bank deposits and cash and cash equivalents as recorded in the Company standalone balance sheet.

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

The credit risk on cash and cash equivalents is considered insignificant because the counterparties are banks with credit ratings not lower than Baa2 (2012: Baa2) assigned by international credit-rating agencies.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Group Maximum exposure	
	2013	2012
	RMB'000	RMB'000
Credit risk exposure relating to off – balance sheet items:		
– Financial guarantees (note 24)	**23,673**	–

(d) Liquidity risk

In order to manage the liquidity risk, the Group monitors and maintains cash and cash equivalents and unused credit facilities at a level which is deemed to be adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The Group had unutilised credit facilities of RMB658,958,000 (2012: RMB620,388,000) granted by several financial institutions as at 31 December 2013. Management monitor the utilisation of credit facilities and draw-down of bank borrowings and ensure compliance with the relevant loan covenants. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period between balance sheet date to the contractual maturity dates.

Group

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2013					
Creditors, other payables and accrued charges	449,133	–	–	–	–
Borrowings	348,857	23,488	–	–	–
Amount due to ultimate holding company	1,029	–	–	–	–
Amount due to immediate holding company	2,156	–	–	–	–
Amount due to a fellow subsidiary	321	–	–	–	–
Amount due to subsidiaries of an associate	293	–	–	–	–
Amount due to a joint controlled entity	131	–	–	–	–

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

Group (Continued)

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2012					
Creditors, other payables and accrued charges	406,327	–	–	–	–
Borrowings	149,066	235,249	–	–	–
Amount due to ultimate holding company	5,898	–	–	–	–
Amount due to immediate holding company	1,980	–	–	–	–
Amount due to a fellow subsidiary	1,911	–	–	–	–
Amount due to an associate company	521	–	–	–	–

Company

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2013					
Other payables and accrued charges	20,454	–	–	–	–
Borrowings	254,533	18,570	–	–	–
At 31 December 2012					
Other payables and accrued charges	3,642	–	–	–	–
Borrowings	74,322	147,498	–	–	–
Amount due to ultimate holding company	709	–	–	–	–
Amounts due to subsidiaries	3,046	–	–	–	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

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

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

	2013 **RMB'000**	2012 RMB'000
Total borrowings (note 33)	**367,752**	372,823
Less: cash and cash equivalents (note 28)	**(235,829)**	(109,547)
Net debt	**131,923**	263,276
Total equity	**673,000**	661,891
Total capital	**804,923**	925,167
Gearing ratio	**16%**	28%

The decrease in the gearing ratio during 2013 resulted primarily from decrease in borrowings due to repayment.

3.3 Fair value estimation

As at 31 December 2013, the Group and the Company had no financial instrument which has been stated at fair value.

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

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Revenue from construction of parking garage structures

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

(b) Estimated impairment of trade debtors

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

As at 31 December 2013, provision for impairment of trade debtors amounting to approximately RMB21,795,000 (2012: RMB23,240,000) had been recognised.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

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

The Group determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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

As at 31 December 2013, the Group reported accumulated impairment provision for certain machinery and equipment in certain business segments at RMB1,369,000 (2012: RMB1,369,000), as brought forward from prior years. The directors had performed an assessment to determine the 'fair value less costs to sell' of the related machinery and equipment and other assets in these segments according to provisions of HKAS 36 "Impairment of Assets". The amounts had been assessed to be in excess of their respective carrying values after the impairment provision brought forward. As a result, no additional impairment was considered necessary nor reversal of previous impairment was considered necessary.

(d) Provision for impairment of inventories

The Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, management identifies, using their judgement, inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market price for similar items.

(e) Income taxes

Most of the subsidiaries of the Group are subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the financial period in which such determination is made.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(f) Warranty provision

The Group generally offers one-year warranties for its machine tools and forklift trucks. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

5 SEGMENT INFORMATION

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

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

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

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

	Machine Tools RMB'000	Parking Garage structures RMB'000	Forklift Trucks RMB'000	Total Group RMB'000
For the year ended 31 December 2013				
Revenue (all from external sales)	1,001,923	202,480	145,868	1,350,271
Cost of revenue	(742,987)	(165,012)	(132,501)	(1,040,500)
Segment profit	258,936	37,468	13,367	309,771

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION *(Continued)*

	Machine Tools RMB'000	Parking Garage structures RMB'000	Forklift Trucks RMB'000	Total Group RMB'000
For the year ended 31 December 2012				
Revenue (all from external sales)	1,220,303	160,535	160,018	1,540,856
Cost of revenue	(950,634)	(135,401)	(145,874)	(1,231,909)
Segment profit	269,669	25,134	14,144	308,947

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

6 OTHER INCOME

	2013 RMB'000	2012 RMB'000
Sale of scrap materials	**5,065**	8,455
Net exchange gain	**3,040**	–
Government subsidies	**6,619**	3,113
Repair income	**4,924**	10,094
Rental income from investment properties	**65**	292
Interest income	**5,363**	2,385
Others	**3,662**	4,373
	28,738	28,712

Notes to the Consolidated Financial Statements

7 EXPENSES BY NATURE

	2013 RMB'000	2012 RMB'000
Cost of inventories sold	**956,548**	1,129,644
Sales commission	**45,876**	39,773
Depreciation of property, plant and equipment	**24,863**	24,677
Depreciation of investment properties	**21**	94
Amortisation of intangible assets	**319**	2,324
Amortisation of land use rights	**943**	943
Operating lease rental on land and buildings	**9,762**	13,022
Employee benefit expenses	**112,588**	141,719
Allowance for bad and doubtful debts, net	**2,649**	5,179
Allowance for inventories, net	**5,774**	1,885
Auditor's remuneration	**1,578**	1,427
Provision for warranty	**4,936**	4,568
Loss on disposal of property, plant and equipment	**287**	730
Net exchange loss	**–**	99
Research and development expenses*	**41,697**	50,022
Transportation fees	**13,790**	17,131
Others	**54,988**	63,061
Total cost of revenue, distribution and selling expenses, administrative expenses and other operating expenses	**1,276,619**	1,496,298

* Depreciation of property, plant and equipment, amortisation of intangible assets and employee benefit expenses amounting to RMB2,183,000, RMB356,000 and RMB11,116,000 were included in research and development expenses (2012: RMB2,369,000, RMB1,208,000 and RMB19,634,000 respectively).

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

	2013 RMB'000	2012 RMB'000
Wages and salaries	**79,217**	110,581
Bonus	**21,225**	26,831
Welfare and other allowance	**13,686**	15,206
Pension costs – defined contribution plans	**9,576**	8,735
	123,704	161,353

(a) Directors' emoluments

The remuneration of each director is set out below:

Year ended 31 December 2013

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

Year ended 31 December 2012

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

Chairman
* Chief executive officer

Notes to the Consolidated Financial Statements

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

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, none (2012: none) was a director of the Company. The emoluments of the five (2012: five) individuals were as follows:

	2013 RMB'000	2012 RMB'000
Basic salaries and allowances	**2,248**	2,609
Bonus	**1,586**	2,388
Pension costs – defined contribution plans	**106**	132
	3,940	5,129

The emolument fell within the following bands:

	Number of individuals	
	RMB'000	RMB'000
Emolument bands (in HKD)		
Less than HKD1,000,000	3	2
HKD1,000,001 – HKD1,500,000	1	2
HKD1,500,001 – HKD2,000,000	1	1
HKD2,000,001– HKD2,500,000	–	–
HKD2,500,001 – HKD3,000,000	–	–

During the years ended 31 December 2012 and 2013, none of the directors of the Company and the five highest paid individuals of the Group (i) received any emolument from the Group as an inducement to join or upon joining the Group; (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

9 FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expense:		
– Bank borrowings wholly repayable within one year	**7,964**	11,168

10 INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Enterprise income tax	**17,499**	17,045
Deferred tax (note 34)	**21**	1,373
	17,520	18,418

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for both years.

Enterprise income tax ("EIT") is provided at 25% for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). In 2011, Hangzhou Good Friend renewed its New and High-Tech Enterprise status, which has been approved by the relevant government authorities, and it is entitled to a reduced tax rate of 15% for a three-year period commencing 2011. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2013 is 15% (2012: 15%).

Notes to the Consolidated Financial Statements

10 INCOME TAX EXPENSE *(Continued)*

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

	2013 RMB'000	2012 RMB'000
Profit before income tax	**54,388**	60,440
Tax calculated at tax rates applicable to the principal operating entity of the Group	**10,577**	12,699
Tax effects of:		
Expenses not deductible for tax purposes	**698**	574
Utilisation of previously unrecognised tax losses	**(372)**	(314)
Tax losses for which no deferred income tax asset was recognised	**1,618**	1,475
Deferred tax on undistributed earnings of subsidiaries in the PRC (note 33)	**–**	3,637
Associate's and jointly controlled entities' results reported net of tax	**4,999**	291
Others	**–**	56
Tax charge	**17,520**	18,418

11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB2,095,000 (2012: profit of RMB22,977,000).

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB36,868,000 (2012: RMB42,022,000) by the weighted average number of ordinary shares in issue during the year of 403,200,000 (2012: 403,200,000).

	2013	2012
Basic and diluted earnings per share (RMB per share)	**0.09**	0.10

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

13 DIVIDENDS

The dividends paid in 2013 and 2012 were RMB40,320,000 (RMB0.05 per share) and RMB40,320,000 (RMB0.05 per share) respectively. At a meeting of directors held on 31 March 2014, the directors resolved to recommend a final dividend of RMB0.05 (2012: RMB0.05) per share for the year ended 31 December 2013. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2013.

	2013 **RMB'000**	2012 RMB'000
Interim dividend paid of RMB0.05 (2012: RMB0.05) per ordinary share	**20,160**	20,160
Proposed final dividend of RMB0.05 (2012: RMB0.05) per ordinary share	**20,160**	20,160
	40,320	40,320

The proposed final dividend for the year ended 31 December 2013 is to be declared out of the share premium of the Company.

The aggregate amounts of the dividends paid and proposed during 2012 and 2013 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

14 LAND USE RIGHTS – GROUP

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

	2013 **RMB'000**	2012 RMB'000
At 1 January	**39,424**	40,367
Amortisation	**(943)**	(943)
At 31 December	**38,481**	39,424

The Group has pledged its land use rights with carrying amounts of approximately RMB5,393,966 as at 31 December 2013 (2012: RMB5,525,526) to secure the general banking facilities (note 33) granted to it. As at 31 December 2013, the Group has utilised such secured bank facilities of RMB1,250,000 (2012: Nil).

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings RMB'000	Machinery and equipment RMB'000	Office and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2012	137,039	157,976	29,941	18,457	63,534	406,947
Exchange differences	–	76	10	4	–	90
Additions	42	5,354	854	2,029	13,354	21,633
Transfers	58,044	1,284	365	–	(59,693)	–
Transfer from investment properties (note 16)	51	–	–	–	–	51
Disposals	(1,244)	(2,135)	(829)	(1,232)	(286)	(5,726)
Reclassified as held for sale (note 20)	–	(4,071)	(603)	(216)	–	(4,890)
At 31 December 2012 and 1 January 2013	193,932	158,484	29,738	19,042	16,909	418,105
Additions	729	717	961	1,374	5,792	9,573
Transfers	5,326	–	–	–	(5,326)	–
Transfer from investment properties (note 16)	1,776	–	–	–	–	1,776
Disposals (note 35)	(48)	(3,010)	(848)	(1,205)	(5,000)	(10,111)
At 31 December 2013	201,715	156,191	29,851	19,211	12,375	419,343
Accumulated depreciation and impairment						
At 1 January 2012	32,091	62,175	15,247	8,757	–	118,270
Exchange differences	–	23	4	3	–	30
Provided for the year	7,656	11,893	4,097	3,400	–	27,046
Transfer from investment properties (note 16)	46	–	–	–	–	46
Disposals (note 35)	(863)	(1,858)	(734)	(813)	–	(4,268)
Reclassified as held for sale (note 20)	–	(1,144)	(192)	(137)	–	(1,473)
At 31 December 2012 and 1 January 2013	38,930	71,089	18,422	11,210	–	139,651
Provided for the year	9,093	12,477	2,158	3,318	–	27,046
Transfer from investment properties (note 16)	703	–	–	–	–	703
Disposals (note 35)	(11)	(2,445)	(731)	(970)	–	(4,157)
At 31 December 2013	48,715	81,121	19,849	13,558	–	163,243
Net book amount						
At 31 December 2013	153,000	75,070	10,002	5,653	12,375	256,100
At 31 December 2012	155,002	87,395	11,316	7,832	16,909	278,454

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Group *(Continued)*

Depreciation expense of RMB20,567,000 (2012: RMB20,485,000) had been charged in 'cost of goods sold', RMB1,411,000 (2012: RMB1,371,000) in 'selling and marketing costs' and RMB5,068,000 (2012: RMB5,190,000) in 'administrative expenses' (note 7).

Lease rental expenses amounting to RMB9,762,000 (2012: RMB13,022,000) relating to leasing of properties were included in the consolidated income statement (note 7).

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

(b) Company

	Office and computer equipment RMB'000
Cost	
At 1 January 2012	35
Additions	21
At 31 December 2012 and 1 January 2013	56
Additions	10
At 31 December 2013	66
Accumulated depreciation and impairment	
At 1 January 2012	34
Provided for the year	4
At 31 December 2012 and 1 January 2013	38
Provided for the year	7

Notes to the Consolidated Financial Statements

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company *(Continued)*

	Office and computer equipment RMB'000
At 31 December 2013	45
Net book amount	
At 31 December 2013	21
At 31 December 2012	18

16 INVESTMENT PROPERTIES – GROUP

	2013 **RMB'000**	2012 RMB'000
Opening net book amount at 1 January	**1,343**	1,442
Transfer to property, plant and equipment (note 15)	**(1,073)**	(5)
Depreciation	**(21)**	(94)
Closing net book amount at 31 December	**249**	1,343

Notes to the Consolidated Financial Statements

17 INTANGIBLE ASSETS – GROUP

	Trademarks and licences RMB'000	Technology know-how RMB'000	Software RMB'000	Total RMB'000
At 1 January 2012				
Cost	7,512	6,771	8,624	22,907
Accumulated amortisation and impairment	(805)	(676)	(6,647)	(8,128)
Net book amount	6,707	6,095	1,977	14,779
Year ended 31 December 2012				
Opening net book amount	6,707	6,095	1,977	14,779
Exchange difference	143	132	20	295
Additions	–	–	4,406	4,406
Amortisation charge (note 7)	(441)	(704)	(2,387)	(3,532)
Reclassified as held for sale (note 20)	(6,409)	(5,523)	(2,610)	(14,542)
Closing net book amount	–	–	1,406	1,406
At 31 December 2012				
Cost	–	–	8,865	8,865
Accumulated amortisation and impairment	–	–	(7,459)	(7,459)
Net book amount	–	–	1,406	1,406
Year ended 31 December 2013				
Opening net book amount	–	–	1,406	1,406
Additions	–	–	727	727
Amortisation charge (note 7)	–	–	(675)	(675)
Closing net book amount	–	–	1,458	1,458
At 31 December 2013				
Cost	–	–	9,592	9,592
Accumulated amortisation and impairment	–	–	(8,134)	(8,134)
Net book amount	–	–	1,458	1,458

Amortisation of RMB418,000 (2012: RMB1,208,000) and RMB257,000 (2012: RMB2,324,000) have been charged in cost of revenue and administrative expenses (note 7).

18 INVESTMENT IN SUBSIDIARIES – COMPANY

	2013 **RMB'000**	2012 RMB'000
Investments – unlisted shares, at cost:	**52,837**	52,837
Amounts due from subsidiaries	**331,616**	331,989
Amounts due to subsidiaries	**–**	(3,046)

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

The following is a list of principal subsidiaries of the Group at 31 December 2013:

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

Notes to the Consolidated Financial Statements

18 INVESTMENT IN SUBSIDIARIES – COMPANY *(Continued)*

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

Notes to the Consolidated Financial Statements

19 INVESTMENT IN JOINTLY CONTROLLED ENTITIES – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investments in jointly controlled entities				
At beginning of the year	**18,093**	19,952	**20,969**	20,969
Capital injection (Note (a))	**3,458**	–	**3,458**	–
Share of loss of jointly controlled entities	**(3,975)**	(1,859)	**–**	–
At end of year	**17,576**	18,093	**24,427**	20,969
Amounts due from a jointly controlled entity	**1,498**	315	**–**	–

As at 31 December 2013, the Group had direct interests in the following jointly controlled entities as follows:

Name of jointly controlled entities	Date of incorporation/ establishment	Attributable equity interest		Registered Capital	Type of legal entity	Principal activities/ place of incorporation and operation
		2013	2012			
Anest Iwata Feeler Corporation ("AIF")	23 November 2009	**35%**	35%	USD7,500,000	Jointly controlled entity	Manufacture and sales of air compressor and parts, PRC
Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler)	20 October 2010	**50%**	50%	USD100,000	Jointly controlled entity	Wholesale and export of parking garage structures, PRC
Hangzhou Feeler Mectron Machinery Co., Ltd ("Feeler Mectron")	14 April 2011	**45%**	45%	USD1,110,000	Jointly controlled entity	Manufacture and sales of machine tools and related products, PRC
Hangzhou Union Friend Machinery Co., Ltd. ("UFM")	15 March 2013	**55%**	–	USD550,000	Jointly controlled entity	Manufacture and sales of machine tools and related products, PRC

19 INVESTMENT IN JOINTLY CONTROLLED ENTITIES – GROUP AND COMPANY *(Continued)*

Note (a): In March 2013, the Company contributed approximately USD550,000 (equivalent to RMB3,458,000) paid-in capital into a new jointly controlled entity in China, namely Hangzhou Union Friend Machinery Co., Ltd. ("UFM"). UFM is established by four parties, including the Company, Takamatsu Machinery Co., Ltd., Yamasan Tekko Co., Ltd. and Sumizawa Tekko Co., Ltd. which are all third party companies. Equity interests held by each company as of 31 December 2013 were 55%, 15%, 15%and 15%, respectively.

According to the articles of association of UFM, the decision of the meeting of the board of directors will be valid on the condition that more than half of the votes are cast in favour of the resolution. There are two representations of the Company in the board of UFM which consists of four directors. Accordingly, the Group accounts for the investment in UFM as a jointly controlled entity and adopts equity method to account for its interests.

Summarised financial information for jointly controlled entities.

Set out below are the summarised financial information for the jointly controlled entities which are accounted for using equity method.

Summarised balance sheet

	AIF		Nippon Cable Feeler		Feeler Mectron		UFM		Total	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Current										
Cash	**2,115**	1,416	**808**	736	**312**	185	**1,298**	–	**4,533**	2,337
Other current asset	**10,312**	10,109	**1**	1	**6,838**	6,206	**161**	–	**17,312**	16,316
Total current assets	**12,427**	11,525	**809**	737	**7,150**	6,391	**1,459**	–	**21,845**	18,653
Short term borrowings	**(5,038)**	–	**–**	–	**–**	–	**–**	–	**(5,038)**	–
Other financial liabilities (including trade payable)	**(4,493)**	(1,212)	**(1)**	(1)	**(2,940)**	(1,506)	**443**	–	**(6,991)**	(2,719)
Total current liabilities	**(9,531)**	(1,212)	**(1)**	(1)	**(2,940)**	(1,506)	**443**	–	**(12,029)**	(2,719)
Non-current										
Assets	**38,178**	39,630	**–**	–	**589**	551	**3,258**	–	**42,025**	40,181
Financial liabilities	**(6,290)**	(6,290)	**–**	–	**–**	–	**–**	–	**(6,290)**	(6,290)
Total non-current liabilities	**(6,290)**	(6,290)	**–**	–	**–**	–	**–**	–	**(6,290)**	(6,290)
Net assets	**34,784**	43,653	**808**	736	**4,799**	5,436	**5,160**	–	**45,551**	49,825

Notes to the Consolidated Financial Statements

19 INVESTMENT IN JOINTLY CONTROLLED ENTITIES – GROUP AND COMPANY *(Continued)*

Summarised statement of comprehensive income

	AIF		Nippon Cable Feeler		Feeler Mectron		UFM		Total	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Revenue	**17,935**	2,799	**137**	62	**2,533**	515	**88**	–	**20,693**	3,376
Cost of goods sold	**(23,925)**	(4,142)	**–**	–	**(2,667)**	(531)	**(542)**	–	**(27,134)**	(4,673)
Other expense	**(2,879)**	(2,307)	**(60)**	(58)	**(503)**	(1,285)	**(673)**	–	**(4,115)**	(3,650)
Profit or loss from continuing operations	**(8,869)**	(3,650)	**77**	4	**(637)**	(1,301)	**(1,127)**	–	**(10,556)**	(4,947)
Income tax expense	**–**	–	**(5)**	3	**–**	–	**–**	–	**(5)**	3
Post-tax profit/(loss)from continuing operations and total comprehensive income	**(8,869)**	(3,650)	**72**	7	**(637)**	(1,301)	**(1,127)**	–	**(10,561)**	(4,944)
Share of profit/(loss) of jointly controlled entities	**(3,104)**	(1,278)	**36**	4	**(287)**	(585)	**(620)**	–	**(3,975)**	(1,859)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its investment in jointly controlled entities.

Summarised financial information

	AIF		Nippon Cable Feeler		Feeler Mectron		UFM		Total	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Opening net assets 1 January 2013	**43,653**	47,303	**736**	729	**5,436**	6,737	**–**	–	**49,825**	54,769
Capital injection	**–**	–	**–**	–	**–**	–	**6,287**	–	**6,287**	–
(Loss)/profit for the year	**(8,869)**	(3,650)	**72**	7	**(637)**	(1,301)	**(1,127)**	–	**(10,561)**	(4,944)
Closing net assets 31 December 2013	**34,784**	43,653	**808**	736	**4,799**	5,436	**5,160**	–	**45,551**	49,825
Equity interest	**35%**	35%	**50%**	50%	**45%**	45%	**55%**	55%	**–**	–
Investment in jointly controlled entities	**12,174**	15,279	**404**	368	**2,160**	2,446	**2,838**	–	**17,576**	18,093
Carrying value	**12,174**	15,279	**404**	368	**2,160**	2,446	**2,838**	–	**17,576**	18,093

20 DISPOSAL OF A SUBSIDIARY AND AN ASSOCIATE

The Group announced that on 27 September 2012, Sky Thrive Hong Kong Enterprise Limited ("Sky Thrive") (a subsidiary of the Group), Golden Friendship International Limited ("Golden Friendship") (a wholly owned subsidiary of the Company's ultimate holding company), World Ten Limited ("World Ten") (8.35% of its issued share capital held by the Company's ultimate holding company) and Alma S.r.l (an independent third party) entered into an agreement for the formation of FFG Europe S.p.A. ("FFG Europe") by way of asset/business injection, pursuant to which, amongst others, Sky Thrive will provide capital contribution in the form of (i) all of its 900,000 shares representing 15% interest held in Jobs Automazione S.p.A ("Jobs"); and (ii) its entire 100% equity interests in Sky Thrive Rambaudi S.r.l. ("Rambaudi"), in exchange of 30.16% equity interest in FFG Europe.

The assets and liabilities related to Rambaudi and investment in Jobs have been presented as held for sale as at 31 December 2012. Rambaudi and Jobs are both engaged in machine tools businesses. The transaction was completed on 1 January 2013.

Details of the loss in the transaction are as follows:

	1 January 2013 RMB'000
Carrying amount of net assets of Rambaudi being disposed of as at 1 January 2013	28,431
Carrying amount of investment in Jobs being disposed of as at 1 January 2013	13,571
Net assets of disposal companies reclassified as held-for-sale	42,002
Fair value of investment in FFG Europe as at 1 January 2013 (note 21)	32,260
Loss in the transaction	9,742

Notes to the Consolidated Financial Statements

20 DISPOSAL OF A SUBSIDIARY AND AN ASSOCIATE *(Continued)*

(a) **Net asset of Rambaudi disposed of are as follows:**

	1 January 2013 RMB'000
Property, plant and equipment	3,417
Intangible assets	14,542
Inventories	39,588
Debtors, deposits and prepayments	15,664
Cash and cash equivalents	2,277
Creditors, other payable and accrued charges	(32,202)
Current income tax liabilities	(469)
Borrowings	(9,981)
Deferred income tax liabilities	(4,405)
Net assets disposed of	28,431

Net cash outflow arising on disposal of Rambaudi for the year:

	RMB'000
Cash consideration received	–
Less: Cash and cash equivalents held by Rambaudi	(2,277)
Net cash and cash equivalents disposed of	(2,277)

Notes to the Consolidated Financial Statements

21 INVESTMENT IN AN ASSOCIATE

The formation of FFG Europe was completed on 1 January 2013, and it is owned approximately as to 30.16% by Sky Thrive, 15.05% by Golden Friendship, 14.79% by World Ten and 40% by Alma S.r.l upon completion (note 20).

There are two representations of the Group in the board of directors of FFG Europe and the Group has significant influence in FFG Europe. Accordingly, the Group accounted for such investment as an associate in the financial statements. Details are shown below:

	2013 RMB'000
Beginning of the year	–
Additions (Note 20)	32,260
Share of loss	(26,321)
Share of other comprehensive income	3,665
End of the year	9,604

Summarised financial information of an associate

Set out below are the summarised financial information for an associate which are accounted for using equity method.

Summarised balance sheet

	2013 RMB'000
Current	
Cash	29,794
Other current asset	546,909
Total current assets	576,703
Short term borrowings	(154,049)
Other financial liabilities (including trade payable)	(490,040)
Total current liabilities	(644,089)
Non-current	
Assets	176,132
Financial liabilities	(76,902)
Net assets	31,844

Notes to the Consolidated Financial Statements

21 INVESTMENT IN AN ASSOCIATE *(Continued)*

Summarised statement of comprehensive income

	2013 RMB'000
Revenue	643,330
Cost of goods sold	(375,887)
Other expenses	(352,836)
Loss from continuing operations	**(85,393)**
Income tax expense	(1,877)
Post-tax loss from continuing operations and total comprehensive income	**(87,270)**
Share of loss of an associate	(26,321)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its investment in an associate.

Summarised financial information

	2013 RMB'000
Opening net assets 1 January 2013	–
Capital injection	91,494
Other reserves	27,620
Loss for the year	(87,270)
Closing net assets 31 December 2013	**31,844**
Equity interest	30.16%
Investment in an associate	9,604
Carrying value 31 December 2013	**9,604**

22 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(a) Group

Assets as per consolidated balance sheet

31 December 2013

	Loans and receivables RMB'000	Available-for-sale RMB'000	2013 RMB'000
Debtors and deposits excluding prepayments	603,344	–	603,344
Available-for-sale financial asset	–	571	571
Amounts due from and prepayment to fellow subsidiaries and associates of ultimate holding company	1,786	–	1,786
Amount due from an investee	13,988	–	13,988
Amount due from ultimate holding company	1,912	–	1,912
Amount due from a jointly controlled entity	1,498	–	1,498
Amount due from an associate and its subsidiaries	12,495	–	12,495
Restricted bank deposits	60,167	–	60,167
Cash and cash equivalents (note 28)	235,829	–	235,829
Total	931,019	571	931,590

31 December 2012

	Loans and receivables RMB'000	Available-for-sale RMB'000	2012 RMB'000
Debtors and deposits excluding prepayments	588,195	–	588,195
Amounts due from and prepayment to fellow subsidiaries and associates of ultimate holding company	2,374	–	2,374
Amount due from a related company	–	–	–
Amount due from ultimate holding company	–	–	–
Amount due from a jointly controlled entity	315	–	315
Amount due from an associate	411	–	411
Restricted bank deposits	22,964	–	22,964
Cash and cash equivalents (note 28)	109,547	–	109,547
Total	723,806	–	723,806

Notes to the Consolidated Financial Statements

22 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

(a) Group *(Continued)*

Liabilities as per consolidated balance sheet

	Other financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Creditors, other payables and accrued charges	**449,133**	390,349
Amount due to ultimate holding company	**1,029**	5,898
Amount due to immediate holding company	**2,156**	1,980
Amount due to a fellow subsidiary	**321**	1,911
Amount due to subsidiaries of an associate	**293**	521
Amount due to a jointly controlled entity	**131**	–
Borrowings (note 33)	**367,752**	372,823
Total	**820,815**	773,482

(b) Company

Assets as per balance sheet

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
Debtors and deposits excluding prepayments	**8,694**	1,743
Amounts due from subsidiaries	**331,616**	331,989
Restricted bank deposits	**2,052**	–
Cash and cash equivalents (note 28)	**1,618**	1,658
Total	**343,980**	335,390

22 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

(b) Company *(Continued)*

Liabilities as per balance sheet

	Other financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Other payables and accrued charges	**20,454**	3,642
Amounts due to ultimate holding company	**–**	709
Amounts due to subsidiaries	**–**	3,046
Borrowings (note 33)	**269,214**	221,237
Total	**289,668**	228,634

23 DEBTORS, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivables	**589,106**	573,960	**8,671**	1,719
Less: provision for impairment of trade receivables	**(21,795)**	(23,240)	**–**	–
Trade receivables – net	**567,311**	550,720	**8,671**	1,719
Prepayments	**19,209**	33,089	**9,713**	4,139
Others	**36,033**	37,475	**23**	24
	622,553	621,284	**18,407**	5,882
Reclassified as held for sale (note 20)	**–**	10,790	**–**	–
Total debtors, deposits and prepayments	**622,553**	632,074	**18,407**	5,882

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

Notes to the Consolidated Financial Statements

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

At 31 December 2013 and 2012, the ageing analysis of trade debtors and bills receivable were as follows:

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Current – 30 days	**488,597**	461,395	**8,671**	1,719
31 – 60 days	**6,679**	11,825	**–**	–
61 – 90 days	**13,683**	5,353	**–**	–
91 – 180 days	**21,392**	25,656	**–**	–
Over 180 days	**58,755**	69,731	**–**	–
	589,106	573,960	**8,671**	1,719

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB110,084,000 (2012: RMB103,394,000) which were past due as at 31 December 2013 but the Group had not provided for impairment loss. The directors, after considering the trade relationship, credit status and past settlement history of these individual trade debtors, had concluded that these outstanding balances would be recovered. The Group does not hold any collateral over these balances.

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

	Group	
	2013 RMB'000	2012 RMB'000
0 – 30 days	**27,521**	11,546
31 – 60 days	**6,679**	11,370
61 – 90 days	**13,683**	5,353
91 – 180 days	**21,391**	25,656
Over 180 days	**40,810**	49,469
	110,084	103,394

As at 31 December 2012, trade debtors with an aggregate carrying amount which are denominated in Euro has been reclassified as held for sale was RMB10,790,000 and the ageing of such trade debtors was either current or within 30 days. These trade debtors were neither passed due nor impaired and no impairment loss has been made as at 31 December 2012. No such balance was noted as at 31 December 2013.

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

As of 31 December 2013, trade debtors of RMB21,795,000 (2012:RMB23,240,000) of the Group were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpected financial difficulties. The ageing of these receivables is as follows:

	2013 RMB'000	2012 RMB'000
0 – 30 days	**3,849**	2,523
31 – 60 days	**–**	455
61 – 90 days	**–**	–
91 – 180 days	**1**	–
Over 6 months	**17,945**	20,262
	21,795	23,240

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

	2013 RMB'000	2012 RMB'000
At 1 January	**23,240**	23,082
Provision for receivables impairment	**2,649**	5,525
Receivables written off during the year when proved to be uncollectible	**(4,094)**	(5,021)
Write-back	**–**	(346)
At 31 December	**21,795**	23,240

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

The Company had not provided for impairment loss against its trade debtors as at 31 December 2013 (2012: Nil). The Company's trade debtors were neither passed due nor impaired as at 31 December 2013 (2012: Nil).

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

Notes to the Consolidated Financial Statements

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

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**592,047**	602,917	**–**	–
US dollar	**12,419**	10,031	**425**	–
Euro	**14,917**	5,823	**14,912**	3,892
Other currencies	**3,170**	2,513	**3,070**	1,990
	622,553	621,284	**18,407**	5,882

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

24 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2013	2012
	RMB'000	RMB'000
At 1 January	**–**	–
Addition	**571**	–
At 31 December	**571**	–
Investment in shares of an unlisted company	**571**	–

24 AVAILABLE-FOR-SALE FINANCIAL ASSET *(Continued)*

As at 31 December 2013, available-for-sale financial asset includes the following:

Name	Country of incorporation	Principal activities	Particulars of issued shares held	Interest held
FFG Werke GmbH	Germany	Manufacturing and distribution of machine tools, spare parts and accessories; providing training and maintenance service for machine tools and products.	67,500	13.5%

On 17 October 2013, FFG Werke GmbH ("FFG Werke") was incorporated in Germany with the initial capital of Euro 30,000 divided into 30,000 ordinary shares, which were contributed by the shareholders of FFG Werke as to 10.00% by FFG Europe, 33.75% by World Ten, 33.75% by Golden Friendship, 13.50% by Sky Thrive and 9.00% by Golden Wealth Inc Limited (an independent third party).

On 20 December 2013, all shareholders of FFG Werke agreed to provide further equity contribution in proportion to their respective shareholding interests in FFG Werke and provide shareholders' loans for FFG Werke's future operations and acquisition of the industrial equipment business of MAG IAS GmbH, an independent company incorporated in Germany. Accordingly, Sky Thrive provided further equity contribution of Euro 63,450 (equivalent to RMB537,000) and shareholder's loan of Euro 1,654,050 (equivalent RMB13,988,000), respectively, in December 2013. The shareholder's loan is unsecured, interest-free and repayable on demand. The increase in share capital of FFG Werke was notarized and completed on 27 January 2014.

Moreover, on 20 December 2013, Sky Thrive agreed to arrange a letter of guarantee with a maximum amount of Euro 2,800,000 to secure the corresponding amount of the credit facilities to be provided by certain banks to FFG Werke. Such guarantee shall be available by the end of January 2014 for a term of twelve months from the respective dates of issuance of the corresponding letter of guarantee. Accordingly, Sky Thrive has arranged irrecoverable letters of guarantee of total amount of Euro 2,744,652 in 2014. As at 31 December 2013, FFG Werke has not utilised the aforesaid letter of guarantee.

Management consider that the Group has no significant influence or control on FFG Werke and hence the investment has been accounted for as an available-for-sale financial asset as at 31 December 2013.

As at 31 December 2013, the unlisted equity investment in FFG Werke with a carrying amount of RMB571,000 (2012: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not tend to dispose of it in the near future.

Notes to the Consolidated Financial Statements

25 INVENTORIES – GROUP

	2013 RMB'000	2012 RMB'000
Raw materials	**124,777**	143,266
Work in progress	**69,931**	85,709
Finished goods	**94,995**	130,483
	289,703	359,458
Provision	**(10,687)**	(4,913)
	279,016	354,545
Reclassified as held for sale (note 20)	**–**	39,588
	279,016	394,133

The cost of inventories recognised as expense and included in 'cost of revenue' amounted to RMB956,548,000 (2012: RMB1,129,644,000) (note 7).

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

	2013 RMB'000	2012 RMB'000
Contract costs incurred plus recognised profits less recognised losses	**173,630**	148,924
Less: Progress billings	**(198,938)**	(158,501)
	(25,308)	(9,577)

	2013 RMB'000	2012 RMB'000
Amounts due from contract customers	**24,651**	27,902
Amounts due to contract customers	**(49,959)**	(37,479)
Net amounts due to customers for contract work	**(25,308)**	(9,577)

As at 31 December 2013, retention money held by customers for contract work included in debtors amounted to RMB7,207,000 (2012: RMB4,718,000).

27 RESTRICTED BANK DEPOSITS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Restricted bank deposits	**60,167**	22,964	**2,052**	–

The amounts mainly represent deposits placed in banks for guarantees issued for trade finance facilities used by the Group. The deposits have a maturity period within one year and they carry fixed rate interest at 0.4% (2012: 0.5%) per annum.

28 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**41,278**	68,259	**1,618**	1,658
Short-term bank deposits	**194,551**	41,288	**–**	–
Cash and cash equivalents	**235,829**	109,547	**1,618**	1,658
Reclassified as held for sale (note 20)	**–**	2,277	**–**	–
	235,829	111,824	**1,618**	1,658

(a) The cash at bank and on hand are denominated in the following currencies:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**231,732**	106,262	**204**	286
US dollar	**3,016**	1,985	**636**	452
Euro	**318**	683	**317**	389
Other currencies	**763**	617	**461**	531
	235,829	109,547	**1,618**	1,658

(b) The effective interest rate on short-term bank deposits ranged from2.85% to 3.25% (2012: 2.86% to 3.25%) per annum. These deposits have a maturity ranging from three to twelve months.

Notes to the Consolidated Financial Statements

29 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	Nominal value RMB'000
Ordinary share of HK$0.01 each		
Authorised:		
At 31 December 2012 and 31 December 2013	1,000,000	10,211
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and 31 December 2013	403,200	4,022

30 RESERVES – GROUP AND COMPANY

Group

			Other reserves				
	Share premium RMB'000	Capital reserve RMB'000	General reserve RMB'000	Enterprise expansion reserve RMB'000	Translation RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012	183,088	77,338	35,836	9,089	(1,142)	374,137	678,346
Dividends paid	(60,487)	–	–	–	–	–	(60,487)
Profit for the year	–	–	–	–	–	42,022	42,022
Currency translation difference	–	–	–	–	(2,012)	–	(2,012)
At 31 December 2012	122,601	77,338	35,836	9,089	(3,154)	416,159	657,869
Dividends paid	(40,320)	–	–	–	–	–	(40,320)
Profit for the year	–	–	–	–	–	36,868	36,868
Share of other comprehensive income of an associate	–	–	3,665	–	–	–	3,665
Currency translation difference	–	–	–	–	10,896	–	10,896
At 31 December 2013	82,281	77,338	39,501	9,089	7,742	453,027	668,978

30 RESERVES – GROUP AND COMPANY *(Continued)*

Group *(Continued)*

Notes:

(i) Under Section 34(2) of the Companies Law, Cap. 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be applied by the Company paying dividends to members provided that no dividend may be paid to members out of the share premium account unless, immediately following the date on which the dividend proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

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

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

Company

	Share premium RMB'000	**Other reserves** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2012	183,588	12,136	25,678	221,402
Dividends paid	(60,487)	–	–	(60,487)
Currency translation difference	–	(3,195)	–	(3,195)
Profit for the year	–	–	22,977	22,977
At 31 December 2012	123,101	8,941	48,655	180,697
Dividends paid	(40,005)	–	–	(40,005)
Currency translation difference	–	(1,309)	–	(1,309)
Loss for the year	–	–	(2,095)	(2,095)
At 31 December 2013	83,096	7,632	46,560	137,288

Notes to the Consolidated Financial Statements

31 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES – GROUP

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**218,424**	160,460	**4,365**	–
Advance deposits from customers	**161,632**	185,381	**11,780**	1,957
Other payables	**33,308**	35,077	**–**	–
Accrued expenses	**35,769**	25,409	**4,309**	1,685
	449,133	406,327	**20,454**	3,642
Reclassified as held for sale (note 20)	**–**	32,202	**–**	–
	449,133	438,529	**20,454**	3,642

The Group normally receives credit terms of 30 to 60 days. At 31 December 2013 and 2012, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current – 30 days	**147,068**	107,195	**4,365**	–
31 – 60 days	**47,603**	40,426	**–**	–
61 – 90 days	**9,841**	5,906	**–**	–
91 – 180 days	**10,450**	2,645	**–**	–
Over 180 days	**3,462**	4,288	**–**	–
	218,424	160,460	**4,365**	–

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

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**423,231**	397,064	**–**	–
US dollars	**8,464**	4,871	**3,092**	–
Euro	**13,124**	–	**13,049**	–
HK dollars	**4,314**	4,392	**4,313**	3,642
	449,133	406,327	**20,454**	3,642

As at 31 December 2012, trade creditors with an aggregate carrying amount which are denominated in Euro has been reclassified as held for sale was RMB32,202,000 and the ageing of such trade creditors was either current or within 30 days.

32 WARRANTY PROVISION – GROUP

	2013	2012
	RMB'000	RMB'000
At 1 January	**6,702**	8,278
Provision for the year	**4,936**	4,568
Utilisation of provision	**(4,864)**	(6,144)
At 31 December	**6,774**	6,702

Notes to the Consolidated Financial Statements

33 BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Current				
– Secured (note(a))	**1,250**	–	**–**	–
– Unsecured (note(b))	**366,502**	372,823	**269,214**	221,237
Reclassified as held for sale (note 20)	**–**	9,981	**–**	–
Total borrowings	**367,752**	382,804	**269,214**	221,237

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

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Effective interest rates	**1.80% to 6.72% per annum**	1.70% to 7.87% per annum	**1.80% to 3.05% per annum**	1.70% to 4.28% per annum

At 31 December 2013, the Group's borrowings were repayable as follows:

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Within 1 year	**367,752**	372,823	**269,214**	221,237

33 BORROWINGS – GROUP AND COMPANY *(Continued)*

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

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**–**	200	**–**	–
HK dollars	**96,956**	104,973	**76,646**	55,949
US dollars	**270,796**	267,650	**192,568**	165,288
	367,752	372,823	**269,214**	221,237

The Group had the following undrawn borrowing facilities as at 31 December 2013:

	Group	
	2013	2012
	RMB'000	RMB'000
Floating rate loans:		
– Expiring within one year	**658,958**	620,388

Note:

(a) The Group has pledged its land use rights with carrying amounts of approximately RMB5,393,966 (note 14) (2012: RMB5,525,526) as at 31 December 2012 to secure the general banking facilities granted to it. As at 31 December 2013, the Group has utilised such secured bank facilities of RMB1,250,000 (2012: Nil).

(b) As at 31 December 2013, the Company has given corporate guarantees for the banking facilities granted to certain subsidiaries amounting to RMB265,215,000 (2012: RMB292,276,000) of which RMB98,538,000 (2012: RMB151,292,000) has been utilised.

As at 31 December 2013, cross guarantees between subsidiaries of RMB225,000,000 (2012: RMB130,000,000) have been provided to secure the bank borrowings of which no balance has been utilised (2012: RMB100,000).

As at 31 December 2013, the Company's bank borrowings of RMB35,028,000 (2012: RMB37,713,000) were secured by personal guarantees given by a director of the Company.

(c) The facilities expiring within one year are annual facilities granted by banks which are subject to review at various dates throughout 2014.

Notes to the Consolidated Financial Statements

34 DEFERRED INCOME TAX – GROUP

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

	Group	
	2013	2012
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**4,520**	4,541
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**–**	4,090
– Deferred tax liability to be recovered within 12 months	**18,775**	19,090
	18,775	23,180

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

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**4,541**	4,534
(Charge)/Credit to consolidated statement of comprehensive income	**(21)**	7
At 31 December	**4,520**	4,541

34 DEFERRED INCOME TAX – GROUP *(Continued)*

Deferred tax assets	Group Allowance for doubtful receivables RMB'000	Allowance for inventories RMB'000	Warranty provision RMB'000	Total RMB'000
At 1 January 2013	3,357	135	1,042	4,534
(Charge)/Credit to consolidated statement of comprehensive income	(114)	242	(121)	7
At 31 December 2013	3,243	377	921	4,541
(Charge)/Credit to consolidated statement of comprehensive income	(18)	11	(14)	(21)
At 31 December 2013	3,225	388	907	4,520

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

	Group **2013** **RMB'000**	2012 RMB'000
At 1 January	**23,180**	21,800
Charge to consolidated statement of comprehensive income	**–**	3,323
Withholding tax paid	**–**	(1,958)
Disposal of a subsidiary	**(4,405)**	–
Exchange difference	**–**	15
At 31 December	**18,775**	23,180

Notes to the Consolidated Financial Statements

34 DEFERRED INCOME TAX – GROUP *(Continued)*

	Group		
Deferred tax liabilities	**Withholding tax on distributable profit of subsidiaries in the PRC**	**Business combination**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2012	17,096	4,704	21,800
Charge/(Credit) to consolidated statement of comprehensive income	3,637	(314)	3,323
Withholding tax paid	(1,958)	–	(1,958)
Exchange difference	–	15	15
At 31 December 2012	18,775	4,405	23,180
Disposal of a subsidiary	–	(4,405)	(4,405)
At 31 December 2013	18,775	–	18,775

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

At the balance sheet date, the Group had unutilised tax losses of approximately RMB50,855,000 (2012: RMB44,384,000) available for offsetting against future profits. No deferred tax asset had been recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

34 DEFERRED INCOME TAX – GROUP *(Continued)*

The expiry dates of these tax losses are as follows:

	2013 **RMB'000**	2012 RMB'000
With expiry in:		
2013	**–**	5,407
2014	**6,142**	6,142
2015	**1,595**	1,595
2016	**16,482**	16,482
2017	**14,758**	14,758
2018	**11,878**	–

Notes to the Consolidated Financial Statements

35 CASH GENERATED FROM OPERATIONS

	2013 RMB'000	2012 RMB'000
Profit before income tax	**54,388**	60,440
Adjustments for:		
– Amortisation of land use rights (note 14)	**943**	943
– Depreciation of property, plant and equipment (note 15)	**27,046**	27,046
– Depreciation of investment properties (note 16)	**21**	94
– Amortisation of intangible assets (note 17)	**675**	3,532
– Share of loss of jointly controlled entities (note 19)	**3,975**	1,859
– Share of loss/(profit) of an associate (note 21)	**26,321**	(197)
– Loss on disposal of property, plant and equipment (see below)	**287**	730
– Loss on disposal of a subsidiary and an associate	**9,742**	–
– Interest income (note 6)	**(5,363)**	(2,385)
– Finance costs (note 9)	**7,964**	11,168
– Effect on currency exchange difference	**(8,328)**	(2,367)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	**75,529**	138,658
– Debtors, deposits and prepayments	**(7,326)**	(9,497)
– Amounts due from customers for contract work	**3,251**	1,233
– Amount due from ultimate holding company	**(1,912)**	–
– Amounts due from a fellow subsidiary and an associate of ultimate holding company	**588**	(2,085)
– Creditors, other payables and accrued charges	**49,582**	(166,148)
– Amounts due to customers for contract work	**12,480**	11,115
– Amount due to ultimate holding company	**(4,869)**	4,356
– Amount due to immediate holding company	**176**	(2,644)
– Amount due to a jointly controlled entity	**131**	(315)
– Balances with associate companies and their subsidiaries	**(12,312)**	110
– Amount due to a fellow subsidiary	**(1,590)**	(9,750)
– Warranty provision	**72**	(1,576)
Cash generated from operations	**231,471**	64,320

35 CASH GENERATED FROM OPERATIONS *(Continued)*

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

Group	2013 RMB'000	2012 RMB'000
Net book amount (note 15)	**5,954**	1,458
Loss on disposal of property, plant and equipment (note 7)	**(287)**	(730)
Proceeds from disposal of property, plant and equipment	**5,667**	728

36 CONTINGENT LIABILITY

Saved as disclosed in note 24 to the consolidated financial statements, the Group and the Company have no other contingent liability as at 31 December 2013 (2012: Nil).

Notes to the Consolidated Financial Statements

37 COMMITMENTS

(a) Capital commitments

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

Group	2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Acquisition of machinery and equipment	**984**	2,395

(b) Operating lease commitments

The Group as lessee

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

Group	2013 RMB'000	2012 RMB'000
No later than 1 year	**2,650**	6,202
Later than 1 year and no later than 5 years	**54**	2,020
	2,704	8,222

38 RELATED-PARTY TRANSACTIONS AND BALANCES

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

(a) Transactions

Name of company	Relationship	Nature of transactions	2013 RMB'000	2012 RMB'000
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	**720**	997
		Purchases of goods	**18,592**	51,013
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Sales of goods	**601**	1
		Purchases of goods	**4**	17
Good Friend (H. K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	**87,352**	82,708
Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine")	Fellow subsidiary	Sales of goods	**8**	4
Hangzhou Anest Iwata Feeler Corporation ("Anest Iwata Feeler")	Jointly controlled entity	Sales of goods	**45**	6,574
		Purchases of goods	**141**	280
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	**12**	28
SANCO Machine & Tools Co., Ltd.("SANCO")	Fellow subsidiary	Purchases of goods	**12,095**	57,831
Jobs	Subsidiary of an associate of the Group	Purchases of goods	**–**	4,879
SIGMA technology S.r.l	Subsidiary of an associate of the Group	Purchase of goods	**4,622**	–
Hangzhou Feeler Mectron Machinery Co., Ltd.	Jointly controlled entity	Sales of goods	**140**	–
		Purchases of goods	**1,049**	–
Rambaudi	Subsidiary of an associate of the Group	Sales of goods	**6**	–
Hangzhou Nippon Cable Feeler Corporation	Jointly controlled entity	Sales of goods	**8**	–

Note:

The terms of the above transactions are governed based on framework agreements entered into between the Company and the respective related parties.

Notes to the Consolidated Financial Statements

38 RELATED-PARTY TRANSACTIONS AND BALANCES

(b) Balances

Name of company	Relationship	Nature of balances	2013 RMB'000	2012 RMB'000
Fair Friend	Ultimate holding company	Trade receivable (note (a))	**1,912**	–
		Trade payable (note (b))	**(1,029)**	(5,898)
Hong Kong GF	Immediate holding company	Trade payable (note (b))	**(2,156)**	(1,980)
Fair Fine (controlled by Mr. Chen Min-Ho)	Fellow subsidiary	Trade receivable (note (a))	**152**	17
SANCO	Fellow subsidiary	Trade payable (note (b))	**(321)**	(1,911)
		Trade receivable (note (a))	**1,616**	2,356
Best Friend	Associate of ultimate holding company	Prepayment for purchase and trade receivables (note (a))	**–**	1
Feeler Takamatsu	Associate of ultimate holding company	Trade receivable (note (a))	**18**	–
Anest Iwata Feeler (controlled by Mr. Wen Chi-Tang)	Jointly controlled entity	Trade receivable (note (a))	**1,093**	315
		Trade payable (note (b))	**(41)**	–
Hangzhou Feeler Mectron Machinery Co., Ltd.	Jointly controlled entity	Trade receivable (note (a))	**405**	–
		Trade payable (note (b))	**(90)**	–
SIGMA technology S.r.l	Subsidiary of an associate of the Group	Trade receivable (note (a))	**2,569**	–
		Trade payable (note (b))	**(226)**	–
SIGMA Machinery Co., Ltd	Subsidiary of an associate of the Group	Trade payable (note (b))	**(67)**	–

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

(b) Balances *(Continued)*

Name of company	Relationship	Nature of balances	**2013 RMB'000**	2012 RMB'000
Jobs	Subsidiary of an associate of the Group (formerly an associate of the Group as at 31 December 2012)	Trade receivable (note (a))	**330**	411
		Trade payable (note (b))	**–**	(521)
Rambaudi	Subsidiary of an associate of the Group	Trade receivable (note (a))	**9,596**	–

Notes:

(a) The Group allowed a normal credit period of 90 days for sales made to the fellow subsidiaries, the ultimate holding company and its associate company, and subsidiaries of associated company. Balances are unsecured and interest free. As of 31 December 2013 and 2012, the ageing of above balances was mostly within 6 to 12 months.

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

(c) **Key management compensation**

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

	2013 RMB'000	2012 RMB'000
Salaries and other allowances	**3,440**	2,158

39 HOLDING COMPANIES

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

40 EVENT AFTER THE BALANCE SHEET DATE

Save as disclosed in Note 24, the Company and the Group have no other significant events occurred after the balance sheet date.

Five-Year Financial Summary

OPERATING RESULTS

For the year ended 31 December

	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
Revenue	776,838	1,374,183	1,884,132	1,540,856	**1,350,271**
Gross profit	214,801	355,535	439,216	308,947	**309,771**
Profit before taxation	107,684	193,806	197,032	60,440	**54,388**
Profit for the year attributable to equity holders of the Company	84,145	158,746	153,690	42,022	**36,868**
Earnings per share – basic (RMB)	0.25	0.41	0.38	0.10	**0.09**

ASSETS AND LIABILITIES

As at 31 December

	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
Non-current assets	245,109	322,262	371,929	345,271	**330,119**
Net current assets	132,930	318,503	332,239	339,800	**361,656**
Total assets less current liabilities	378,039	640,765	704,168	685,071	**691,775**
Share capital	3,431	4,022	4,022	4,022	**4,022**
Reserves	359,424	614,341	678,346	657,869	**668,978**
Shareholders' equity	362,855	618,363	682,368	661,891	**673,000**
Non-current liabilities	15,184	22,402	21,800	23,180	**18,775**
	378,039	640,765	704,168	685,071	**691,775**