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 2014

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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
China Development Industrial Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Industrial Bank of Taiwan
Mega International Commercial Bank
Yuanta Bank
BNP

STOCK CODE

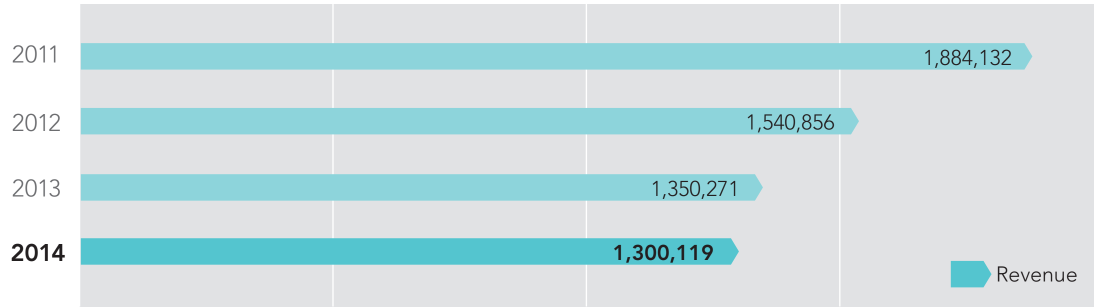
2398

WEBSITE

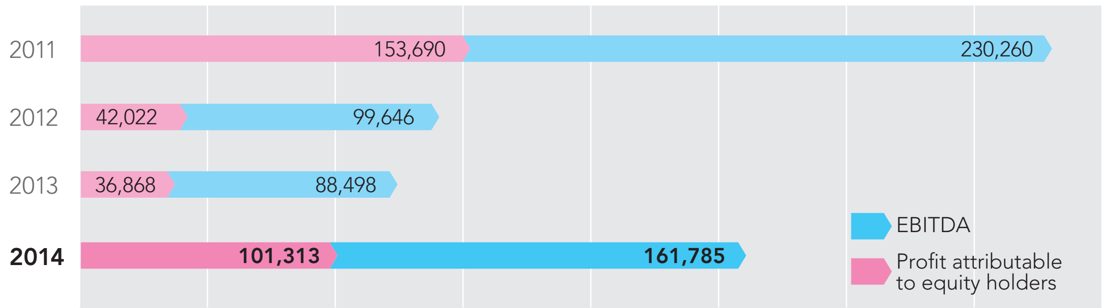
http://www.goodfriend.hk

Financial Highlights

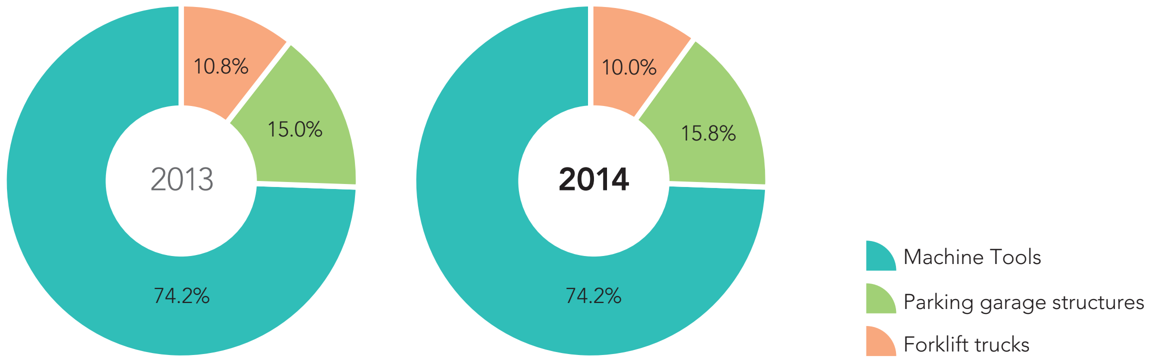
REVENUE (RMB'000)



PROFIT (RMB'000)



BUSINESS SEGMENTS (In terms of revenue)



Financial Highlights

TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2014 RMB'000	2013 RMB'000	Change (%)
Revenue	**1,300,119**	1,350,271	-3.7%
Gross profit	**344,894**	309,771	11.3%
EBITDA	**161,785**	88,498	82.8%
Profit attributable to equity holders	**101,313**	36,868	174.8%
Shareholders' equity	**726,695**	673,000	8.0%
Total assets	**1,628,064**	1,584,014	2.8%
Earnings per share – basic (RMB)	**0.25**	0.09	177.8%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2014	2013	Change (%)
Gross profit margin *Note 1*	**26.5%**	22.9%	15.7%
Net profit margin *Note 2*	**7.8%**	2.7%	188.9%
Inventory turnover days *Note 3*	**98.3**	97.9	0.4%
Debtors' turnover days *Note 4*	**130.2**	153.4	-15.1%
Creditors' turnover days *Note 5*	**78.3**	76.6	2.2%
Current ratio (Times) *Note 6*	**1.5**	1.4	7.1%
Quick ratio (Times) *Note 7*	**1.2**	1.1	9.1%
Gearing ratio (%) *Note 8*	**24.7%**	23.2%	6.5%
EBITDA/Finance costs (Times) *Note 9*	**17.6**	11.1	58.6%
Return on equity (%) *Note 10*	**13.9%**	5.5%	152.7%

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 2014, the Group recorded revenue of approximately RMB1,300.12 million, representing a decrease of approximately 3.7% compared to the previous year. Whilst profit attributable to equity holders for the year amounted to approximately RMB101.31 million, representing an increase of approximately 174.80% compared to RMB36.87 million in 2013.

FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 29 May 2015, a final dividend of RMB0.06 (equivalent to approximately HK$0.0758 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 27 March 2015) per share for the year ended 31 December 2014, amounting to RMB24.19 million (equivalent to approximately HK$30.56 million) payable to shareholders whose names appear on the register of members of the Company on Wednesday, 10 June 2015. The payment date of the final dividend will be announced later.

Chairman's Statement

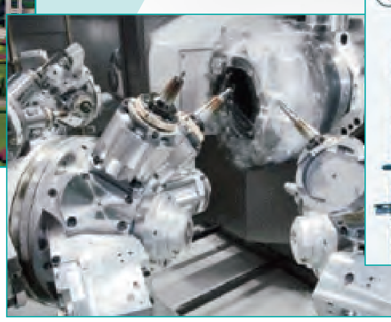
BUSINESS REVIEW

The global economy saw sluggish growth in 2014 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 7.4% year on year in 2014. The year-on-year growth slowed down further, marking the slowest growth rate since 1990. China has entered into a new economic norm, switching from fast growth to medium to fast growth. The mainstream product of the Group CNC machine tools focus mainly on the China market. Sales orders for the Group's CNC machine tools business were also affected by that. For the year ended 31 December 2014, sales volume and sales revenue of CNC machine tools amounted to 2,102 units and approximately RMB964.77 million respectively, both representing a decrease when compared to 2013. Nevertheless, the gross profit margin of CNC machine tools business increased to approximately 30.5% during the year. This was attributable to the decrease of the raw material prices during the year.

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 RMB140.51 million for the year, and accounted for approximately 14.6% 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.

On the other hand, FFG Werke GmbH ((“FFG Werke”), an entity incorporated in Germany), in which the Group holds a 13.50% equity interest, recorded encouraging results in its turnover and operating performance in 2014 which was its first year of operations. The management believes that FFG Werke would be beneficial to the future business development as well as the results of the Group; whilst those renowned machines tools brands under FFG Werke could further enhance the product portfolio of the Group. Moreover, the Group has incorporated a wholly-owned entity at the China (Shanghai) Pilot Free Trade Zone in 2014. The activities of this Shanghai entity is mainly in exploring and selling the high-end machine tools brands of FFG Werke (including “Huller Hille”) to customers in China.

Chairman's Statement



FFG EUROPE

VDF BOEHRINGER

HÜLLER HILLE DIEDESHEIM

HESSAPP

Honsberg

MODUL

WITZIG & FRANK

PROSPECTS

In 2015, the China government will step up efforts in the structural adjustment of the economy and implement proactive fiscal policy and relatively relaxed monetary policy, so as to maintain the steady development of the economy. A year-on-year GDP growth rate of about 7% 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.

It is expected the operating environment in 2015 will still bring enormous challenges. With the current business environment, the Group will continue to strengthen its business foundation under a consistent and cautions manner under a tough market environment in order to maintain the Group's competitiveness. 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 as well as to maintain sound financial conditions, 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, 27 March 2015

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2014, the Group recorded revenue of approximately RMB1,300.12 million, representing a decrease of approximately 3.7% as compared to 2013. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,102 units, 13,215 units and 1,997 units respectively (2013 comparative figures: 2,073 units, 12,396 units and 2,221 units). CNC machine tools remained the major source of the Group's revenue. During the year, sales revenue of the CNC machine tools business amounted to approximately RMB964.77 million, representing a decrease of approximately 3.7% as compared to 2013. Revenue of CNC machine tools accounted for approximately 74.2% of the Group's total revenue. On the other hand, sales revenue of forklift trucks amounted to approximately RMB129.54 million during the year, representing a decrease of approximately 11.2% as compared to 2013 and accounted for approximately 10% of the total revenue. Moreover, sales revenue of the Group's parking garage structures business during the year was increased by approximately 1.6%, as compared to 2013, to approximately RMB205.81 million and approximately 15.8% of the Group's total revenue.

Gross profit and margin

For the year ended 31 December 2014, gross profit of the Group amounted to approximately RMB344.89 million. Overall gross profit margin was approximately 26.5%, compared to 22.9% for 2013. The gross profit margin of CNC machine tools (the Group's major product) during the year increased as compared to 2013. As a result, the overall gross profit margin for the year increased.

Distribution and selling expenses

Distribution and selling expenses amounted to approximately RMB129.48 million for the year ended 31 December 2014 representing a decrease of 12.2% as compared to last year. This was mainly attributable to the stringent control of the corresponding expenses by the management. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 10.0%, compared to approximately 10.9% for 2013.

Administrative expenses

Administrative expenses for the year ended 31 December 2014 increased by approximately 15.7% as compared to 2013. This was mainly attributable to the increase of the allowance for bad and doubtful debts.

Finance costs

During the year, finance costs increased to approximately RMB9.17 million. The increase was primarily due to the increase of average bank borrowings of the Group during 2014.

Share of loss of an associate

For the year ended 31 December 2014, share of loss of an associate amounted to approximately RMB8.56 million. The amount represented the Group's share of loss of the associate "FFG Europe", located in Italy, during the year. The decrease of the share of loss was due to the significant improvement of the operating results of FFG Europe during the year.

Profit attributable to the equity holders of the Company

For the year ended 31 December 2014, profit attributable to the equity holders of the Company amounted to approximately RMB101.31 million, representing an increase of approximately 174.8% as compared to 2013.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had net current assets of approximately RMB440.43 million (2013: RMB361.66 million), shareholders' fund of approximately RMB726.70 million (2013: RMB673.00 million) and short-term bank borrowings of approximately RMB402.08 million (2013: RMB367.75 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 2014 amounted to approximately RMB262.75 million (2013: RMB211.83 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.5 times (2013: 1.4 times). The gearing ratio (ratio of total debts to total assets) was approximately 24.7% (2013: 23.2%), indicating that the Group continued to maintain a solid financial position.

Management Discussion and Analysis

CAPITAL STRUCTURE AND TREASURY POLICIES

The share capital of the Company as at 31 December 2014 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2013: 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 2014, the total outstanding short-term borrowings stood at approximately RMB402.08 million (2013: RMB367.75 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangements during the year.

SIGNIFICANT INVESTMENT

The Group had no significant investment held for the year ended 31 December 2014.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2014.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2014 are set out in note 5 to the consolidated financial statements.

STAFF AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed a total of 1,500 (2013: 1,400) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB130.14 million (2013: RMB123.70 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 RMB4.23 million (2013: RMB9.58 million) to the said schemes.

CAPITAL COMMITMENTS AND CONTINGENCIES

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB0.74 million (2013: RMB0.98 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2014 (2013: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2014, restricted bank deposits with an amount of approximately RMB134.68 million (2013: RMB60.17 million) represented mainly deposits placed in banks for guarantees issued for finance facilities used by the Group.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB15.94 million (2013: RMB5.39 million) to secure general banking facilities granted to them. As at 31 December 2014, the subsidiaries have utilised such secured bank facilities of RMB2.90 million (2013: 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 2014. 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 2014, 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 68, 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 69, 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 64, 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 50, 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 29 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 57, 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 30 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 58, 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, all of which are companies listed on the Main Board of the Stock Exchange. He is a certified public accountant.

Mr. Koo also served as an independent non-executive director of Weichai Power Co., Ltd., which is listed on the Main Board of the Stock Exchange from October 2003 to June 2012.

Mr. Chiang Chun-Te, (江俊德先生), aged 54, 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 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 the independent director of Swancor Ind. Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). From 2001 to December 2014, he served as the president and general manager of PK Investment Corp.

Biographical Details of Directors and Senior Management

Mr. Yu Yu-Tang (余玉堂先生), aged 78, 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 56, was appointed as the manufacturing, marketing and after sales service manager of Hangzhou Global Friend and is responsible for the manufacturing, operating, marketing and after sales service 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 1 July 2000 and has over 29 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 53, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend and then was promoted as the senior manager with effect from January 2014. He joined the Group in October 2000 and has over 30 years of experience in the machine tools industry.

Mr. Yeh Ming-Pin (葉明彬先生), aged 47, 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 17 years of experience in the fields of auditing, accounting and finance.

Mr. Yip Sai Keung, Esmond (葉世強先生), aged 49, 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 2014.

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 2014 is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 46 to 121.

The Directors declared an interim dividend of RMB0.06 (equivalent to approximately HK$0.0754) per share to those shareholders whose names appeared on the register of members on 15 October 2014, amounting to approximately RMB24.19 million (equivalent to approximately HK$30.40 million) which was paid on 22 October 2014.

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 29 May 2015, a final dividend of RMB0.06 (equivalent to approximately HK$0.0758 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 27 March 2015) per share for the year ended 31 December 2014, amounting to RMB24.19 million (equivalent to approximately HK$30.56 million) payable to shareholders whose names appear on the register of members of the Company on Wednesday, 10 June 2015. 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, 26 May 2015 to Friday, 29 May 2015, 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 Friday, 22 May 2015.

The register of members will also be closed from Monday, 8 June 2015 to Wednesday, 10 June 2015, 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, 5 June 2015.

Report of the Directors

RESERVES

Movements in the reserves of the Company during the year are set out in note 29 to the consolidated financial statements.

ANNUAL GENERAL MEETING

The 2015 annual general meeting will be held on Friday, 29 May 2015. Details of the 2015 annual general meeting, notice of annual general meeting and proxy form are set out in the circular of the Company dated 27 April 2015 which will be despatched to shareholders of the Company together with the 2014 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 2014 are set out in note 28 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2014 are set out in note 32 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and as at 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 (the "Articles"), Messrs. Wen Chi-Tang, Chiang Chun-Te and Yu Yu-Tang, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 (the "Listing Rules"). The Company considers all independent non-executive Directors to be 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 spouses or children under 18 years of age, or were any such rights exercised by them; or were 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 2015 with the Company for a term of three years commencing from 11 January 2015 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.

A 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 37 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 2014, 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.

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 2014, 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(a). **Long positions in shares, underling shares and debentures of the Company**

Name of director	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	Corporate interest	20,000,000 shares	4.96%

Note: These 20,000,000 shares were beneficially owned by Sunward Gold Global Investments Limited, a company in which Mr. Chu Chih-Yaung has an interest of approximately 72.22%.

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

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	24,161,347 shares	15.35%
Mr. Chu Chih-Yaung *(Note 1)*	Taiwan FF	Spouse interest	4,201,925 shares	2.67%
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%
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%

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
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%

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung ("Mr. Chu"), held 4,201,925 Shares (representing 2.67% 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 21,988 Shares (representing 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 1,000 Shares (representing 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 14,700 Shares (representing 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 2014, 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 2014, 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 2014, 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 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2014, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

EMOLUMENT POLICY

A remuneration committee has been 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 37 to the consolidated financial statements. Details of any related party transactions which also constitute connected transactions or continuing connected transactions not exempted under Rule 14A.73 of the Listing Rules are disclosed below. The Group has complied with the requirements in accordance with Chapter 14A of the Listing Rules in respect of such transactions.

Non-exempt continuing connected transaction(s)

1. 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.

As disclosed in the announcement of the Company on 22 May 2014 and the circular of the Company on 6 June 2014, the Company had on 22 May 2014 entered into agreements with Taiwan FF to renew the Components Agreement (the "**Renewed Components Agreement**") and the Machine Tools Agreement (the "**Renewed Machine Tools Agreement**") respectively for a period of three years from 27 June 2014.

As Taiwan FF is a controlling shareholder of the Company, Taiwan FF is therefore a connected person of the Company. The transactions under the Components Agreement, the Machine Tools Agreement, the Renewed Components Agreement and the Renewed 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 period from 1 January 2014 to 22 June 2014 under the Components Agreement were RMB1.30 million and RMB235.60 million respectively. The annual cap for the purchase of CNC machine tools from the FF Parties by the GF Parties for the period from 1 January 2014 to 22 June 2014 under the Machine Tools Agreement was RMB91.70 million.

The resolutions approving the Renewed Components Agreement and the Renewed 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 27 June 2014. 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 period from 27 June 2014 to 31 December 2014 under the Renewed Components Agreement were RMB2.42 million and RMB58.07 million respectively. The annual cap for the purchase of CNC machine tools from the FF Parties by the GF Parties for the period from 27 June 2014 to 31 December 2014 under the Renewed Machine Tools Agreement was RMB62.68 million.

2. As disclosed in the announcement of the Company on 9 July 2014 and the circular of the Company on 22 July 2014, FFG Werke and Sky Thrive had on 9 July 2014 entered into a guarantee procurement deed (the "**Guarantee Procurement Deed**"), pursuant to which FFG Werke may, during the period from 6 August 2014 to the date immediately preceding the expiry of 12 months thereafter, request Sky Thrive to (at the absolute discretion of Sky Thrive) procure the issuance of bank guarantees in respect of sales contracts between any member of FFG Werke and its subsidiaries (the "**FFG Werke Group**") and the customer(s) of the FFG Werke Group in favour of the customers for a maximum amount of Euro 10,600,000.

   As FFG Werke is an associate of Taiwan FF, a controlling shareholder and connected person of the Company, FFG Werke is therefore a connected person of the Company. The transactions under the Guarantee Procurement Deed 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 Guarantee Procurement Deed and the transactions contemplated thereunder were duly passed by the independent shareholders of the Company at the extraordinary general meeting held 6 August 2014.

The independent non-executive directors of the Company have reviewed the Components Agreement, the Machine Tools Agreement, the Renewed Components Agreement, the Renewed Machine Tools Agreement and the Guarantee Procurement Deed and the transactions thereunder conducted during the year and confirmed that they have been entered into:–

(i) 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, the Machine Tools Agreement, the Renewed Components Agreement, the Renewed Machine Tools Agreement and the Guarantee Procurement Deed 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 issued a report of its factual findings to the board of directors of the Company confirming the matters as required in accordance with Rule 14A.56 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 2014.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 13.97% of the Group's total turnover for the year and the largest customer accounted for approximately 6.41% of the Group's total turnover. The five largest suppliers accounted for approximately 28.68% of the Group's total purchases for the year and the largest supplier accounted for approximately 15.16% 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 Corporate Governance Code and Corporate Governance Report 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 2014.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 32 to 43.

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 2014 have been audited by the auditor of the Company, PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the 2015 annual general meeting.

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

Hong Kong, 27 March 2015

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 and Corporate Governance Report (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 and the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve connected transaction or any other transaction that requires independent shareholders' approval. The chairman of the Board was unable to attend the annual general meeting held on 13 June 2014 due to his business trip and Mr. Chiu Rung-Hsien, an executive Director, took the chair of the annual general meeting pursuant to the Articles of Association of the Company. The three independent non-executive directors constituting the independent board committee were unable to attend the extraordinary general meeting held on 6 August 2014 to approve disclosable and continuing connected transaction and provision of financial assistance due to their other business commitments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 2014, 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.

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 2014:

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 2014, 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	2/4
Mr. CHEN Hsiang-Jung	2/4
Mr. CHEN Min-Ho	2/4
Mr. WEN Chi-Tang	2/4
Mr. CHIU Rung-Hsien	3/4
Mr. KOO Fook Sun, Louis	3/4
Mr. CHIANG Chun-Te	4/4
Mr. YU Yu-Tang	3/4

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

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

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

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 2014. The audited financial statements of the Company for the year ended 31 December 2014 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 2014, 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	3/3
Mr. YU Yu-Tang	3/3

NOMINATION OF DIRECTORS

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

The Company established a nomination committee (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. Wen Chi-Tang, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2014 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.

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 that 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.

Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2014 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 Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2014 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.

OTHER BOARD COMMITTEES

During the year, an independent board committee comprising all the three independent non-executive directors was formed for continuing connected transactions involving (i) renewal of framework agreement for purchase and supply of components; and (ii) renewal of exclusive framework agreement for the purchase of designated CNC machine tools. Details of these continuing connected transactions etc were set out in a circular of the Company dated 6 June 2014.

Another independent board committee comprising all the three independent non-executive directors was formed for the disclosable and continuing connected transaction involving provision of financial assistance. Details of this disclosable and continuing connected transaction were set out in a circular of the Company dated 22 July 2014.

Two committee meetings were held with the presence of the committee members.

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 was 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	1,790
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.

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 2014, 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 13 June 2014 (the "2014 AGM"). A notice convening the 2014 AGM contained in the circular dated 30 April 2014 was dispatched to the Shareholders together with the 2013 Annual Report. Mr. Chiu Rung-Hsien, the Executive Director and Mr. Koo Fook Sun, Louis, the Chairman of the committees of the Board, attended the 2014 AGM to answer the questions from the Shareholders. Other directors were unable to attend the 2014 AGM due to their other business commitment.

Besides, extraordinary general meetings of the Company were held on 27 June 2014 and 6 August 2014, respectively (the "EGMs") to approve, respectively, (i) continuing connected transactions; and (ii) disclosable and continuing connected transactions of the Company etc. Mr. Chen Hsiang-Jung attended and act as chairman of the EGMs. Other Directors (except Mr. Koo Fook Sun, Louis attended the EGM held on 27 June 2014) were unable to attend the EGMs due to their other business commitment.

The Chairman of the 2014 AGM and EGMs explained detailed procedures for conduction a poll. All the resolutions proposed at the 2014 AGM and EGMs 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.

The forthcoming annual general meeting of the Company will be held on 29 May 2015 (the "2015 AGM"). A notice convening 2015 AGM will be published on the websites of the Stock Exchange and the Company and dispatched together with the 2014 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.

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.

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 requisitionist(s) as a result of the failure of the Board shall reimbursed to the requisitionist(s) by the Company.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the requisitionist(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 2014.

Hong Kong, 27 March 2015

Independent Auditor's Report

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 46 to 121, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2015

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	5	**1,300,119**	1,350,271
Cost of revenue	7	**(955,225)**	(1,040,500)
Gross profit		**344,894**	309,771
Other income	6	**33,520**	28,738
Distribution and selling expenses	7	**(129,480)**	(147,533)
Administrative expenses	7	**(99,528)**	(86,025)
Other operating expenses	7	**(4,144)**	(2,561)
Operating profit		**145,262**	102,390
Finance costs	9	**(9,174)**	(7,964)
Share of loss of joint ventures	19	**(2,458)**	(3,975)
Share of loss of an associate	20	**(8,559)**	(26,321)
Loss on disposal of a subsidiary and an associate		**–**	(9,742)
Profit before income tax		**125,071**	54,388
Income tax expense	10	**(23,758)**	(17,520)
Profit attributable to equity holders of the Company		**101,313**	36,868
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of an associate		**162**	3,665
Currency translation differences	29	**(3,428)**	10,896
Total comprehensive income for the year attributable to equity holders of the Company		**98,047**	51,429
Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	12	**0.25**	0.09

The notes on pages 53 to 121 are an integral part of these consolidated financial statements.

Dividends	13	**48,384**	40,320

Consolidated Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Land use rights	14	**37,538**	38,481
Property, plant and equipment	15	**227,448**	256,100
Investment properties	16	**9,419**	249
Intangible assets	17	**1,696**	1,458
Investments in joint ventures	19	**18,357**	17,576
Investment in an associate	20	**1,207**	9,604
Available-for-sale financial asset	23	**571**	571
Deferred income tax assets	33	**6,144**	4,520
Deposits for purchases of plant and equipment		**–**	1,560
		302,380	330,119
Current assets			
Inventories	24	**257,257**	279,016
Debtors, deposits and prepayments	22	**513,983**	622,553
Amount due from an investee	23	**12,525**	13,988
Amounts due from customers for contract work	25	**32,494**	24,651
Amount due from ultimate holding company	37	**532**	1,912
Amounts due from and prepayment to fellow subsidiaries and an associate of ultimate holding company	37	**296**	1,786
Amount due from joint ventures	37	**891**	1,498
Amount due from subsidiaries of an associate	37	**12,274**	12,495
Restricted bank deposits	26	**134,681**	60,167
Term deposits with initial term of over three months	27	**98,000**	24,000
Cash and cash equivalents	27	**262,751**	211,829
		1,325,684	1,253,895
Total assets		**1,628,064**	1,584,014
Equity			
Equity attributable to equity holders of the Company			
Share capital	28	**4,022**	4,022
Share premium	29	**82,281**	82,281
Capital reserves	29	**77,338**	77,338
Other reserves	29	**53,066**	56,332
Retained earnings	29	**509,988**	453,027
Total equity		**726,695**	673,000

Consolidated Balance Sheet

		As at 31 December	
		2014	2013
	Note	**RMB'000**	RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	33	**16,118**	18,775
Current liabilities			
Creditors, other payables and accrued charges	30	**410,211**	449,133
Amounts due to customers for contract work	25	**42,800**	49,959
Amount due to ultimate holding company	37	**1,716**	1,029
Amount due to immediate holding company	37	**3,447**	2,156
Amount due to a fellow subsidiary and an associate of ultimate holding company	37	**784**	321
Amount due to subsidiaries of an associate	37	**1,128**	293
Amount due to joint ventures	37	**76**	131
Current income tax liabilities		**16,681**	14,691
Warranty provision	31	**6,329**	6,774
Borrowings	32	**402,079**	367,752
		885,251	892,239
Total liabilities		**901,369**	911,014
Total equity and liabilities		**1,628,064**	1,584,014
Net current assets		**440,433**	361,656
Total assets less current liabilities		**742,813**	691,775

The notes on pages 53 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 46 to 121 were approved by the Board of Directors on 27 March 2015 and were signed on its behalf.

Chu Chih-Yaung
Director

Chen Hsiang-Jung
Director

Company Balance Sheet

		As at 31 December	
		2014	2013
	Note	**RMB'000**	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**8**	21
Investments in subsidiaries	18	**52,837**	52,837
Investments in joint ventures	19	**27,666**	24,427
		80,511	77,285
Current assets			
Debtors, deposits and prepayments	22	**14,882**	18,407
Amounts due from subsidiaries	18	**331,264**	331,616
Restricted bank deposits	26	**2,370**	2,052
Cash and cash equivalents	27	**1,784**	1,618
		350,300	353,693
Total assets		**430,811**	430,978
Equity			
Equity attributable to equity holders of the Company			
Share capital	28	**4,022**	4,022
Share premium	29	**83,096**	83,096
Other reserves	29	**7,973**	7,632
Retained earnings	29	**46,080**	46,560
Total equity		**141,171**	141,310

Company Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
Current liabilities			
Other payables and accrued charges	30	**13,934**	20,454
Borrowings	32	**275,706**	269,214
		289,640	289,668
Total liabilities		**289,640**	289,668
Total equity and liabilities		**430,811**	430,978
Net current assets		**60,660**	64,025
Total assets less current liabilities		**141,171**	141,310

The notes on pages 53 to 121 are an integral part of these financial statements.

The financial statements on pages 46 to 121 were approved by the Board of Directors on 27 March 2015 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 2013		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
Comprehensive income:							
Profit for the year		–	–	–	–	101,313	101,313
Other comprehensive income:							
Share of other comprehensive income of an associate		–	–	–	162	–	162
Currency translation difference		–	–	–	(3,428)	–	(3,428)
Total comprehensive income		–	–	–	(3,266)	101,313	98,047
Dividends paid	13	–	–	–	–	(44,352)	(44,352)
Balance at 31 December 2014		4,022	82,281	77,338	53,066	509,988	726,695

The notes on pages 53 to 121 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	**242,521**	239,799
Income tax and withholding tax paid		**(26,049)**	(10,443)
Net cash generated from operating activities		**216,472**	229,356
Cash flows from investing activities			
Investment in a joint venture		**(3,239)**	(3,458)
Investment in an available-for-sale financial asset		**–**	(571)
Increase in loans to investee		**–**	(13,988)
Purchases of property, plant and equipment ("PPE")		**(4,221)**	(4,802)
Proceeds from sale of PPE	34	**567**	5,667
Purchases of intangible assets		**(939)**	(727)
Interest received		**9,995**	5,363
Increase in restricted bank deposits		**(74,514)**	(37,203)
Increase in term deposits with initial term of over three months		**(74,000)**	(24,000)
Net cash paid from disposal of a subsidiary		**–**	(2,277)
Net cash used in investing activities		**(146,351)**	(75,996)
Cash flows from financing activities			
Proceeds from borrowings		**192,455**	791,390
Repayments of borrowings		**(158,128)**	(796,461)
Dividends paid to equity holders		**(44,352)**	(40,320)
Interests paid		**(9,174)**	(7,964)
Net cash used in financing activities		**(19,199)**	(53,355)
Net increase in cash and cash equivalents		**50,922**	100,005
Cash and cash equivalents at beginning of year	27	**211,829**	111,824
Cash and cash equivalents at end of year	27	**262,751**	211,829

The notes on pages 53 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 27 March 2015.

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 consolidated financial statements are prepared in accordance with applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

2.1.1 Changes in accounting policy and disclosures

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

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

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

Amendment to HKAS 32, "Financial instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group's financial statements.

Amendments to HKAS 36, "Impairment of assets", on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units ("CGUs") which had been included in HKAS 36 by the issue of HKFRS 13.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

(b) New standards and interpretations not yet adopted:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted: (Continued)

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKAS 9's full impact.

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKAS 15.

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

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.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(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.

2.2.2 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 Associate

An associate is an entity 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 an associate 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 an associate includes goodwill identified on acquisition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associate *(Continued)*

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.

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 an associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.4 Joint arrangements

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

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.

(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 joint venture 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 associate or joint ventures 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 2.11).

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 Financial assets

2.12.1 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 joint ventures', '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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.2 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. Unlisted equity financial assets are stated at cost less impairment because the range of reasonable fair value estimates is so significant that the fair value cannot be measured reliably. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.13 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.

2.14 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)*

2.14 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.

2.15 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.

2.16 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.

2.17 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 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.

2.19 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.

2.20 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.

2.21 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)*

2.22 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 joint ventures 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, associate 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 associate. 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, associate 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(c) Offsetting

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 tax 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.

2.23 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.

2.24 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)*

2.25 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.

2.26 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition *(Continued)*

(d) Repair income is recognised when service are rendered.

(e) Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

2.27 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.

2.28 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.

2.29 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 2014, if RMB had strengthened/weakened by 5% (2013: 5%) against the Hong Kong dollars with all other variables held constant, profit for the year would have been approximately RMB3,382,000 higher/lower (2013: approximately RMB4,403,000 higher/lower).

At 31 December 2014, if RMB had strengthened/weakened by 5% (2013: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB13,444,000 higher/lower (2013: approximately RMB11,070,000 higher/lower).

At 31 December 2014, if RMB had strengthened/weakened by 5% (2013: 5%) against Euro with all other variables held constant, profit for the year would have been approximately RMB1,200,000 higher/lower (2013: approximately RMB966,000 higher/lower).

Company

At 31 December 2014, if RMB had strengthened/weakened by 5% (2013: 5%) against the Hong Kong dollars with all other variables held constant, profit for the year would have been approximately RMB2,521,000 higher/lower (2013: approximately RMB3,415,000 higher/lower).

At 31 December 2014, if RMB had strengthened/weakened by 5% (2013: 5%) against the United States dollars with all other variables held constant, profit for the year would have been approximately RMB9,200,000 higher/lower (2013: approximately RMB8,157,000 higher/lower).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk (Continued)

Company (Continued)

At 31 December 2014, if RMB had strengthened/weakened by 5% (2013: 5%) against Euro with all other variables held constant, profit for the year would have been approximately RMB583,000 higher/lower (2013: approximately RMB275,000 higher/lower).

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

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest bearing assets and liabilities except for the deposits in banks and certain bank loans, details of which have been disclosed in Note 27 and Note 32, respectively.

Group

At 31 December 2014, 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 RMB73,000 (2013: RMB67,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Company

At 31 December 2014, 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 RMB28,000 (2013: RMB27,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Credit risk

As at 31 December 2014, 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 joint venture, 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 2014, 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

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

The credit risk on cash and cash equivalents is considered insignificant because the counterparties are banks with credit ratings not lower than Baa2 (2013: Baa2) assigned by international credit-rating agencies.

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

	Group Maximum exposure	
	2014	2013
	RMB'000	RMB'000
Credit risk exposure relating to off – balance sheet items:		
– Financial guarantees (note 23)	**102,703**	23,673

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

In order to manage the liquidity risk, the Group monitors and maintains cash and cash equivalents and unused credit facilities at a level which is deemed to be adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The Group had unutilised credit facilities of RMB692,723,000 (2013: RMB658,958,000) granted by several financial institutions as at 31 December 2014. 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 2014					
Creditors, other payables and accrued charges	410,211	–	–	–	–
Borrowings	367,718	37,002	–	–	
Amount due to ultimate holding company	1,716	–	–	–	–
Amount due to immediate holding company	3,447	–	–	–	–
Amount due to a fellow subsidiary and an associate of ultimate holding company	784	–	–	–	–
Amount due to subsidiaries of an associate	1,128	–	–	–	–
Amount due to a joint venture	76	–	–	–	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

Group

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 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 joint ventures	131	–	–	–	–

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 2014					
Other payables and accrued charges	13,934	–	–	–	–
Borrowings	258,838	18,358	–	–	–
At 31 December 2013					
Other payables and accrued charges	20,454	–	–	–	–
Borrowings	254,533	18,570	–	–	–

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.

	2014	2013
	RMB'000	RMB'000
Total borrowings (note 32)	**402,079**	367,752
Less: cash and cash equivalents (note 27)	**(262,751)**	(211,829)
Net debt	**139,328**	155,923
Total equity	**726,695**	673,000
Total capital	**866,023**	828,923
Gearing ratio	**16%**	19%

The decrease in the gearing ratio during 2014 was mainly due to the increase in profit.

3.3 Fair value estimation

As at 31 December 2014, 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.

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 2014, provision for impairment of trade debtors amounting to approximately RMB36,544,000 (2013: RMB21,795,000) had been recognised.

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

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.

(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.

(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 2014				
Revenue (all from external sales)	964,771	205,808	129,540	1,300,119
Cost of revenue	(670,124)	(167,124)	(117,977)	(955,225)
Segment profit	294,647	38,684	11,563	344,894

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 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

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

	2014 RMB'000	2013 RMB'000
Sale of scrap materials	**7,542**	5,065
Net exchange gain	**–**	3,040
Government subsidies	**1,550**	6,619
Repair income	**6,646**	4,924
Rental income from investment properties	**2,108**	65
Interest income	**9,995**	5,363
Others	**5,679**	3,662
	33,520	28,738

7 EXPENSES BY NATURE

	2014 RMB'000	2013 RMB'000
Cost of inventories sold	**868,176**	956,548
Sales commission	**24,461**	45,876
Depreciation of property, plant and equipment	**26,162**	24,863
Depreciation of investment properties	**20**	21
Amortisation of intangible assets	**415**	319
Amortisation of land use rights	**943**	943
Operating lease rental on land and buildings	**9,102**	9,762
Employee benefit expenses	**118,908**	112,588
Allowance for bad and doubtful debts, net	**15,306**	2,649
Allowance for inventories, net	**7,009**	5,774
Auditor's remuneration	**1,410**	1,578
Provision for warranty	**6,766**	4,936
Direct operating expenses arising from investment properties that generated rental income	**1,938**	–
Loss on disposal of property, plant and equipment	**296**	287
Net exchange loss	**2,849**	–
Research and development expenses*	**36,691**	41,697
Transportation fees	**13,772**	13,790
Others	**54,153**	54,988
Total cost of revenue, distribution and selling expenses, administrative expenses and other operating expenses	**1,188,377**	1,276,619

* Depreciation of property, plant and equipment, amortisation of intangible assets and employee benefit expenses amounting to RMB1,898,000, RMB286,000 and RMB11,232,000 were included in research and development expenses (2013: RMB2,183,000, RMB356,000 and RMB11,116,000 respectively).

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

	2014 RMB'000	2013 RMB'000
Wages and salaries	**82,483**	79,217
Bonus	**23,927**	21,225
Welfare and other allowance	**19,498**	13,686
Pension costs – defined contribution plans	**4,232**	9,576
	130,140	123,704

(a) Directors' emoluments

The remuneration of each director is set out below:

Year ended 31 December 2014

	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	653	653	144	144	144	200	100	100	2,138

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

Chairman

* Chief executive officer

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 (2013: none) was a director of the Company. The emoluments of the five (2013: five) individuals were as follows:

	2014	2013
	RMB'000	RMB'000
Basic salaries and allowances	**1,926**	2,248
Bonus	**2,130**	1,586
Pension costs – defined contribution plans	**191**	106
	4,247	3,940

The emolument fell within the following bands:

	Number of individuals	
	RMB'000	**RMB'000**
Emolument bands (in HKD)		
Less than HKD1,000,000	3	3
HKD1,000,001 – HKD1,500,000	1	1
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 2013 and 2014, 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

	2014 RMB'000	2013 RMB'000
Interest expense:		
– Bank borrowings wholly repayable within one year	**9,174**	7,964

10 INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
Enterprise income tax	**25,382**	17,499
Deferred tax (note 33)	**(1,624)**	21
	23,758	17,520

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 2014, 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 2014. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2014 is 15% (2013: 15%).

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:

	2014 **RMB'000**	2013 RMB'000
Profit before income tax	**125,071**	54,388
Tax calculated at tax rates applicable to the principal operating entities of the Group	**17,056**	10,577
Tax effects of:		
Expenses not deductible for tax purposes	**1,054**	698
Utilisation of previously unrecognised tax losses	**(1,152)**	(372)
Tax losses for which no deferred income tax asset was recognised	**2,162**	1,618
Unrecognised temporary differences	**2,820**	–
Associate's and joint ventures' results reported net of tax	**1,818**	4,999
Tax charge	**23,758**	17,520

11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB43,871,000 (2013: loss of RMB2,095,000).

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB101,313,000 (2013: RMB36,868,000) by the weighted average number of ordinary shares in issue during the year of 403,200,000 (2013: 403,200,000).

	2014	2013
Basic and diluted earnings per share (RMB per share)	**0.25**	0.09

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

13 DIVIDENDS

	2014 RMB'000	2013 RMB'000
Interim dividend paid of RMB0.06 (2013: RMB0.05) per ordinary share	**24,192**	20,160
Proposed final dividend of RMB0.06 (2013: RMB0.05) per ordinary share	**24,192**	20,160
	48,384	40,320

At a meeting of directors held on 27 March 2015, the directors resolved to recommend a final dividend of RMB0.06 (2013: RMB0.05) per share for the year ended 31 December 2014. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2014.

The proposed final dividend for the year ended 31 December 2014 is to be declared out of the retained earnings of the Company.

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 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:

	2014 RMB'000	2013 RMB'000
At 1 January	**38,481**	39,424
Amortisation	**(943)**	(943)
At 31 December	**37,538**	38,481

The Group has pledged its land use rights with carrying amounts of approximately RMB5,262,000 as at 31 December 2014 (2013: RMB5,394,000) to secure the general banking facilities (note 32) granted by the banks. As at 31 December 2014, the Group has utilised such secured bank facilities of RMB2,896,000 (2013: RMB1,250,000).

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 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 34)	(48)	(3,010)	(848)	(1,205)	(5,000)	(10,111)
At 31 December 2013 and 1 January 2014	201,715	156,191	29,851	19,211	12,375	419,343
Additions	35	3,774	674	3,597	1,381	9,461
Transfers	–	1,773	939	–	(2,712)	–
Transfer to investment properties (note 16)	(10,221)	–	–	–	–	(10,221)
Disposals (note 34)	–	(1,545)	(1,386)	(1,242)	–	(4,173)
At 31 December 2014	191,529	160,193	30,078	21,566	11,044	414,410
Accumulated depreciation and impairment						
At 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 34)	(11)	(2,445)	(731)	(970)	–	(4,157)
At 31 December 2013 and 1 January 2014	48,715	81,121	19,849	13,558	–	163,243
Provided for the year	9,281	2,922	2,351	3,506	–	28,060
Transfer to investment properties (note 16)	(1,031)	–	–	–	–	(1,031)
Disposals (note 34)	–	(942)	(1,249)	(1,119)	–	(3,310)
At 31 December 2014	56,965	93,101	20,951	15,945	–	186,962
Net book amount						
At 31 December 2014	134,564	67,092	9,127	5,621	11,044	227,448
At 31 December 2013	153,000	75,070	10,002	5,653	12,375	256,100

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Group *(Continued)*

Depreciation expense of RMB20,073,000 (2013: RMB20,567,000) had been charged in 'cost of goods sold', RMB1,559,000 (2013:RMB1,411,000) in 'selling and marketing costs' and RMB6,428,000 (2013: RMB5,068,000) in 'administrative expenses' (note 7).

Lease rental expenses amounting to RMB9,102,000 (2013: RMB9,762,000) relating to leasing of properties were included in the consolidated income statement (note 7). During the year, the Group entered into new lease agreements of certain portions of its property, plant and equipment to rent them to related parties. Accordingly, the relevant carrying amount of the property, plant and equipment as at the date of change of usage was transferred to investment properties.

The Group has pledged its buildings with carrying amounts of approximately RMB10,674,000 as at 31 December 2014 (2013: nil) to secure the general banking facilities (note 32) granted by the banks. As at 31 December 2014, the Group has utilised such secured bank facilities of RMB2,896,000 (2013: RMB1,250,000).

As at 31 December 2014, the Group is in the process of applying the building ownership certificate of certain buildings with the aggregated cost accounted to RMB99,338,000 (31 December 2013: RMB99,938,000)

(b) Company

	Office and computer equipment RMB'000
Cost	
At 1 January 2013	56
Additions	10
At 31 December 2013 and 1 January 2014	66
Additions	1
At 31 December 2014	67
Accumulated depreciation and impairment	
At 1 January 2013	38
Provided for the year	7

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company *(Continued)*

	Office and computer equipment RMB'000
At 31 December 2013 and 1 January 2014	45
Provided for the year	14
At 31 December 2014	59
Net book amount	
At 31 December 2014	8
At 31 December 2013	21

16 INVESTMENT PROPERTIES – GROUP

	2014 **RMB'000**	2013 RMB'000
Opening net book amount at 1 January	**249**	1,343
Transfer from/(to) property, plant and equipment (note 15)	**9,190**	(1,073)
Depreciation	**(20)**	(21)
Closing net book amount at 31 December	**9,419**	249

(a) Amounts recognised in profit and loss for investment properties

	2014 **RMB'000**	2013 RMB'000
Rental income (note 6)	**2,108**	65
Direct operating expenses from investment properties that generated rental income (note 7)	**(1,938)**	–
	170	65

17 INTANGIBLE ASSETS – GROUP

	Software RMB'000
At 1 January 2013	
Cost	8,865
Accumulated amortisation	(7,459)
Net book amount	1,406
Year ended 31 December 2013	
Opening net book amount	1,406
Additions	727
Amortisation charge (note 7)	(675)
Closing net book amount	1,458
At 31 December 2013	
Cost	9,592
Accumulated amortisation	(8,134)
Net book amount	1,458
Year ended 31 December 2014	
Opening net book amount	1,458
Additions	939
Amortisation charge (note 7)	(701)
Closing net book amount	1,696
At 31 December 2014	
Cost	10,531
Accumulated amortisation	(8,835)
Net book amount	1,696

Amortisation of RMB418,000 (2013: RMB418,000) and RMB283,000 (2013: RMB257,000) have been charged in cost of revenue and administrative expenses (note 7).

18 INVESTMENT IN SUBSIDIARIES – COMPANY

	2014 RMB'000	2013 RMB'000
Investments – unlisted shares, at cost:	**52,837**	52,837
Amounts due from subsidiaries	**331,264**	331,616

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

The following is a list of principal subsidiaries of the Group at 31 December 2014:

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%

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 Machinery Technology 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%

19 INVESTMENTS IN JOINT VENTURES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investments in joint ventures				
At beginning of the year	**17,576**	18,093	**24,427**	20,969
Capital injection (Note)	**3,239**	3,458	**3,239**	3,458
Share of loss of joint ventures	**(2,458)**	(3,975)	**–**	–
At end of year	**18,357**	17,576	**27,666**	24,427
Amounts due from joint ventures	**891**	1,498	**–**	–

As at 31 December 2014, the Company had direct interests in the following joint ventures as follows:

Name	Date of incorporation/ establishment	Attributable equity interest		Registered capital	Nature of relationship	Principal activities/ place of incorporation and operation
		2014	2013			
Anest Iwata Feeler Corporation ("AIF")	23 November 2009	**35%**	35%	USD9,000,000	Note 37	Manufacture and sales of air compressor and parts, PRC
Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler")	20 October 2010	**50%**	50%	USD100,000	Note 37	Wholesale and export of parking garage structures, PRC
Hangzhou Feeler Mectron Machinery Co., Ltd ("Feeler Mectron")	14 April 2011	**45%**	45%	USD1,110,000	Note 37	Manufacture and sales of machine tools and related products, PRC
Hangzhou Union Friend Machinery Co., Ltd. ("UFM")	15 March 2013	**55%**	55%	USD1,000,000	Note 37	Manufacture and sales of machine tools and related products, PRC

19 INVESTMENTS IN JOINT VENTURES – GROUP AND COMPANY *(Continued)*

Note:

In May 2014, the Company contributed approximately USD525,000 (equivalent to RMB3,239,000) as additional registered capital in AIF. AIF was jointly established in 2009 by the Company, Anest Iwata Corporation ("AIC"), a third party company, and Anest Iwata Taiwan ("AIT"), which is a joint venture of the Company's ultimate holding company. After the additional capital injections made by the Company, equity interests held by the Company, AIC and AIT in AIF are 35%, 35% and 30% respectively.

In March 2013, the Company contributed approximately USD 550,000 (equivalent to RMB3,458,000) paid-in capital into UFM which was 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 and 31 December 2014 were 55%, 15%, 15% and 15%, respectively.

Summarised financial information for joint ventures

Set out below are the summarised financial information for the joint ventures which are accounted for using equity method.

Summarised balance sheet

	AIF		Nippon Cable Feeler		Feeler Mectron		UFM		Total	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Current										
Cash	**3,971**	2,115	**869**	808	**998**	312	**377**	1,298	**6,215**	4,533
Other current asset	**12,979**	10,312	**1**	1	**5,551**	6,838	**279**	161	**18,810**	17,312
Total current assets	**16,950**	12,427	**870**	809	**6,549**	7,150	**656**	1,459	**25,025**	21,845
Short term borrowings	**(6,084)**	(5,038)	**–**	–	**–**	–	**–**	–	**(6,084)**	(5,038)
Other financial liabilities (including trade payable)	**(4,180)**	(4,493)	**(12)**	(1)	**(1,885)**	(2,940)	**418**	443	**(5,659)**	(6,991)
Total current liabilities	**(10,264)**	(9,531)	**(12)**	(1)	**(1,885)**	(2,940)	**418**	443	**(11,743)**	(12,029)
Non-current										
Assets	**37,666**	38,178	**–**	–	**511**	589	**2,944**	3,258	**41,121**	42,025
Financial liabilities	**(6,097)**	(6,290)	**–**	–	**–**	–	**–**	–	**(6,097)**	(6,290)
Total non-current liabilities	**(6,097)**	(6,290)	**–**	–	**–**	–	**–**	–	**(6,097)**	(6,290)
Net assets	**38,255**	34,784	**858**	808	**5,175**	4,799	**4,018**	5,160	**48,306**	45,551

19 INVESTMENTS IN JOINT VENTURES – GROUP AND COMPANY *(Continued)*

Summarised statement of comprehensive income

	AIF		Nippon Cable Feeler		Feeler Mectron		UFM		Total	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Revenue	**33,169**	17,935	**129**	137	**6,449**	2,533	**310**	88	**40,057**	20,693
Cost of goods sold	**(36,153)**	(23,925)	**(4)**	–	**(5,918)**	(2,667)	**(872)**	(542)	**(42,947)**	(27,134)
Other expense	**(2,799)**	(2,879)	**(59)**	(60)	**(155)**	(503)	**(580)**	(673)	**(3,593)**	(4,115)
Profit/(loss) before tax	**(5,783)**	(8,869)	**66**	77	**376**	(637)	**(1,142)**	(1,127)	**(6,483)**	(10,556)
Income tax expense	**–**	–	**(16)**	(5)	**–**	–	**–**	–	**(16)**	(5)
Profit/(loss) for the year	**(5,783)**	(8,869)	**50**	72	**376**	(637)	**(1,142)**	(1,127)	**(6,499)**	(10,561)
Share of profit/(loss) of joint ventures	**(2,024)**	(3,104)	**25**	36	**169**	(287)	**(628)**	(620)	**(2,458)**	(3,975)

Reconciliation of summarised financial information presented to the carrying amount of its investments in joint ventures.

Reconciliation of the summarised financial information presented to the carrying amount of its investments in joint ventures.

Summarised financial information

	AIF		Nippon Cable Feeler		Feeler Mectron		UFM		Total	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Opening net assets as at 1 January 2014	**34,784**	43,653	**808**	736	**4,799**	5,436	**5,160**	–	**45,551**	49,825
Capital injection	**9,254**	–	**–**	–	**–**	–	**–**	6,287	**9,254**	6,287
Profit (loss)/for the year	**(5,783)**	(8,869)	**50**	72	**376**	(637)	**(1,142)**	(1,127)	**(6,499)**	(10,561)
Closing net assets as at 31 December 2014	**38,255**	34,784	**858**	808	**5,175**	4,799	**4,018**	5,160	**48,306**	45,551
Equity interest	**35%**	35%	**50%**	50%	**45%**	45%	**55%**	55%	**–**	–
Investment in joint ventures	**13,389**	12,174	**429**	404	**2,329**	2,160	**2,210**	2,838	**18,357**	17,576
Carrying value as at 31 December	**13,389**	12,174	**429**	404	**2,329**	2,160	**2,210**	2,838	**18,357**	17,576

20 INVESTMENT IN AN ASSOCIATE

	2014 RMB'000	2013 RMB'000
Beginning of the year	9,604	–
Additions	–	32,260
Share of loss	(8,559)	(26,321)
Share of other comprehensive income	162	3,665
End of the year	1,207	9,604

As at 31 December 2014, the Group has interests in the following associate:

Name	Place of business/ country of incorporation	Principal activities	% of ownership interest	Nature of relationship	Measurement method
31 December 2014 and 2013					
FFG Europe S.p.A. ("FFG Europe")	Italy	Manufacture and sales of machine tools and related products	30.16%	Note 37	Equity

The formation of FFG Europe was completed on 1 January 2013 and it is owned approximately as to 30.16% by Sky Thrive Hong Kong Enterprise Limited ("Sky Thrive") (a subsidiary of the Company), 15.05% by Golden Friendship International Limited ("Golden Friendship") (a wholly owned subsidiary of the Company's ultimate holding company), 14.79% by World Ten Limited ("World Ten") (11.76% of its issued share capital held by the Company's ultimate holding company), and 40% by Alma S.r.l (an independent third party).

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.

20 INVESTMENT IN AN ASSOCIATE *(Continued)*

Summarised financial information of an associate

Summarised balance sheet

	2014 RMB'000	2013 RMB'000
Current		
Cash	**32,989**	29,794
Other current assets	**408,867**	546,909
Total current assets	**441,856**	576,703
Short term borrowings	**(182,729)**	(154,049)
Other financial liabilities (including trade payable)	**(331,876)**	(490,040)
Total current liabilities	**(514,605)**	(644,089)
Non-current		
Assets	**153,369**	176,132
Financial liabilities	**(76,618)**	(76,902)
Net assets	**4,003**	31,844

Summarised statement of comprehensive income

	2014 RMB'000	2013 RMB'000
Revenue	**521,112**	643,330
Cost of goods sold	**(268,077)**	(375,887)
Other expenses	**(285,602)**	(352,836)
Loss before tax	**(32,567)**	(85,393)
Income tax expense	**4,189**	(1,877)
Loss for the year	**(28,378)**	(87,270)
Share of loss of an associate	**(8,559)**	(26,321)

20 INVESTMENT IN AN ASSOCIATE *(Continued)*

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

	2014 RMB'000	2013 RMB'000
Opening net assets as at 1 January	31,844	–
Capital injection	–	91,494
Other reserves	537	27,620
Loss for the year	(28,378)	(87,270)
Closing net assets as at 31 December	4,003	31,844
Equity interest	30.16%	30.16%
Investment in an associate	1,207	9,604
Carrying value as at 31 December	1,207	9,604

21 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(a) Group

Assets as per consolidated balance sheet

31 December 2014

	Loans and receivables RMB'000	Available-for-sale RMB'000	2014 RMB'000
Debtors and deposits excluding prepayments	**488,316**	**–**	**488,316**
Available-for-sale financial asset	**–**	**571**	**571**
Amounts due from and prepayment to fellow subsidiaries and an associate of ultimate holding company	**296**	**–**	**298**
Amount due from an investee	**12,525**	**–**	**12,525**
Amount due from ultimate holding company	**532**	**–**	**532**
Amount due from joint ventures	**891**	**–**	**891**
Amount due from subsidiaries of an associate	**12,274**	**–**	**12,274**
Restricted bank deposits	**134,681**	**–**	**134,681**
Cash and cash equivalents (note 27)	**262,751**	**–**	**262,751**
Term deposits with initial term of over three months (note 27)	**98,000**	**–**	**98,000**
Total	**1,010,266**	**571**	**1,010,837**

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 an 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 joint ventures	1,498	–	1,498
Amount due from subsidiaries of an associate	12,495	–	12,495
Restricted bank deposits	60,167	–	60,167
Cash and cash equivalents (note 27)	211,829	–	211,829
Term deposits with initial term of over three months (note 27)	24,000	–	24,000
Total	931,019	571	931,590

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

(a) Group *(Continued)*

Liabilities as per consolidated balance sheet

	Other financial liabilities at amortised cost	
	2014	2013
	RMB'000	RMB'000
Creditors, other payables and accrued charges	**410,211**	449,133
Amount due to ultimate holding company	**1,716**	1,029
Amount due to immediate holding company	**3,447**	2,156
Amount due to a fellow subsidiary and an associate of ultimate holding company	**784**	321
Amount due to subsidiaries of an associate	**1,128**	293
Amount due to joint ventures	**76**	131
Borrowings (note 32)	**402,079**	367,752
Total	**819,441**	820,815

(b) Company

Assets as per balance sheet

	Loans and receivables	
	2014	2013
	RMB'000	RMB'000
Debtors and deposits excluding prepayments	**14,655**	8,694
Amounts due from subsidiaries	**331,264**	331,616
Restricted bank deposits	**2,370**	2,052
Cash and cash equivalents (note 27)	**1,784**	1,618
Total	**350,073**	343,980

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

(b) Company *(Continued)*

Liabilities as per balance sheet

	Other financial liabilities at amortised cost	
	2014	2013
	RMB'000	RMB'000
Other payables and accrued charges	**13,934**	20,454
Borrowings (note 32)	**275,706**	269,214
Total	**289,640**	289,668

22 DEBTORS, DEPOSITS AND PREPAYMENTS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors and bills receivables	**500,438**	589,106	**14,631**	8,671
Less: provision for impairment of trade receivables	**(36,544)**	(21,795)	**–**	–
Trade receivables – net	**463,894**	567,311	**14,631**	8,671
Prepayments	**25,667**	19,209	**227**	9,713
Others	**24,422**	36,033	**24**	23
Total debtors, deposits and prepayments	**513,983**	622,553	**14,882**	18,407

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.

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

At 31 December 2014 and 2013, the ageing analysis of trade debtors and bills receivable based on due date was as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current – 30 days	**383,483**	488,597	**14,631**	8,671
31 – 60 days	**5,141**	6,679	**–**	–
61 – 90 days	**11,542**	13,683	**–**	–
91 – 180 days	**20,366**	21,392	**–**	–
Over 180 days	**79,906**	58,755	**–**	–
	500,438	589,106	**14,631**	8,671

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB108,229,000 (2013: RMB110,084,000) which were past due as at 31 December 2014 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	
	2014	2013
	RMB'000	RMB'000
0 – 30 days	**21,658**	27,521
31 – 60 days	**5,141**	6,679
61 – 90 days	**11,542**	13,683
91 – 180 days	**20,336**	21,391
Over 180 days	**49,552**	40,810
	108,229	110,084

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

As of 31 December 2014, trade debtors of RMB36,544,000 (2013: RMB21,795,000) 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:

	2014 **RMB'000**	2013 RMB'000
0 – 30 days	**641**	3,849
31 – 60 days	**–**	–
61 – 90 days	**–**	–
91 – 180 days	**30**	1
Over 6 months	**35,873**	17,945
	36,544	21,795

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

	2014 **RMB'000**	2013 RMB'000
At 1 January	**21,795**	23,240
Provision for receivables impairment	**15,306**	2,649
Receivables written off during the year when proved to be uncollectible	**(557)**	(4,094)
At 31 December	**36,544**	21,795

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 2014 (2013: nil). The Company's trade debtors were neither passed due nor impaired as at 31 December 2014 (2013: nil).

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

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

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**479,582**	592,047	**-**	–
US dollar	**17,980**	12,419	**3,303**	425
Euro	**11,329**	14,917	**11,327**	14,912
Other currencies	**5,092**	3,170	**252**	3,070
	513,983	622,553	**14,882**	18,407

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.

23 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2014	2013
	RMB'000	RMB'000
At 1 January	**571**	–
Addition	**–**	571
At 31 December	**571**	571
Investment in shares of an unlisted company	**571**	571
Amount due from an investee	**12,525**	13,988

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

As at 31 December 2014, available-for-sale financial asset includes the following:

Name	Country of incorporation	Principal activities	Particulars of issued shares held	Interest held
FFG Werke GmbH ("FFG Werke")	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%

FFG Werke is owned approximately as to 43.75% 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).

As at 31 December 2014, Sky Thrive has provided a shareholder's loan of Euro1,654,050 (equivalent RMB12,525,000) (2013: Euro1,654,050 (equivalent RMB13,988,000)) to FFG Werke which is unsecured, interest-free and repayable on demand.

On 9 July 2014, FFG Werke and Sky Thrive entered into a guarantee procurement deed, pursuant to which Sky Thrive agreed to procure the issuance of the bank guarantees for the business operation of FFG Werke with maximum aggregate amount not exceeding Euro10,600,000 (equivalent RMB79,030,000). As at 31 December 2014, Sky Thrive has arranged the aforesaid bank guarantees of total amount of Euro226,000 (equivalent RMB1,680,0000). Subsequent to the balance sheet date, Sky Thrive has further provided bank guarantees and the total amount under all bank guarantees is now Euro6,464,000 (equivalent RMB48,190,000) in 2015.

On 20 December 2013, Sky Thrive agreed to arrange a letter of guarantee bank guarantees with a maximum amount of Euro 2,800,000 (approximately RMB23,673,000) to secure the corresponding amount of the credit facilities to be provided by certain banks to FFG Werke. As at 31 December 2014, Sky Thrive has arranged irrecoverable letters of guarantee of total amount of Euro2,745,000 (equivalent RMB20,466,000).

As at 31 December 2014, none of the abovementioned bank guarantees had been enforced by the issuing banks (2013: none).

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 2014.

As at 31 December 2014, the unlisted equity investment in FFG Werke with a carrying amount of RMB571,000 (2013: RMB571,000) 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 intend to dispose of it in the near future.

24 INVENTORIES – GROUP

	2014 RMB'000	2013 RMB'000
Raw materials	**103,419**	124,777
Work in progress	**68,470**	69,931
Finished goods	**103,064**	94,995
	274,953	289,703
Provision	**(17,696)**	(10,687)
	257,257	279,016

The cost of inventories recognised as expense and included in 'cost of revenue' amounted to RMB868,176,000, (2013: RMB956,548,000) (note 7).

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

	2014 RMB'000	2013 RMB'000
Contract costs incurred plus recognised profits less recognised losses	**210,070**	173,630
Less: Progress billings	**(220,376)**	(198,938)
	(10,306)	(25,308)

	2014 RMB'000	2013 RMB'000
Amounts due from contract customers	**32,494**	24,651
Amounts due to contract customers	**(42,800)**	(49,959)
Net amounts due to customers for contract work	**(10,306)**	(25,308)

As at 31 December 2014, retention money held by customers for contract work included in debtors amounted to RMB12,325,000 (2013: RMB7,207,000).

26 RESTRICTED BANK DEPOSITS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Restricted bank deposits	**134,681**	60,167	**2,370**	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% (2013: 0.4%) per annum.

27 CASH AND BANK BALANCES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**111,976**	41,278	**1,784**	1,618
Short-term bank deposits	**150,775**	170,551	**–**	–
Cash and cash equivalents	**262,751**	211,829	**1,784**	1,618
Term deposits with initial term of over three months	**98,000**	24,000	**–**	–
	360,751	235,829	**1,784**	1,618

(a) The cash at bank and on hand, short-term deposit and term deposit with initial term of over three months are denominated in the following currencies:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**357,423**	231,732	**2**	204
US dollar	**1,887**	3,016	**467**	636
Euro	**957**	318	**955**	317
Other currencies	**484**	763	**360**	461
	360,751	235,829	**1,784**	1,618

27 CASH AND BANK BALANCES – GROUP AND COMPANY *(Continued)*

(b) The effective interest rate on short-term bank deposits is 2.35% (2013: 2.60%) per annum. These deposits have a maturity ranging from one to three months.

(c) The effective interest rate on term deposits with initial term of over three months ranged from 2.35% to 2.75% (2013: 2.85% to 3.25%) per annum. These deposits have a maturity ranging from three to twelve months.

28 SHARE CAPITAL – GROUP AND COMPANY

	Number of shares (thousands)	**Nominal value** RMB'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	1,000,000	10,211
Issued and fully paid:		
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	403,200	4,022

29 RESERVES – GROUP AND COMPANY

Group

	Share premium RMB'000	Capital reserve RMB'000	Other reserves: General reserve RMB'000	Other reserves: Enterprise expansion reserve RMB'000	Other reserves: Translation RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013	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
Dividends paid	–	–	–	–	–	(44,352)	(44,352)
Profit for the year	–	–	–	–	–	101,313	101,313
Share of other comprehensive income of an associate	–	–	–	–	162	–	162
Currency translation difference	–	–	–	–	(3,428)	–	(3,428)
At 31 December 2014	82,281	77,338	39,501	9,089	4,476	509,988	722,673

Note:

(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 the consideration of 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.

29 RESERVES – GROUP AND COMPANY *(Continued)*

Company

	Share premium RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013	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
Dividends paid	–	–	(44,352)	(44,352)
Currency translation difference	–	341	–	341
Profit for the year	–	–	43,872	43,872
At 31 December 2014	83,096	7,973	46,080	137,149

30 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES – GROUP AND COMPANY

	Group		Company	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Trade creditors	**204,785**	218,424	**9,129**	4,365
Advance deposits from customers	**118,682**	161,632	**370**	11,780
Other payables	**41,847**	33,308	**–**	–
Accrued expenses	**44,897**	35,769	**4,435**	4,309
	410,211	449,133	**13,934**	20,454

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

The Group normally receives credit terms of 30 to 60 days. At 31 December 2014 and 2013, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**	2013 RMB'000
Current – 30 days	**116,788**	147,068	**9,129**	4,365
31 – 60 days	**57,515**	47,603	**–**	–
61 – 90 days	**4,657**	9,841	**–**	–
91 – 180 days	**9,853**	10,450	**–**	–
Over 180 days	**15,972**	3,462	**–**	–
	204,785	218,424	**9,129**	4,365

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

	Group		Company	
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**	2013 RMB'000
RMB	**388,246**	423,231	**–**	–
US dollars	**11,029**	8,464	**3,104**	3,092
Euro	**6,368**	13,124	**6,292**	13,049
HK dollars	**4,568**	4,314	**4,538**	4,313
	410,211	449,133	**13,934**	20,454

31 WARRANTY PROVISION – GROUP

	2014 RMB'000	2013 RMB'000
At 1 January	**6,774**	6,702
Provision for the year	**6,766**	4,936
Utilisation of provision	**(7,211)**	(4,864)
At 31 December	**6,329**	6,774

32 BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Current				
– Secured (note(a))	**125,331**	90,115	**122,435**	88,865
– Unsecured (note(b))	**276,748**	277,637	**153,271**	180,349
Total borrowings	**402,079**	367,752	**275,706**	269,214

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Effective interest rates	**1.83% to 6.72% per annum**	1.80% to 6.72% per annum	**1.83% to 3.60% per annum**	1.80% to 3.05% per annum

At 31 December 2014, the Group's borrowings were repayable as follows:

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within 1 year	**402,079**	367,752	**275,706**	269,214

32 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	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
HK dollars	**78,949**	96,956	**58,572**	76,646
US dollars	**323,130**	270,796	**217,134**	192,568
	402,079	367,752	**275,706**	269,214

The Group had the following undrawn borrowing facilities as at 31 December 2014:

	Group	
	2014 RMB'000	2013 RMB'000
Floating rate loans:		
– Expiring within one year	**692,723**	658,958

Note:

(a) The Group has pledged its land use rights with carrying amounts of approximately RMB5,262,000 (note 14) (2013: RMB5,394,000) and buildings with carrying amounts of approximately RMB10,674,000 (note 15) (2013: nil)as at 31 December 2014 to secure the general banking facilities granted to it. As at 31 December 2014, the Group has utilised such secured bank facilities of RMB2,896,000 (2013: RMB1,250,000).

As at 31 December 2014, the Company's bank borrowings of RMB152,975,000 (2013 RMB103,660,000) were secured by irrevocable standby letter of credits issued by banks in the PRC of which RMB122,435,000 (2013: RMB88,865,000) has been utilised.

(b) As at 31 December 2014, the Company has given corporate guarantees for the banking facilities granted to certain subsidiaries amounting to RMB235,582,000 (2013: RMB265,215,000) of which RMB126,382,000 (2013: RMB98,538,000) has been utilised.

As at 31 December 2014, cross guarantees between subsidiaries of RMB220,000,000 (2013: RMB225,000,000) have been provided to secure the bank borrowings of which RMB6,211,000 balance has been utilised (2013: nil).

As at 31 December 2014, a personal guarantee was provided by a director of the Company in respect of the Company's bank borrowings of RMB31,135,000 (2013: RMB35,028,000).

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

33 DEFERRED INCOME TAX – GROUP

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

	Group	
	2014	2013
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**6,144**	4,520
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**–**	–
– Deferred tax liability to be recovered within 12 months	**16,118**	18,775
	16,118	18,775

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

	Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**4,520**	4,541
Credit/(Charge) to consolidated statement of comprehensive income	**1,624**	(21)
At 31 December	**6,144**	4,520

33 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 2014	3,243	377	921	4,541
(Charge)/Credit to consolidated statement of comprehensive income	(18)	11	(14)	(21)
At 31 December 2014	3,225	388	907	4,520
(Charge)/Credit to consolidated statement of comprehensive income	1,495	224	(95)	1,624
At 31 December 2014	4,720	612	812	6,144

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

	Group **2014** **RMB'000**	 2013 RMB'000
At 1 January	**18,775**	23,180
Withholding tax paid	**(2,657)**	–
Disposal of a subsidiary	**–**	(4,405)
At 31 December	**16,118**	18,775

33 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 2013	18,775	4,405	23,180
Disposal of a subsidiary	–	(4,405)	(4,405)
At 31 December 2013	18,775	–	18,775
Withholding tax paid	(2,657)	–	(2,657)
At 31 December 2014	16,118	–	16,118

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.

As at 31 December 2014, the Group had unutilised tax losses of approximately RMB48,429,000 (2013: RMB50,855,000) 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.

The expiry dates of these tax losses are as follows:

	2014	2013
	RMB'000	RMB'000
With expiry in:		
2014	**–**	6,142
2015	**1,590**	1,595
2016	**16,755**	16,482
2017	**13,043**	14,758
2018	**6,946**	11,878
2019	**8,648**	–

34 CASH GENERATED FROM OPERATIONS

	2014 RMB'000	2013 RMB'000
Profit before income tax	**125,071**	54,388
Adjustments for:		
– Amortisation of land use rights (note 14)	**943**	943
– Depreciation of property, plant and equipment (note 15)	**28,060**	27,046
– Depreciation of investment properties (note 16)	**20**	21
– Amortisation of intangible assets (note 17)	**701**	675
– Share of loss of joint ventures (note 19)	**2,458**	3,975
– Share of loss of an associate (note 20)	**8,559**	26,321
– Loss on disposal of property, plant and equipment (note 7)	**296**	287
– Loss on disposal of a subsidiary and an associate	**–**	9,742
– Interest income (note 6)	**(9,995)**	(5,363)
– Finance costs (note 9)	**9,174**	7,964
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	**21,759**	75,529
– Debtors, deposits and prepayments	**109,177**	(7,326)
– Amounts due from customers for contract work	**(7,843)**	3,251
– Amount due from ultimate holding company	**1,380**	(1,912)
– Amounts due from a fellow subsidiary and an associate of ultimate holding company	**1,490**	588
– Creditors, other payables and accrued charges	**(46,030)**	49,582
– Amounts due to customers for contract work	**(7,159)**	12,480
– Amount due to ultimate holding company	**687**	(4,869)
– Amount due to immediate holding company	**1,291**	176
– Amount due to joint ventures	**(55)**	131
– Balances with an investee and subsidiaries of an associate	**2,519**	(12,312)
– Amount due to a fellow subsidiary and an associate of ultimate holding company	**463**	(1,590)
– Warranty provision	**(445)**	72
Cash generated from operations	**242,521**	239,799

34 CASH GENERATED FROM OPERATIONS *(Continued)*

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

Group	2014 RMB'000	2013 RMB'000
Net book amount (note 15)	**863**	5,954
Loss on disposal of property, plant and equipment (note 7)	**(296)**	(287)
Proceeds from disposal of property, plant and equipment	**567**	5,667

35 CONTINGENT LIABILITY

Saved as disclosed in note 23 to the consolidated financial statements, the Group and the Company have no other contingent liability as at 31 December 2014 (2013: nil).

36 COMMITMENTS

(a) Capital commitments

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

Group	2014 RMB'000	2013 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Acquisition of machinery and equipment	**743**	984

(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:

	2014 RMB'000	2013 RMB'000
No later than 1 year	**4,090**	2,650
Later than 1 year and no later than 5 years	**241**	54
	4,331	2,704

37 RELATED-PARTY TRANSACTIONS AND BALANCES

Save as disclosed in Note 23, the Group also had the following transactions with its related parties during the year:

(a) Transactions

Name of company	Relationship	Nature of transactions	2014 RMB'000	2013 RMB'000
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	**682**	720
		Purchases of goods	**19,948**	18,592
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Sales of goods	**756**	601
		Purchases of goods	**49**	4
		Rental income	**15**	65
Good Friend (H. K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	**44,434**	87,352
Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine")	Fellow subsidiary	Sales of goods	**3**	8
		Rental income	**653**	–
AIF (controlled by Mr. Wen Chi-Tang)	Joint venture	Sales of goods	**90**	45
		Purchases of goods	**421**	141
		Rental income	**26**	–
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	**6**	12

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

(a) Transactions *(Continued)*

Name of company	Relationship	Nature of transactions	2014 RMB'000	2013 RMB'000
SANCO Machine & Tools Co., Ltd.("SANCO")	Fellow subsidiary	Purchases of goods	**20,885**	12,095
Jobs Automazione S.p.A.("Jobs")	Subsidiary of an associate of the Group	Purchases of goods	**198**	–
SIGMA technology S.r.l ("SIGMA")	Subsidiary of an associate of the Group	Purchase of goods	**–**	4,622
Feeler Mectron	Joint venture	Sales of goods	**37**	140
		Purchases of goods	**1,051**	1,049
		Rental income	**36**	–
UFM	Jointly controlled entity	Sales of goods	**24**	–
		Purchase of goods	**170**	
Sky Thrive Rambaudi S.r.l ("Rambaudi")	Subsidiary of an associate of the Group	Sales of goods	**–**	6
Nippon Cable Feeler	Joint venture	Sales of goods	**4**	8
		Purchase of goods	**129**	–
		Rental income	**6**	–

Note:

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

(b) Rental income was charged at terms mutually agreed between the parties.

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

(b) Balances

Name of company	Relationship	Nature of balances	2014 RMB'000	2013 RMB'000
Fair Friend	Ultimate holding company	Trade receivable (note (a))	**532**	1,912
		Trade payable (note (b))	**(1,716)**	(1,029)
Hong Kong GF	Immediate holding company	Trade payable (note (b))	**(3,447)**	(2,156)
Fair Fine (controlled by Mr. Chen Min-Ho)	Fellow subsidiary	Other receivable (note (b))	**258**	152
SANCO	Fellow subsidiary	Trade receivable (note (a))	**–**	1,616
		Trade payable (note (b))	**(776)**	(321)
Best Friend	Associate of ultimate holding company	Trade receivables (note (a))	**2**	–
Feeler Takamatsu	Associate of ultimate holding company	Other receivable (note (b))	**36**	18
		Trade payable (note (b))	**(8)**	–
AIF (controlled by Mr. Wen Chi-Tang)	Joint venture	Trade receivable (note (a))	**470**	1,093
		Trade payable (note (b))	**–**	(41)
Feeler Mectron	Joint venture	Trade receivable (note (a))	**421**	405
		Trade payable (note (b))	**–**	(90)
UFM	Joint venture	Trade payable (note (b))	**(76)**	–
SIGMA	Subsidiary of an associate of the Group	Trade receivable (note (a))	**2,275**	2,569
		Trade payable (note (b))	**(200)**	(226)
SIGMA Machinery Co., Ltd	Subsidiary of an associate of the Group	Trade payable (note (b))	**(67)**	(67)

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

(b) Balances *(Continued)*

Name of company	Relationship	Nature of balances	2014 RMB'000	2013 RMB'000
Jobs	Subsidiary of an associate of the Group	Trade receivable (note (a))	**403**	330
		Other receivable (note (b))	**9,596**	–
		Trade payable (note (b))	**(861)**	–
Rambaudi	Subsidiary of an associate of the Group	Other receivable (note (b))	**–**	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 2014 and 2013, 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:

	2014 RMB'000	2013 RMB'000
Salaries and other allowances	**4,078**	3,440

38 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.

39 EVENT AFTER THE BALANCE SHEET DATE

Save as disclosed in Note 23, 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

	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014 RMB'000**
Revenue	1,374,183	1,884,132	1,540,856	1,350,271	**1,300,119**
Gross profit	355,535	439,216	308,947	309,771	**344,894**
Profit before taxation	193,806	197,032	60,440	54,388	**125,071**
Profit for the year attributable to equity holders of the Company	158,746	153,690	42,022	36,868	**101,313**
Earnings per share – basic (RMB)	0.41	0.38	0.10	0.09	**0.25**

ASSETS AND LIABILITIES

As at 31 December

	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014 RMB'000**
Non-current assets	322,262	371,929	345,271	330,119	**302,380**
Net current assets	318,503	332,239	339,800	361,656	**440,433**
Total assets less current liabilities	640,765	704,168	685,071	691,775	**742,813**
Share capital	4,022	4,022	4,022	4,022	**4,022**
Reserves	614,341	678,346	657,869	668,978	**722,673**
Shareholders' equity	618,363	682,368	661,891	673,000	**726,695**
Non-current liabilities	22,402	21,800	23,180	18,775	**16,118**
	640,765	704,168	685,071	691,775	**742,813**