



CW GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1322

ANNUAL REPORT 2012





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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wong Koon Lup (*Chairman and Chief Executive Officer*)
Mr. Wong Mun Sum
Mr. Lee Tiang Soon

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Chan Kam Fuk

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Wong Koon Lup
Mr. Chan Kam Fuk

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

HONG KONG LEGAL ADVISERS

Li & Partners

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

50 Kallang Avenue
#05-01/02
Singapore 339505

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2201-2203, 22nd Floor
World Wide House
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITORS

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

IR AND PR CONSULTANT

PR Asia Consultants Limited

COMPANY WEBSITE

www.cwgroup-int.com

STOCK CODE

1322

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

BRIEF INTRODUCTION

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

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

BUSINESS REVIEW FOR 2012

2012 was a milestone year for the Group as the Company successfully listed on the Main Board of the Stock Exchange on 13 April 2012. The listing not only enhanced our corporate image and financial standing but also provided us access to the capital markets to fund our future growth and business development.

In this annual report, I would like to share our financial results of the year ended 31 December 2012. We had a successful year in 2012. During the year, the Group continued to focus on its key business fundamentals. In spite of the continued uncertainties and slowdown in the worldwide economy, we were able to grow our revenue by 8.6% as compared to 2011, primarily driven by the increase in revenue from our precision and engineering solutions projects of 13.5%, sales of CNC machining centres of 73.7% and after-sales technical support services of 323.7%. These increases were primarily due to the increases in precision and engineering solutions projects and sales of CNC machines to customers in the aviation manufacturing, oil and gas, precision engineering and automotive sectors respectively. Revenue from our sales of cement production equipment dropped by approximately 36.0% primarily due to the slowdown in the construction sector brought about by the continued cooling measures by the Chinese government on the property sector. Revenue from sales of components and parts declined by approximately 29.4% due to the general slowdown in sales of components and parts during the year. However, revenue from our after-sales technical support services increased due to the increase in demand for our support services, in line with our increase in our sales in precision and engineering solutions and CNC machines.

During the year, we continued to maintain our key markets including, Singapore, India, Indonesia and Thailand as demand for our solutions and products continued to grow. Our management remains confident of the operating environment of our key markets. With the continued expansion of the Group's business, we will continue to focus on our key business fundamentals and markets and aim to be the priority choice for our customers by providing premier solutions and service offerings.

During the year, we also expanded our production manufacturing capability in the PRC. With the increase in production capacity, we are better positioned to meet the increase in demand for high-end CNC machines.

CHAIRMAN'S STATEMENT

LOOKING FORWARD

In spite of the continued uncertainty from the euro zone debt crisis, we remain cautiously optimistic of the Group's performance. In particular, the continued growth in the oil and gas, automotive and aviation industries in Asia is expected to fuel the demand for precision engineering solutions projects and CNC machines.

The Group will continue to focus growing our key markets, including Singapore, PRC, Thailand, India and Indonesia. With our expanded production capacity in PRC, we are equipped to meet the increase in demand in high-end CNC machines. In addition, the Group will continue to diligently explore merger and acquisition opportunities in Europe and Asia so as to create greater value and returns to the shareholders of the Group.

APPRECIATION

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

The new financial year will bring forth new challenges and with the help of everyone, I am confident that we will be able to deliver yet another successful year in 2013.

Thank you.

Yours sincerely,
Wong Koon Lup
Chairman and Chief Executive Officer

FINANCIAL HIGHLIGHTS

	For the year ended	
	31 December	
	2012	2011
Profitability data (HK\$'000)		
Revenue	818,535	753,566
Gross profit	223,082	179,469
Profit before tax	80,755	92,527
Profit after tax	55,115	68,015
	As at 31 December	
	2012	2011
Assets and liabilities data (HK\$'000)		
Cash and bank balances	133,587	38,800
Bank loans and overdrafts	1,705	6,499
Redeemable convertible loan	–	54,479
Derivative liabilities	–	43,434
Total assets less current liabilities	583,139	240,101
Key Financial Ratios		
Current ratio (times) ^(Note 1)	1.9	1.3
Gearing ratio (%) ^(Note 2)	0.2	1.0
Inventory turnover days (days) ^(Note 3)	14	14
Trade receivables turnover days (days) ^(Note 4)	267	193
Trade payables turnover days (days) ^(Note 5)	253	171

Notes:

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

Note 2 Gearing ratio is calculated based on total bank loans and overdrafts divided by total assets.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Precision engineering solutions projects

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

During the year ended 31 December 2012, our activities under this segment saw continued contributions in precision engineering solutions in our key markets such as India, Indonesia and Singapore in the precision engineering, automotive and oil and gas sectors.

Sales of cement production equipment

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

During the year ended 31 December 2012, revenue contribution from sales of cement production equipment decreased due primarily to the slowdown in the construction sector brought about by the continued cooling measures by the Chinese government on the property sector.

Sales of CNC machining centres

This segment relates primarily to sales of precision engineering manufacturing equipment operable under CNC automation. We design and manufacture customized CNC vertical machining centres under the brandnames of “KIWA-CW” and “KIWA” pursuant to an exclusive license in the PRC granted to us by our Japanese partner, KIWA Machinery Co., Ltd. In addition, we also trade a wide range of CNC machining centres from our principals.

During the year ended 31 December 2012, our activities under this segment saw increases in the sales to customers in the precision engineering, automotive and aviation manufacturing sectors in countries such as Indonesia, India, Malaysia and Singapore.

Sales of components and parts

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

During the year ended 31 December 2012, our activities under this segment saw a decrease attributable mainly to orders to source and trade photovoltaic components and parts in 2011 which are non-recurring.

Provision of comprehensive maintenance and after-sales technical support services

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

OUTLOOK FOR 2013

In 2013, the global economy will continue to be threatened by the sovereign debt crisis in the Eurozone. Amid the uncertainty and generally more volatile macroeconomic conditions, we continue to remain cautiously optimistic on the performance of the Group.

Moving forward, we anticipate that there will be a greater demand for precision engineering solutions projects, higher end CNC machining centres as well as machine tools for both the aviation manufacturing industry and the oil and gas industries. The Singapore government's initiative to develop the aviation manufacturing industry and the increase in oil and gas activities in the region will continue to fuel the demand for our solutions. In addition, we anticipate to see an increase in demand for higher end CNC machining centres in the PRC as the Chinese government increases its spending on infrastructural, aviation and new energy projects. Under the 12th Five-Year Plan (2011-2015) of the PRC, the Chinese government plans to focus on several key industries, including aviation, marine engineering and new energy (such as wind energy, solar energy) industries.

We will continue to focus on growing our key markets whilst pursuing potential business opportunities in new markets such as Europe. In addition, we will continue to seek improvements in various aspects including broadening our customer base and supply channels and capacity expansion. In line with our strategy to increase our market penetration, we are also cautiously seeking suitable investment opportunities in Asia and Europe.

In spite of the challenging global economy, we will continue to closely monitor macroeconomic trends and policy developments and seek to capture suitable market opportunities and in turn, maximise our shareholders' returns.

FINANCIAL REVIEW

Revenue

Set out below is a breakdown of our revenue by business segments:

	Year ended 31 December			
	2011		2012	
	HK\$'000	%	HK\$'000	%
Precision engineering solutions projects	351,836	46.7	399,210	48.8
Sales of cement production equipment	158,969	21.1	101,796	12.4
Sales of CNC machining centres	71,467	9.5	124,168	15.2
Sales of components and parts	150,781	20.0	106,448	13.0
After-sales technical support services	20,513	2.7	86,913	10.6
Total	753,566	100.0	818,535	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from precision engineering solutions projects relates mainly to the provision of precision engineering solutions specific to machine tools and machinery and equipment encompassing their conceptualisation and design to production line set-up, commissioning and maintenance of production lines. For the years ended 31 December 2011 and 2012, approximately 46.7% and 48.8% of our total revenue was derived from precision engineering solutions projects respectively. This is in line with the Group's strategy to focus more on precision engineering solutions projects.

Revenue from sales of cement production equipment relates mainly to the sale of equipment (rotor weighfeeders and clinker coolers) for the construction materials industry. For the years ended 31 December 2011 and 2012, approximately 21.1% and 12.4% of our total revenue was derived from sales of cement production equipment respectively. The decrease in contribution was due primarily to the slowdown in the construction sector brought about by the continued cooling measures by the Chinese Government on the property sector.

Revenue from sales of CNC machining centres relates primarily to sales of precision engineering manufacturing equipment operable under CNC automation. For the years ended 31 December 2011 and 2012, approximately 9.5% and 15.2% of our total revenue was derived from sales of CNC machining centres respectively. The increase was attributable mainly to increases in sales to customers in the precision engineering and automotive sectors to countries such as Indonesia, India and Malaysia.

Revenue from sales of components and parts relates mainly to sales of self-manufactured and trading of components and parts. For the years ended 31 December 2011 and 2012, approximately 20.0% and 13.0% of our total revenue was derived from sales of components and parts respectively. The decrease was attributable mainly to orders to source and trade photovoltaic components and parts in 2011 which are non-recurring.

Revenue from after-sales technical support services consists primarily of the provision of technical repairs and maintenance services in relation to our Group's other business segments. Revenue from this business segment increased with contributions to our total revenue of approximately 2.7% and 10.6% for the years ended 31 December 2011 and 2012 respectively.

Cost of sales

The cost of sales of our Group accounted for approximately 76.2% and 72.7% of our revenue during the years ended 31 December 2011 and 2012 respectively. Our cost of sales comprise primarily (i) cost of goods sold, (ii) direct labour costs, and (iii) direct depreciation expenses, which are costs incurred directly in relation to our revenue. Factors affecting our cost of sales include: (a) prices and availability of raw materials such as cast iron; and (b) salaries and related expenses of our engineers and skilled labour.

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

	Year ended 31 December			
	2011		2012	
	HK\$'000	%	HK\$'000	%
Cost of goods sold	565,368	98.5	585,261	98.3
Direct labour costs	6,701	1.2	8,291	1.4
Direct depreciation expenses	2,028	0.3	1,901	0.3
Total	574,097	100.0	595,453	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended 31 December 2011 and 2012, cost of goods sold accounted for approximately 98.5% and 98.3% of our Group's total cost of sales respectively. Our Group's cost of goods sold comprise mainly material costs, sub-contractor costs, inbound freight and handling costs, of which material costs accounted for approximately 98.3% and 94.8% of our costs of goods sold for the years ended 31 December 2011 and 2012 respectively. Material costs comprise mainly CNC machining centres, industrial equipment, components and parts, cast iron, casting, sheet metals, electrical boxes, ball screws, spindles, controllers and tool changers from suppliers located worldwide including Europe, Japan, PRC, Singapore, Taiwan, Korea and United States of America. The increase in cost of goods sold was in line with the increase in revenue.

Direct labour costs comprise salaries and related costs for engineers as well as production and assembly staff. During the years ended 31 December 2011 and 2012, direct labour costs accounted for approximately 1.2% and 1.4% of our Group's total cost of sales respectively. The slight increase in absolute amount was primarily due to wage increments and increased work hours to meet the higher business activities.

Direct depreciation expenses accounted for approximately 0.3% of our Group's total cost of sales for both the years ended 31 December 2011 and 2012. Direct depreciation expenses comprise depreciation charges on production related equipment. The slight decrease in absolute amount was a primarily attributable to the disposal of plant and equipment.

Gross profit and gross profit margin

Our gross profit was approximately HK\$223.1 million representing an increase of 24.3%. This was contributed primarily by the increase in revenue brought by our precision engineering solutions projects and after-sales technical support services which recorded corresponding increases in gross profit. The increase was partly offset by a decrease in gross profit from our sales of cement production equipment and sales of components and parts.

The business of the Group comprises five segments and the higher overall gross profit margin was attributable primarily to the precision engineering solutions and after-sales technical support services segments.

As a combined result of the factors described above, our gross profit margin for the year ended 31 December 2012 increased from approximately 23.8% for the year ended 31 December 2011 to approximately 27.3%.

Other income and gains

The other income and gains of our Group amounted to approximately HK\$1.4 million and HK\$3.5 million for the years ended 31 December 2011 and 2012 respectively. The increase was due primarily to the gain from the disposal of plant and equipment.

Selling and distribution expenses

Selling and distribution expenses refer to the expenses incurred for the promotion and sale of products. This comprises primarily salaries and related costs for sales and marketing staff, travelling and transportation costs, outbound freight and handling costs, commissions and marketing expenses and maintenance costs of equipment. Selling and distribution expenses was approximately HK\$28.0 million and HK\$31.1 million for the years ended 31 December 2011 and 2012 respectively, accounting for approximately 3.7% and 3.8% of our Group's revenue during the years ended 31 December 2011 and 2012 respectively.

The increase in our selling and distribution expenses was generally in line with the increase in our revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

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

The administrative expenses of the Group increased from approximately HK\$34.1 million for the year ended 31 December 2011 to HK\$68.1 million for the year ended 31 December 2012. This was primarily due to the expenses of approximately HK\$25.6 million in connection with the listing ("Listing") of the Company's shares ("Shares") on the Stock Exchange which was included in administrative expenses in accordance with accounting standards.

Finance costs

Our Group's finance costs comprise interest on bank loans, bank and other finance charges, interest on finance leases and amortised interest and fair value change of redeemable convertible loan. Our finance costs increased by approximately HK\$5.3 million from about HK\$25.5 million for the year ended 31 December 2011 to about HK\$30.8 million for the year ended 31 December 2012. The increase was largely attributable to a fair value loss on redeemable convertible loan recorded when this was fully converted into Shares of the Company in March 2012 prior to the Listing in accordance with accounting standards.

Income tax expense

Our income tax expense amounted to approximately HK\$24.5 million and HK\$25.6 million for the years ended 31 December 2011 and 2012 respectively. The increase was attributable mainly to higher taxable profit before tax recorded for the year ended 31 December 2012. Our effective tax rate was 26.5% and 31.7% for the years ended 31 December 2011 and 2012 respectively. The significant increase is largely due to the Listing expenses in connection with the global offering ("Global Offering") of the Company's Shares and fair value loss on redeemable convertible loan recorded when this was fully converted into Shares of the Company in March 2012 which are non-deductible for tax purposes.

Profit for the year and net profit margin

Before the deduction of expenses relating to the Listing on the Stock Exchange, the Group recorded a profit of approximately HK\$80.7 million for the year ended 31 December 2012 which is an increase of approximately HK\$8.5 million or 11.8% from the profit of approximately HK\$72.2 million in the year ended 31 December 2011. After deduction of non-recurring Listing expenses which amounted to approximately HK\$25.6 million for the year ended 31 December 2012 (year ended 31 December 2011: HK\$4.2 million), the net profit for the year became approximately HK\$55.1 million for the year ended 31 December 2012.

Correspondingly, net profit margin for the year ended 31 December 2012 decreased slightly from approximately 9.0% in the year ended 31 December 2011 to approximately 6.7%.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

Our cash and bank balances amounted to approximately HK\$38.8 million and HK\$133.6 million as at 31 December 2011 and 2012 respectively. The functional currencies of the companies within the Group include Hong Kong dollar, United States dollar, Renminbi and Singapore dollar. As at 31 December 2012, 50.2% and 49.8% of the Group's cash, bank deposits and non-pledged fixed deposits were denominated in functional currencies and other currencies (mainly Hong Kong dollar, United States dollar, Japanese yen and EUR), respectively.

The Group's primary sources of funds include cash generated from operating activities and loans and trade facilities provided by the Group's banks in Singapore, Hong Kong and in the PRC. Our Group had cash inflow from operating activities of approximately HK\$157.5 million which was (negated by working capital changes of approximately HK\$143.9 million) largely due to the Group's continuous expansion in its business activities.

Our bank facilities as at 31 December 2012 increased to approximately HK\$238.1 million compared to approximately HK\$116.6 million as at 31 December 2011. As at 31 December 2012, all of the Group's bank loans were denominated in the functional currencies of the respective entities within the Group, with interest rates at 5% per annum. In addition, there was a decrease in bank loans of approximately HK\$6.4 million from 31 December 2011 to 31 December 2012.

Trade receivables

Our total trade receivables balance amounted to approximately HK\$566.6 million and HK\$630.2 million as at 31 December 2011 and 2012 respectively. It comprises of trade receivables of approximately HK\$534.8 million and accrued revenue of approximately HK\$95.7 million as at 31 December 2012.

Our trade receivables increased from approximately HK\$461.9 million as at 31 December 2011 to HK\$534.5 million as at 31 December 2012 mainly in line with the movements in revenue during the year which increased from HK\$753.6 million in 2011 to HK\$818.5 million in 2012. The increase in trade receivables as at 31 December 2012 was mainly due to our increase in revenue from the precision engineering solutions, sales of CNC machining centres and after-sales technical support services segments.

Accrued revenue

The accrued revenue of our Group as at 31 December 2012 amounted to approximately HK\$95.7 million. All services under accrued revenue have been rendered as certain milestones were achieved such as acceptance by customers. However, due to the agreed payment terms, the relevant payment requests were billed to our customers subsequent to 31 December 2012.

Current assets

As at 31 December 2012, the Group had net current assets of approximately HK\$503.1 million compared to HK\$171.4 million as at 31 December 2011. The increase was due mainly to an increase in trade and other receivables partly offset by a corresponding increase in trade payables as a result of the increase in business activities and a decrease in redeemable convertible loan and derivative liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Current liabilities

Our current liabilities comprised trade payables, other payables, redeemable convertible loan, bank loans and overdrafts, derivative liabilities, tax payables and finance leases payable. Our total current liabilities amounted to approximately HK\$603.4 million and HK\$594.3 million as at 31 December 2011 and 2012 respectively, and represented approximately 96.4% and 97.9% of our total liabilities as at 31 December 2011 and 2012 respectively.

Current ratio

The Group's current ratio as at 31 December 2012 was 1.9 times which is comparable to 1.3 times as at 31 December 2011.

Gearing ratio

Gearing ratio is measured by the total bank loans and overdrafts divided by total assets of the Company. As at 31 December 2012, the gearing ratio was 0.2% whereas the gearing ratio as at 31 December 2011 was 1.0%.

Risk of exchange rate fluctuation

The Group mainly operates with currencies in Singapore dollars and Renminbi. In 2012, the exchange rates of Renminbi to Singapore dollar and United States dollar have been increasing steadily. The Directors expect that any fluctuation of Renminbi's exchange rate will not have a material adverse effect on the operation of the Group.

If Renminbi strengthens by 10% against the functional currency of each entity, with all other variables held constant, profit before tax will decrease by HK\$0.02 million. If the Singapore dollar strengthens by 10% against the functional currency of each entity, with all other variables held constant, profit before tax will increase by HK\$4.5 million.

For further information on the sensitivity analysis, please see Note 32 to the financial statements.

Employees and remuneration policy

As at 31 December 2012, the Group had a total number of 238 full-time employees. The Group determined the remuneration packages of all employees based on factors including individual qualifications, contributions to the Group, performance and years of experience of the respective staff.

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

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

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

Charge on assets

Details of the Group's charge on assets as at 31 December 2012 are set out in note 26 of the financial statements.

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable growth and the enhancing of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions on the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Save as disclosed in the section headed "Chairman and Chief Executive Officer" in this report, the Directors consider that since the Listing Date and up to 31 December 2012, the Company has complied with the code provisions as set out in the CG Code.

DIRECTORS SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct of the Group regarding Director's securities transactions for the year ended 31 December 2012. The Model Code has been updated to reflect the recent amendments to the Listing Rules which took effect in 2013. Having made specific enquiry with all Directors, all the Directors confirmed that they had complied with the required standard of dealings throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The Board provides leadership, guidance and strategic decisions to the Group's activities and oversees its financial performance. Directors are responsible for promoting the success of the Company and making decisions in the best interests of the Company. The Board has delegated its powers to the management with regards to the Group's daily management and operations.

BOARD COMPOSITION

During the year ended 31 December 2012 and subsequently up to the date of this annual report, the Board comprised three executive Directors ("Executive Directors") and three independent non-executive Directors ("Independent Non-executive Directors"). The Board has at least one-third of its membership comprising Independent Non-executive Directors in accordance with Rule 3.10A of the Listing Rules. The following are the members of the Board:

Executive Directors

Mr. Wong Koon Lup (Chairman and Chief Executive Officer)
Mr. Wong Mun Sum (Chief Operating Officer)
Mr. Lee Tiang Soon

Independent Non-executive Directors

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

Notes:

1. Mr. Lim Chwee Heng resigned as an Executive Director with effect from 3 April 2013.
2. Mr. Lee Tiang Soon was appointed as an Executive Director with effect from 3 April 2013.

We maintain on our website an updated list of our Directors identifying their respective roles and functions and whether they are Independent Non-executive Directors.

The biographical details and responsibilities of the Directors as well as the senior management are set out in the section headed "Profile of Directors and Senior Management" on pages 21 to 24 of this annual report.

CORPORATE GOVERNANCE REPORT

Save as disclosed in the section headed "Profile of Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with one another.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership, as all the Executive Directors possess extensive experience in management and the provision of precision engineering solutions projects, whilst the Independent Non-executive Directors possess professional knowledge and broad experience in the areas of finance, law and management, respectively. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders and the Company.

DIRECTOR'S CONTINUING PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. The Company updates the Directors on the latest developments regarding the Listing Rules and relevant statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

According to records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2012 is as follows:

Directors	Type of continuous professional development programmes
Executive Directors	
Mr. Wong Koon Lup	1,2
Mr. Wong Mun Sum	1,2
Mr. Lee Tiang Soon	N/A
Independent Non-executive Directors	
Mr. Kuan Cheng Tuck	1,2
Mr. Ong Su An, Jeffrey (Wang Ci'An, Jeffrey)	1,2
Mr. Chan Hon Chung, Johnny	1,2

Notes:

1. Attending briefing sessions and/or seminars
2. Reading materials to update on the latest developments of the Listing rules and relevant statutory requirements
3. Mr. Lim Chwee Heng resigned as an Executive Director with effect from 3 April 2013. Prior to his resignation and during his tenure as an Executive Director of the Company, Mr. Lim Chwee Heng attended all three board meetings and the Annual General Meeting of the Company for the year ended 31 December 2012.
4. Mr. Lee Tiang Soon was appointed as an Executive Director with effect from 3 April 2013. Accordingly, attendance at the board meetings for the year ended 31 December 2012 were not applicable to him.

FUNCTIONS AND DUTIES OF THE BOARD

The main functions and duties conferred on and performed by the Board include:

- (i) overall management of the business and strategic development;
- (ii) deciding business plans and investment plans;
- (iii) convening general meetings and reporting to the shareholders of the Company;
- (iv) exercising other powers, functions and duties conferred by shareholders in general meetings; and
- (v) determining the policies for corporate governance practices.

The Board is responsible for performing the corporate governance duties as set out in the Code Provision D.3 of the CG Code.

The management is responsible for the daily management & operation of the Company.

BOARD MEETINGS

For the year ended 31 December 2012, the Board considers that all meetings have been legally and properly convened. With the assistance of the Company Secretary, the Chairman of the Board takes the lead to ensure that Board meetings and Board committee meetings are convened in accordance with the requirements set out in the articles of association of the company, the terms of reference of the respective Board committees and the Listing Rules.

Since April 2012, when the Shares of the Company were successfully listed on the Stock Exchange to 31 December 2012, the Board has held three Board meetings with 100% attendance. The record of attendance of individual Directors at the Board Meetings is set out below. Code A.1.1 of the C.G Code stipulates that “the Board should meet regularly and Board meetings should be held at least four times a year”. The Company was listed on 13 April 2012 and the Directors consider that holding three Board meetings during this period was reasonably sufficient and commensurate with the commitments of the Board.

The Board intends to hold four Board meetings in 2013 in due compliance with Code A.1.1 of the C.G Code.

Prior notice of at least 14 days convening the Board meeting was despatched to the Directors setting out the matters to be discussed. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary is responsible for keeping minutes for the board meetings.

The minutes of Board meetings record in sufficient details the matters considered by the Board, including all concerns raised by the Directors and dissenting views expressed. The minutes of all Board meetings and Board committee meetings are kept by the Company Secretary and are available for inspection by any Director, auditors or any relevant eligible parties who can have access to such minutes.

ATTENDANCE RECORD

The attendance record of each Director at the Board and Board committee meetings of the Company held for the year ended 31 December 2012 is set out in the table below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Wong Koon Lup	3/3	1/4	1/1	1/1	1/1
Mr. Wong Mun Sum	3/3	N/A	N/A	N/A	1/1
Mr. Lee Tiang Soon	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Kuan Cheng Tuck	3/3	4/4	N/A	1/1	1/1
Mr. Ong Su An, Jeffrey (Wang Ci'An, Jeffrey)	3/3	4/4	1/1	1/1	1/1
Chan Hon Chung, Johnny	3/3	4/4	1/1	N/A	1/1

Notes:

1. Mr. Lim Chwee Heng resigned as an Executive Director with effect from 3 April 2013. Prior to his resignation and during his tenure as an Executive Director of the Company, Mr. Lim Chwee Heng attended all three board meetings and the Annual General Meeting of the Company for the year ended 31 December 2012.
2. Mr. Lee Tiang Soon was appointed as an Executive Director with effect from 3 April 2013. Accordingly, attendance at the board meetings for the year ended 31 December 2012 were not applicable to him.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. The Board considers that all Independent Non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders.

Prior to their respective appointment, each of the Independent Non-executive Directors have submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each Independent Non-executive Director in respect of their independence. The Board considers that all Independent Non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has subscribed to an insurance policy since April 2012 with an aim to indemnify its Directors and senior executives from any losses, claims, damages, liabilities and expenses arising from, including but not limited to, any proceedings brought against them during the performance of their duties pursuant to their respective service agreements entered into with the Company. The insurance policy is subject to annual renewal and was renewed in April 2013.

PROCEDURE FOR SEEKING PROFESSIONAL ADVICE BY DIRECTORS

The Company has agreed to provide separate independent professional advice to Directors to assist them to discharge their duties. The Company will develop a written procedure to enable Directors, upon reasonable request, to seek and be provided with independent professional advice in appropriate circumstances, at the Company's expense.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman ("Chairman") and chief executive officer ("Chief Executive Officer") should be separate and not be performed by the same individual. Mr. Wong Koon Lup has been performing both the roles of Chairman and Chief Executive Officer of the Company and its subsidiaries (collectively the "Group"). Mr. Wong Koon Lup is the founder of the Group and has over 24 years of experience in the precision engineering industry. The Directors consider that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies and is beneficial to the Group. The Directors will continue to review the effectiveness of the current structure and assess whether change in the separation of roles of chairman and chief executive officer is necessary.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Save for Mr. Lee Tiang Soon, who was appointed as Executive Director on 3 April 2013, each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may only be terminated in accordance with the provisions of the service contract of the Executive Director by either party giving to the other not less than three month's prior notice in writing.

BOARD COMMITTEES

The Company has established three Board Committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expense.

AUDIT COMMITTEE

- (a) The Audit Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal controls system.
- (b) The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Kuan Cheng Tuck, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey), Mr. Chan Hon Chung, Johnny. The Chairman of the Audit Committee is Mr. Kuan Cheng Tuck.
- (c) For the year ended 31 December 2012, the Audit Committee held four meetings with 100% attendance. The record of attendance of individual Directors at the Audit Committee meetings is set out on page 15 of this annual report.
- (d) The following is a summary of the work performed by the Audit Committee during the year ended 31 December 2012:
- i. review of the external auditors' independence and quotation of audit fees for the year ended 31 December 2012 with a recommendation to the Board for approval;
 - ii. review of the internal auditors' independence and quotation for charges on internal control for the year ended 31 December 2012 with a recommendation to the Board for approval;
 - iii. review of the effectiveness of the system of internal controls of the Company and its subsidiaries;
 - iv. review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget; and
 - v. review of the consolidated financial statements including the Group's adopted accounting principles and practices, internal control systems and annual and interim results and other financial reporting matters (in conjunction with the external auditors for the annual results).

The terms of reference of the Audit Committee explaining its role and the authority delegated to it by the Board is available on the HKEx and the Company's website.

Auditors' Remuneration

Apart from provision of annual audit services for the year ended 31 December 2012, Ernst & Young, the external auditors, was also the reporting accountants of the Company in relation to the Listing.

For the year ended 31 December 2012, the remuneration paid or payable to Ernst & Young in respect of audit services provided is set out below:

Services rendered	Remuneration paid/payable HK\$'million
Annual audit services*	2.45
Total	2.45

- * Reporting accountant fee of HK\$7.99 million in connection with the Company's Listing has previously been disclosed in the corporate governance report for the financial year ended 31 December 2011. There were no non-audit services to the Group.

CORPORATE GOVERNANCE REPORT

The Audit Committee has expressed its views to the Board that the level of fees paid/payable to the Company's external auditors for annual audit services is reasonable. There has been no major disagreement between the auditors and the management of the Company during the year ended 31 December 2012.

The Audit Committee is responsible to make recommendations to the Board as to the appointment, reappointment and removal of external auditors, which is subject to the approval by the Board at the annual general meetings of the Company.

REMUNERATION COMMITTEE

- (a) The Remuneration Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the CG Code. The main function of the Remuneration Committee is to assist the Board in establishing a formal and transparent procedure for setting policy on the remuneration packages for all Directors and senior management.
- (b) The remuneration Committee comprises two Independent Non-executive Directors, namely, Mr. Chan Hon Chung, Johnny, Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Executive Director, Mr. Wong Koon Lup. The Chairman of the Remuneration Committee is Mr. Chan Hon Chung, Johnny.
- (c) For the year ended 31 December 2012, the Remuneration Committee held one meeting with 100% attendance. The record of attendance of individual Directors at the Remuneration Committee meeting is set out on page 15 of this annual report.
- (d) For the year ended 31 December 2012, the Remuneration Committee made recommendations to the Board on the remuneration packages of individual Directors and senior management. No Director or any of his associates were involved in determining his own remuneration. In determining such remuneration packages, the Remuneration Committee made reference to companies of comparable business and scale, and the nature and volume of work in order to compensate the Directors reasonably for their time and effort spent. During the year ended 31 December 2012, the Remuneration Committee conducted a review of the remuneration policy and structure of Directors and senior management which took into account the prevailing market conditions and the responsibilities of individual members.

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

In the band of	Number of individuals
Nil to HK\$1,000,000	3
HK\$1,000,001 to HK\$1,500,000	1

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees of the Group including bonus and share option schemes. The Group mainly determines staff remuneration on the basis of the competence, qualifications, experience and performance of individual employees and the salary trends in Singapore and the PRC. The staff remuneration will be reviewed regularly. The Group has adopted a share option scheme as an incentive to Directors and eligible employees.

The terms of reference of the Remuneration Committee explaining its role and the authority delegated to it by the Board is available on the HKEx and the Company's website.

NOMINATION COMMITTEE

- (a) The Nomination Committee of the Company was established on 14 March 2012 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and senior management.
- (b) The Nomination Committee has three members, comprising Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey), Mr. Kuan Cheng Tuck and Mr. Wong Koon Lup. The Chairman of the Nomination Committee is Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey). Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) and Mr. Kuan Cheng Tuck are Independent Non-executive Directors.
- (c) For the year ended 31 December 2012, the Nomination Committee held one meeting with 100% attendance. The record of attendance of individual Directors at the Nomination Committee meeting is set out on page 15 of this annual report. The Nomination Committee has reviewed the size and composition of the Board and considered the nomination of new Board members for the year ended 31 December 2012.

The terms of reference of the Nomination Committee explaining its role and the authority delegated to it by the Board is available on the HKEx and the Company's website.

COMPANY SECRETARY

Up to 1 June 2012, the Company Secretary was Dr. Leung Wai Cheung. Dr. Leung Wai Cheung ceased to be the Company Secretary with effect from 1 June 2012 due to his other work commitments which might not allow him to spend sufficient time on the business of the Company. Presently, the Company Secretary is Mr. Chan Kam Fuk who was appointed from 1 June 2012. The Company secretary is responsible to the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and the timely preparation and dissemination to Directors of comprehensive meeting agendas and papers. Minutes of all Board meetings and Board Committees are prepared and maintained by the Company Secretary to record the sufficient details the matters considered and decisions reached by the Board or Committee, including any concerns raised or dissenting views voiced by any Director. All draft and final minutes and meetings of Board Committees are sent to Directors and Committee members respectively for comments and records and are available for inspection by any Director upon request.

The appointment and removal of the Company secretary is subject to the Board approval in accordance with the articles of association of the Company. Whilst the Company Secretary reports to the Chairman, all members of the Board have access to the advice and services of the Company Secretary. Mr. Chan Kam Fuk has day-to-day knowledge of the affairs of the Group. In response to specific enquiries made, the Company Secretary confirmed that he has complied with all the required qualifications, experience and training requirements of the Listing Rules.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibilities for preparing the financial statement of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirements under the Listing Rules. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner as required by the Listing Rules.

The external auditors' statement about reporting responsibility is set out on pages 38 to 39.

INTERNAL CONTROL

The internal control system has been designed to provide reasonable (but not absolute) assurance in safeguarding the assets of the Group, maintaining proper accounting records, execution with appropriate authority and compliance with the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system.

During the financial year ended 31 December 2012, the Company has outsourced its internal audit function to an external professional firm, PKF-CAP LLP.

Having regard to the work performed by the internal and external auditors, the Board considered that the Group's internal control system is reasonably adequate and that the Company has complied with the code provisions on internal control of the CG Code.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company has engaged professional public relations consultants to organize various investor relations programs aiming at increasing the transparency of the Company, enhancing communications with shareholders and investors, increasing their understanding of and confidence in the Group's businesses.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board as well as the Chairman of the Audit Committee and other members of the respective committees are available to answer questions at the general meeting of the shareholders. The Company recognizes the importance of maintaining on-going communications with the shareholders and encourage them to attend shareholder's meetings to stay informed of the Group's businesses and convey any concerns that may have to the Directors and senior management.

Pursuant to article 64 of the articles of association of the Company, any shareholder holding not less than one-tenth of the paid up share capital of the Company carrying voting rights at general meetings of the Company has a right to call for an extraordinary general meeting by sending to the Board or the Company Secretary at the principal place of business a written request for such general meetings duly signed by the shareholders concerned together for the transaction of any business specified in such requisition and such meeting shall be held within two months of the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders can feel free to put forward proposals relating to the operations, strategy and/or management of the Group for discussion at general meetings. Such proposals shall be submitted to the Board or the Company Secretary by written request. Pursuant to the articles of association of the Company, Shareholders who proposed to submit proposals should convene extraordinary general meeting in accordance to the procedures as set out in article 64 of the articles of association.

The Group values feedback from Shareholders with regards to its efforts to promote transparency and foster investor relationships. Enquiries to the Board or the Company including comments and suggestions are welcome and can be addressed to the Company's address: 50 Kallang Avenue, #05-01/02, Singapore 339505 or to the Company Secretary at cwcomsec@gmail.com

The Company maintains a website at www.cwgroup-int.com where information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by public investors.

From 13 April 2012 to 31 December 2012, there was no change to the memorandum and articles of association of the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Koon Lup, aged 50, is the founder, chairman and chief executive officer of the Group. He was appointed as an Executive Director on 11 June 2010. Mr. Wong has over 24 years of experience in the engineering industry. Mr. Wong is responsible for the overall management, strategic planning and direction of our Group. Mr. Wong has spearheaded the expansion and growth of the business, and oversees the Group's operations and strategic planning. He charts the overall corporate direction of the Group and the development of new services and markets for the Group. Mr. Wong was able to secure partnerships and strategic alliances with well-established players such as KIWA Machinery Co., Ltd. and Deckel Maho Pfronten GmbH, and assisted the Group to become a supplier of parts and components to Hewlett-Packard Singapore (Pte.) Ltd.

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

Mr. Wong Mun Sum, aged 53, is the executive Director and chief operating officer. He joined the Group in 2004 and he was appointed as an Executive Director on 11 June 2010. He is responsible for the business operations of the Group. He has been assigned with the task to develop and improve the Group's operational processes and develop the operational capabilities of the Group.

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

Mr. Lee Tiang Soon, aged 42, is the Executive Director and the director of finance and business development. He joined the Group in April 2008 as the chief financial officer and he was appointed as an Executive Director on 3 April 2013. He is responsible for the corporate development, business strategy and overall finance function of the Group. He has been assigned with the task to develop the Group's strategy, sourcing and managing new business opportunities, profiling and evaluating potential acquisition targets in terms of fit with the Group's strategy and value creation potential.

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

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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kuan Cheng Tuck, aged 41, was re-appointed as an Independent Non-executive Director on 8 June 2012. Mr. Kuan has more than 16 years of experience in the fields of accounting and auditing as well as business and financial advisory. Prior to running his own accounting practice CT Kuan & Co, Mr. Kuan had worked with various international accounting firms in Singapore and Malaysia.

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

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

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

Mr. Ong Su Aun, Jeffrey (alias Mr. Wang Ci'An, Jeffrey), aged 35, was re-appointed as an Independent Non-executive Director on 8 June 2012. Mr. Ong obtained a Bachelor degree in law from The National University of Singapore in 2002 and completed the Postgraduate Practical Course in Law conducted by the Board of Legal Education Singapore in 2003. Mr. Ong was admitted as an advocate and solicitor of the Supreme Court, Singapore in May 2003 and a solicitor of the Supreme Court, England and Wales in February 2006. He is currently a partner at JLC Advisors LLP and previously practiced in the Litigation and Dispute Resolution department of Allen & Gledhill and the Dispute Resolution and Restructuring department at DLA Piper Rudnick Gray Cary (Singapore) Pte. Ltd.

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

Mr. Chan Hon Chung, Johnny, aged 47, was re-appointed as an Independent Non-executive Director on 8 June 2012. Mr. Chan was working in the banking industry for 12 years including in banks such as ABN AMRO Bank, Standard Chartered Bank and The Bank of East Asia Limited. Mr. Chan has extensive knowledge and experience in the banking industry, including but not limited to, business banking, handling borrowing accounts and debt recovery, marketing and operation of commercial banking. Mr. Chan holds a Bachelor degree of Science in Finance from Brigham Young University, US in 1988 and a Master degree in Professional Accounting from the Hong Kong Polytechnic University in 2001.

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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lim Chwee Heng, aged 49, is the chief technology officer and joined the Group in November 2007. He was appointed as an Executive Director on 14 March 2012 and stepped down on 3 April 2013. He has over 20 years of experience in the engineering industry. Mr. Lim is responsible for the overall technology development and acquisition of new technology for the Group. He has been assigned with the task to search and evaluate potential business targets with technology content, transfer and assimilate acquired technology into the Group and the synergizing and application of the technology to the Group.

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

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

Mr. Fu Junwu, aged 58, is responsible for operations and marketing for the Group's cement production equipment business in the PRC. Mr. Fu joined the Group in 2007.

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

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

Mr. Foo Suan Ping, aged 36, is the Group's chief financial officer and joined the Group in June 2004. He is responsible for the corporate finance function of the Group and matters relating to accounting, financial administration and the compliance and reporting obligations of the Group.

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

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

Mr. Tay Choon Guan, Jimmy, aged 50, is the Group's head of operations and marketing for the Asia-Pacific Region (excluding the PRC) and joined the Group in October 2006. He is responsible for the day-to-day operations and marketing of the Group in the Asia-Pacific Region, excluding the PRC.

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



PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Chan Kam Fuk, aged 47, is a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of CPA (Australia) and a certified tax adviser of the Taxation Institute of Hong Kong. Mr. Chan is the sole-proprietor of Dominic K. F. Chan & Co., CPA, an accounting firm in Hong Kong with extensive experience in finance, auditing and accounting.

Mr. Chan is currently an independent non-executive director of Haitian Hydropower International Limited (Stock Code: 8261) which is listed on GEM.

The directors of the Company (the “Directors”) present the annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 41.

The Directors do not recommend the payment of dividend for the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2012 are set out in Note 23 to the financial statements.

SHARE CAPITAL

Details of the Company’s issued share capital during the year are set out in Note 29 to the financial statements. There were no movements in either the Company’s authorised or issued share capital during the year.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

There was no purchase, redemption or sale of listed securities of the Company in the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the statements of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company has no reserve available for distribution as it is in an accumulated loss position.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 50.8% of the total sales for the year and sales to the largest customer included therein amounted to 18.9%. Purchases from the Group's five largest suppliers accounted for 44.8% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.4%.

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

DIRECTORS

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

Executive Directors:

Mr. Wong Koon Lup
Mr. Wong Mun Sum
Mr. Lee Tiang Soon

Independent Non-executive Directors:

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

In accordance with article 108 and article 112 of the articles of association, Mr. Lee Tiang Soon, Mr. Wong Mun Sum and Mr. Ong Su Aun Jeffrey (Wang Ci'An, Jeffrey) will retire from office as Directors at the forthcoming annual general meeting. Mr. Lee Tiang Soon, Mr. Wong Mun Sum and Mr. Ong Su Aun, Jeffrey (Wang Ci'An, Jeffrey) being eligible, will offer themselves for re-election as Directors at the annual general meeting. At the annual general meeting, ordinary resolutions will be proposed to re-elect them as Directors.

Note: Mr. Lim Chwee Heng resigned as an Executive Director with effect from 3 April 2013. Mr. Lee Tiang Soon became an Executive Director with effect from 3 April 2013.

Independence of independent non-executive Directors

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 24 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Save for Mr. Lee Tiang Soon, who was appointed as Executive Director on 3 April 2013, each of our existing Executive Directors has entered into a service contract with the Company for an initial term of three years which commenced on 13 April 2012 and is subject to termination by either party giving not less than three months' written notice.

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

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

DIRECTORS' REMUNERATION

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

The remuneration and other emoluments are determined by the Board by recommendation of the Remuneration Committee with reference to the duties, responsibilities and performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in Note 11 to the financial statements of the Group.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

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

As at 31 December 2012, the interests and short positions of the Directors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code as set out in Appendix 10 to the Listing Rules are as follows:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of ordinary shares</u>	<u>Percentage of the total issued share capital of the Company</u>
Mr. Wong Koon Lup	Interest in controlled corporation	149,400,000 (L)	24.24%
	Beneficial owner	23,100,000 (L)	3.74%
Mr. Wong Mun Sum	Beneficial owner	22,500,000 (L)	3.65%

Note: Mr. Wong Koon Lup and Mr. Wong Mun Sum, both Executive Directors of the Company, owned 80% and 20% of the shares in WMS Holding Pte. Ltd., respectively. Mr. Wong Koon Lup is deemed to be interested in the shares held by WMS Holding Pte. Ltd. under Part XV of the SFO.

Save as disclosed above, as at 31 December 2012, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2012, the persons or entities who have interests or short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held (a)	Percentage of the Company's issued share capital
Mr. Wong Koon Lup	(b)	Interest in controlled corporation	149,400,000 (L)	24.24%
		Beneficial owner	23,100,000 (L)	3.74%
Ms. Lou Swee Lan	(c)	Family interest	172,500,000 (L)	27.98%
WMS Holding Pte. Ltd.	(b)	Beneficial owner	149,400,000 (L)	24.24%
Mr. Hui Yan Sui, William		Beneficial owner	148,416,000 (L)	24.08%
Ms. Hue Poh Leng	(d)	Family interest	148,416,000 (L)	24.08%
Mr. Fu Junwu		Beneficial owner	32,052,400 (L)	5.2%
Ms. Wang Shuhua	(e)	Family interest	32,052,400 (L)	5.2%

Notes:

- (a) The letter "L" denotes the long position in such shares and the letter "S" denotes the short position in such shares.
- (b) Mr. Wong Koon Lup and Mr. Wong Mun Sum, both Executive Directors of the Company, owned 80% and 20% of the shares in WMS Holding Pte. Ltd., respectively. Mr. Wong Koon Lup is deemed to be interested in the shares held by WMS Holding Pte. Ltd. under Part XV of the SFO.
- (c) Ms. Lou Swee Lan is the spouse of Mr. Wong Koon Lup. Ms. Lou Swee Lan is deemed to be interested in the shares held by Mr. Wong Koon Lup under the SFO.
- (d) Ms Hue Poh Leng is the spouse of Mr. Hui Yan Sui, William. Ms Hue Poh Leng is deemed to be interested in the shares held by Mr. Hui Yan Sui, William under the SFO.
- (e) Ms. Wang Shuhua is the spouse of Mr. Fu. Ms. Wang Shuhua is deemed to be interested in the shares held by Mr Fu under the SFO.

Save as disclosed above, as at 31 December 2012, the Directors are not aware of any other persons (who is not a Director or the Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

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

(a) Who may join

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

(b) Purpose of the Scheme

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

(c) Duration and administration

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

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

(d) Grant of Options

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

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

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

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

(e) Price sensitive information

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

(f) Grant of Options to connected persons

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

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

(g) Maximum number of Shares available for subscription

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

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

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

(h) Subscription price

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

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE

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

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

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

Lease of plant and premises

Background

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

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

Listing Rules implications

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

The annual rentals payable to Tianjin Xing Cai for the year ended 31 December 2011 and 2012 were approximately HK\$135,000 and HK\$138,000 respectively, and for the year ending 31 December 2013 is expected to be less than HK\$1,000,000 each year. As the annual caps in respect of such continuing connected transactions are less than HK\$1,000,000 and the applicable ratio is less than 5% (see Rule 14A.33(3) of the Listing Rules), the transactions contemplated under the lease agreements with Tianjin Xing Cai will, therefore, fall within the de minimis exemption for the Company under Rule 14A.33(3) of the Listing Rules and will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Related Party Disclosures

Details of the related party disclosures are set out in note 35 of the financial statements.

BANK LOANS AND OTHER BORROWINGS AND COMMITMENTS

Details of bank loans and other borrowings of the Group as of 31 December 2012 are set out in Note 23 of the financial statements.

Details of commitments of the Group as of 31 December 2012 are set out in Note 33 of the financial statements.

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

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

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in Note 34 to the financial statements.

FOREIGN EXCHANGE RISK MANAGEMENT

Details of the foreign exchange risk management of the Group are set out in Note 32(b)(i) to the financial statements.

SUBSEQUENT EVENTS

There were no significant subsequent events which have occurred since 31 December 2012 up to the date of this report.

RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in Note 35 to the financial statements.

COMPLIANCE WITH NON-COMPETITION AGREEMENT

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

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Main Board of the Stock Exchange on 13 April 2012. The net proceeds, after deduction of related issuance expenses, amounted to approximately HK\$163.8 million. The net proceeds were utilized during the year as follows:

	Planned allocation percentage of net proceeds %	Planned allocation amount of net proceeds HK\$'million	Utilized amount as at 31 December 2012 HK\$'million	Unutilized amount as at 31 December 2012 HK\$'million
Expansion of production facilities and capacities	53.9	88.3	46.4	41.9
Acquisitions, joint ventures and strategic alliances	21.5	35.2	–	35.2
Expanding range of CNC machines	8.2	13.4	–	13.4
Increasing sales and marketing efforts	6.5	10.7	–	10.7
Working capital and other general corporate purposes	9.9	16.2	15.6	0.6
	100.0	163.8	62.0	101.8

The Group held the unutilized net proceeds with licensed banks in Hong Kong and Singapore as at 31 December 2012.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2013 to Thursday, 30 May 2013, both days inclusive, during which period no transfer of shares will be registered for the purpose of determining who will be entitled to vote at the annual general meeting. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 30 May 2013, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 27 May 2013.

ON BEHALF OF THE BOARD

Chairman

Hong Kong
26 April 2013

INDEPENDENT AUDITORS' REPORT



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

TO THE SHAREHOLDERS OF CW GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of CW Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 110, which comprise the statement of financial positions of the Group and the Company as at 31 December 2012, the consolidated statement of comprehensive income, the statements 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 International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made 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 International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 auditors' judgement, 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 auditors consider 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 financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

26 April 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Revenue	6	818,535	753,566
Cost of sales		(595,453)	(574,097)
Gross profit		223,082	179,469
Other income and gains	6	3,498	1,369
Selling and distribution expenses		(31,138)	(27,995)
Administrative expenses	7	(68,137)	(34,105)
Finance costs	8	(30,830)	(25,466)
Other operating expenses		(15,720)	(745)
Profit before tax	9	80,755	92,527
Income tax expense	10	(25,640)	(24,512)
Profit for the year		55,115	68,015
Other comprehensive income			
Exchange differences on translation of foreign operations		14,476	6,739
Other comprehensive income for the year, net of tax		14,476	6,739
Total comprehensive income for the year		69,591	74,754
Profit for the year attributable to:			
Owners of the Company		55,115	68,015
		55,115	68,015
Total comprehensive income for the year attributable to:			
Owners of the Company		69,591	74,754
		69,591	74,754
Earnings per share attributable to ordinary equity holders of the Company	14		
Basic and diluted (HK cents)			
– Profit for the year		9.57	14.58

STATEMENT OF FINANCIAL POSITIONS

31 December 2012

		Group		Company	
	Notes	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Non-current assets					
Property, plant and equipment	15	44,465	33,356	–	–
Prepaid land lease payments	16	816	823	–	–
Deferred tax assets	27	75	96	–	–
Goodwill	17	34,667	34,396	–	–
Investment in jointly-controlled entities	18	–	–	–	–
Investment in subsidiaries		–	–	47	–
		80,023	68,671	47	–
Current assets					
Inventories	19	23,289	21,685	–	–
Trade receivables	20	630,168	566,578	–	–
Other receivables	21	310,328	147,741	172,444	–
Cash and bank balances	22	133,587	38,800	202	–*
		1,097,372	774,804	172,646	–
Current liabilities					
Bank loans and overdrafts	23	1,705	6,499	–	–
Trade payables	24	442,865	378,216	–	–
Other payables and accruals	25	123,877	103,742	25,532	–
Redeemable convertible loan	28	–	54,479	–	–
Derivative liabilities	28	–	43,434	–	–
Finance lease payable	26	550	561	–	–
Tax payables		25,259	16,443	–	–
		594,256	603,374	25,532	–
Net current assets		503,116	171,430	147,114	–
Total assets less current liabilities		583,139	240,101	147,161	–
Non-current liabilities					
Bank loans	23	–	1,614	–	–
Finance lease payable	26	80	621	–	–
Deferred tax liabilities	27	12,571	20,584	–	–
		12,651	22,819	–	–
Net assets		570,488	217,282	147,161	–
Capital and reserves					
Issued capital	29	6,164	125,472	6,164	–*
Retained earnings		199,018	160,555	(28,019)	–
Share premium reserve		421,925	–	173,634	–
Other reserves	30	(56,619)	(68,745)	(4,618)	–
Total equity attributable to owners of the Company		570,488	217,282	147,161	–

* Balance less than HK\$1,000.

Wong Koon Lup
Director

Wong Mun Sum
Director

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2012

Group	Attributable to owners of the Company				
	Issued capital HK\$'000 (Note 29)	Retained earnings HK\$'000	Share premium reserve HK\$'000 (Note 30)	Other reserves HK\$'000 (Note 30)	Total HK\$'000
Balance at 1 January 2012	125,472	160,555	–	(68,745)	217,282
Profit for the year	–	55,115	–	–	55,115
Exchange differences on translation of foreign operations	–	–	–	14,476	14,476
Total comprehensive income for the year	–	55,115	–	14,476	69,591
Contributions by and distributions to owners					
Issuance of new shares	1,500	–	198,000	–	199,500
Adjustment arising from Reorganisation Exercise (Note 29)	(120,808)	–	248,291	(3,009)	124,474
Share issuance expenses	–	–	(24,366)	–	(24,366)
Transfer to statutory reserves	–	(659)	–	659	–
Distribution to shareholder*	–	(15,993)	–	–	(15,993)
Total contributions by and distribution to owners, representing total transactions with owners in their capacity as owners	(119,308)	(16,652)	421,925	(2,350)	283,615
Balance at 31 December 2012	6,164	199,018	421,925	(56,619)	570,488

Group	Attributable to owners of the Company			
	Issued capital HK\$'000 (Note 29)	Retained earnings HK\$'000	Other reserves HK\$'000 (Note 30)	Total HK\$'000
Balance at 1 January 2011	125,472	98,603	(81,547)	142,528
Profit for the year	–	68,015	–	68,015
Exchange differences on translation of foreign operations	–	–	6,739	6,739
Total comprehensive income for the year	–	68,015	6,739	74,754
Contributions by and distributions to owners				
Transfer to statutory reserves	–	(6,063)	6,063	–
Total contributions by and distribution to owners, representing total transactions with owners in their capacity as owners	–	(6,063)	6,063	–
Balance at 31 December 2011	125,472	160,555	(68,745)	217,282

* During the financial year ended 31 December 2012, the Group distributed HK\$15,993,000 to a shareholder of one of its subsidiaries' past earnings for equity interest previously acquired from the shareholder.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2012

Company	Attributable to owners of the Company				
	Issued capital HK\$'000 (Note 28)	Accumulated losses HK\$'000	Share premium reserve HK\$'000	Other reserves HK\$'000 (Note 29)	Total HK\$'000
Balance at 1 January 2012	-	-	-	-	-
Loss for the year	-	(28,019)	-	-	(28,019)
Total comprehensive income for the year	-	(28,019)	-	-	(28,019)
Contributions by and distributions to owners					
Issuance of new shares	1,500	-	198,000	-	199,500
Adjustment arising from Reorganisation Exercise	4,664	-	-	(4,618)	46
Share issuance expenses	-	-	(24,366)	-	(24,366)
Total contributions by and distribution to owners, representing total transactions with owners in their capacity as owners	6,164	-	173,634	(4,618)	175,180
Balance at 31 December 2012	6,164	(28,019)	173,634	(4,618)	147,161

Statement of changes in equity for the company level for the financial year ended 31 December 2011 has not been presented as there are no equity balances other than share capital balance which is less than HK\$1,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
Cash flows from operating activities			
Profit before tax		80,755	92,527
Adjustments for:			
Amortisation of prepaid land lease payments		13	12
Depreciation		4,319	4,195
Listing expenses		25,621	–
Bad debts written off		245	–
Foreign currency realignment		16,700	–
Loss on disposal of subsidiary	(ii)	368	–
Allowance for inventories		(33)	208
Write-back of impairment on doubtful debts		–	(81)
(Gain)/Loss on disposal of property, plant and equipment, net		(1,165)	2
Interest income		(498)	(557)
Amortised interest on redeemable convertible loan		23,998	19,824
Fair value change of embedded derivative liabilities		–	312
Finance costs		6,832	5,330
Allowance for unutilised leave provision		333	144
Cash flows from operating activities before movements in working capital		157,488	121,916
Movements in working capital:			
Trade receivables		(66,790)	(334,014)
Other receivables		(162,587)	(5,819)
Inventories		(2,509)	(947)
Trade payables		68,216	217,444
Other payables and accruals		19,803	(1,159)
Cash generated from/(used in) operations		13,621	(2,579)
Income taxes paid		(24,809)	(12,472)
Net cash flows used in operating activities		(11,188)	(15,051)
Cash flows from investing activities			
Consideration for the acquisition of non-controlling interests		–	(36,276)
Interest received		498	557
Net cashflow from disposal of subsidiary		(70)	–
Purchase of property, plant and equipment	(i)	(18,635)	(12,610)
Proceeds from disposal of property, plant and equipment		4,712	2,092
Decrease in pledged deposits		–	5,342
Net cash flows used in investing activities		(13,495)	(40,895)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Cash flows from financing activities		
Interest and finance charges paid	(6,832)	(5,330)
Repayment of obligations under finance leases	(575)	(1,601)
Proceeds from issuance of shares	199,500	–
Share issuance expenses	(49,987)	–
Distribution to shareholder	(15,993)	–
Repayment of bank loans	(6,407)	(14,682)
Net cash flows generated from/(used in) financing activities	119,706	(21,613)
Net increase/(decrease) in cash and cash equivalents	95,023	(77,559)
Cash and cash equivalents at the beginning of the year	38,799	114,045
Effect of exchange rate changes, net	(235)	2,313
Cash and cash equivalents at the end of the year	133,587	38,799
Cash and cash equivalents consist of:		
Cash and bank balances	133,587	38,800
Bank overdrafts	–	(1)
Cash and cash equivalents	133,587	38,799
<i>Note:</i>		
(i) Purchase of property, plant and equipment		
Property, plant and equipment were purchased by:		
Cash payments	18,635	12,610
Finance lease	–	150
	18,635	12,760

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

(ii) Disposal of SG Technologies Pte Ltd

On 2 July 2012, the Group had entered into sale and purchase agreements to dispose its entire interest in SG Technologies Pte Ltd for a consideration of S\$2.

The Company has completed the disposal of SG Technologies Pte Ltd on 31 July 2012.

On the basis that management has lost control of SG Technologies Pte Ltd with effect from 31 July 2012, the financial results of SG Technologies Pte Ltd for the period from 1 August 2012 to 31 December 2012 have not been consolidated into the Group's results for the financial year ended 31 December 2012.

The value of assets and liabilities of SG Technologies Pte Ltd as at 31 July 2012, and the cash flow effect of the disposal were:

	<i>HK\$'000</i>
Trade and other receivables	2,955
Inventories	938
Cash and cash equivalent	<u>70</u>
	3,963
Trade and other payables	(3,567)
Income tax payables	<u>(28)</u>
	368
Carrying value of net assets disposed	368
Loss on disposal	<u>(368)</u>
	–
Cash received	<u>–</u>
	(70)
Cash and cash equivalents of the subsidiary	<u>(70)</u>
	(70)
Net cash outflow on disposal of a subsidiary	<u>(70)</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

1. CORPORATION INFORMATION

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

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

The Company underwent a reorganisation in March 2012 in connection with an initial public offering of which the shares were listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited. Details of the reorganisation are set out in Note 29 to the financial statements.

As at the end of the years ended 31 December 2012 and 2011, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below:

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

1. CORPORATION INFORMATION (cont'd)

Name of subsidiary	Legal form, date and place of incorporation/ establishment/ operations	Registered capital/ issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
<i>Indirectly held: (cont'd)</i>				
CW International (S) Pte. Ltd.	Limited private company 20 April 2004 Singapore	Ordinary shares S\$10,000	100%	Investment holding
創興機械設備(上海)有限公司 CW International (Shanghai) Co., Ltd. ⁽¹⁾	Wholly owned foreign enterprise 18 May 2005 People's Republic of China ("PRC")	Registered capital US\$2,500,000 Paid-up capital US\$1,873,478	100%	Dealing in industrial machinery and equipment, technical testing and analysis services
CW Tech Pte. Ltd.	Limited private company 26 October 2004 Singapore	Ordinary shares S\$6,351,624	100%	Investment holding
FNW International Pte. Ltd. ⁽²⁾	Limited private company 6 March 2007 Singapore	Ordinary shares S\$100	100%	Investment holding
FNW International Limited (formerly known as City Eagle Investments Limited)	Limited liability company 8 June 2010 British Virgin Islands	US\$100	100%	Investment holding
Fu Yang International Co., Ltd. ^{(3) (4)}	Limited liability company 20 April 2001 British Virgin Islands	Ordinary shares US\$100	100%	Investment holding
天津菲斯特機械設備有限公司 Tianjin FeiSiTe Machinery Co., Ltd. ⁽¹⁾	Wholly owned foreign enterprise 14 August 2003 PRC	Registered and paid-up capital US\$3,650,500	100%	Dealing in industrial machinery and equipment and providing industrial technical consultancy services

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

1. CORPORATION INFORMATION (cont'd)

Name of subsidiary	Legal form, date and place of incorporation/ establishment/ operations	Registered capital/ issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
<i>Indirectly held: (cont'd)</i>				
CW Advanced Technologies Pte. Ltd.	Limited private company 27 February 2003 Singapore	Ordinary shares S\$450,000	100%	Dealing in industrial machinery and equipment and providing industrial technical consultancy services
塑鼎貿易(上海)有限公司 SD Trading (Shanghai) Co., Ltd. ⁽¹⁾	Wholly owned foreign enterprise 26 February 2004 PRC	Registered capital US\$140,000 Paid-up capital US\$140,000	100%	Dealing in industrial machinery and equipment, technical testing and analysis services
CW International (M) Sdn. Bhd.	Limited liability company 25 July 2005 Malaysia	Ordinary shares RM510,002	100%	Inactive
Honor Well Group Holdings Limited	Limited liability company 18 January 2011 Hong Kong	Ordinary shares HK\$2	100%	Investment holding
CW Advanced Technologies Limited	Limited liability company 16 May 2012 Hong Kong	Ordinary shares HK\$1	100%	Dealing in industrial machinery and equipment and providing industrial technical consultancy services

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

⁽²⁾ The Company ceased operations on 31 August 2012 and in the progress of being struck off the register with Accounting and Corporate Regulatory Authority of Singapore.

⁽³⁾ On 20 February 2012, Fu Yang International Co., Ltd. entered into an equity transfer agreement with Honor Well Group Holdings Limited ("Honor Well") to transfer the entire equity interest in Tianjin FeiSiTe Machinery Co., Ltd. to Honor Well.

⁽⁴⁾ On 20 February 2012, FNW International Limited entered into shares sales agreement with Mr. Fu Jun Wu to sell 100% issued share capital of Fu Yang International Co., Ltd to Mr Fu Jun Wu.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

1. CORPORATION INFORMATION (cont'd)

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

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

The statutory financial statements of CW International (M) Sdn. Bhd. for the year ended 31 December 2012 was prepared in accordance with accounting principles generally accepted in Malaysia. The statutory financial statements of CW International (M) Sdn. Bhd. for the year ended 31 December 2012 was audited by Cheng & Co., certified public accountants registered in Malaysia.

The statutory financial statements of CW International (Shanghai) Co., Ltd. and SD Trading (Shanghai) Co., Ltd. for the year ended 31 December 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of CW International (Shanghai) Co., Ltd. and SD Trading (Shanghai) Co., Ltd. for the year ended 31 December 2012 were audited by 上海榮業會計師事務所, certified public accountants registered in the PRC.

The statutory financial statements of Tianjin FeiSiTe Machinery Co., Ltd. for the year ended 31 December 2012 was prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and was audited by 天津正泰有限責任會計師事務所, certified public accountants registered in the PRC.

The statutory financial statements of CW Advanced Technologies Limited was prepared in accordance with accounting principles generally accepted in Hong Kong. The statutory financial statements of this company was audited by Ernst & Young, certified public accountants registered in Hong Kong, SAR.

No statutory audited financial statements have been prepared for Honor Well Group Holdings Limited since its date of incorporation as the Company has not yet commenced business since its incorporation.

2.1 BASIS OF PREPARATION

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

The IASB issued a number of new or revised IFRSs which are generally effective for annual periods beginning on 1 January 2011 and 1 January 2012.

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 *Employee Benefits (Revised)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment is not expected to impact the Group's financial position or performance and becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will impact the financial position of the Group by eliminating proportionate consolidation of the joint venture in KIWA-CW Machine Manufacturing Pte.Ltd. and KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. (see note 18). With the application of the new standard, the investment in KIWA-CW Machine Manufacturing Pte.Ltd. and KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. will be accounted for using the equity method of accounting. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application. The financial impact to the Group has been disclosed in Note 18 to the financial statements.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property, Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 *Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2012.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Basis of consolidation (cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at a acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

Business combinations and goodwill (cont'd)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements of the controlling holding company. The profit and loss account reflects the results of the combining entities for the full year, irrespective of when the combination takes places.

Subsidiaries

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Jointly-controlled entities

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

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

Impairment of non-financial assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Related parties**

A related party is defined as follows:

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Leases

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

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

Leases (cont'd)

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

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

Impairment of financial assets (cont'd)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Financial liabilities (cont'd)

Subsequent measurement

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

Loans and borrowings

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

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

Redeemable convertible loan

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Government grants

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Income tax (cont'd)

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the straight-line basis over the specified period of time as further explained in the accounting policy for "Rendering of services" below;
- (c) commission income for rendering of services is recognized when the services are rendered;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (e) rental income, on a time proportion basis over the lease terms; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Rendering of services

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

Employee benefits

Defined contribution plan

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Employee benefits (cont'd)

Employee leave entitlement

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

Borrowing costs

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

Dividends

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

Foreign currencies

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

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

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

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

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

Foreign currencies (cont'd)

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

(a) *Impairment of assets*

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

(b) *Determination of functional currencies*

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

Judgements (cont'd)

(c) *Income taxes*

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

(d) *Revenue recognition*

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

(e) *Withholding tax provision on profit appropriation*

The Group provides for withholding taxes of 5% and 10% on its People's Republic of China ("PRC") subsidiaries' distributable profits generated from 1 January 2008 onwards in compliance with the PRC Corporate Tax Law. The Group has provided for such withholding taxes on the basis that the Group is expected to appropriate substantially the profits which the PRC subsidiaries generate in the foreseeable future. As at 31 December 2012 and 2011, the amounts provided were HK\$12,738,000 and HK\$20,741,000, respectively.

Estimation uncertainty

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

(a) *Impairment of loans and receivables*

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

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

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

Estimation uncertainty (cont'd)

(a) *Impairment of loans and receivables (cont'd)*

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

The carrying amount of the Group's loans and receivables at the end of each reporting period disclosed in Note 32(a).

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

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

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

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

(d) *Fair value of financial instruments*

Where the fair values of financial instruments recorded on the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are derived from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in Note 32(c).

(e) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill is disclosed in Note 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

5. OPERATING SEGMENT INFORMATION

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

- (a) Precision engineering solution projects – relates to provision of industrial solutions specific to machine tools and industrial machinery and equipment encompassing conceptualization and design to production set-up, commissioning and maintenance of production lines.
- (b) Sales of Computer Numeric Control (“CNC”) machining centres – relates to sales of precision engineering manufacturing equipment operable under CNC automation.
- (c) Sales of cement production equipment – relates to sales of equipment (rotor weighfeeders and clinker coolers) primarily for the construction materials industry.
- (d) Sales of components and parts – relates to sales of self-manufactured and trading of components and parts.
- (e) After-sales technical support services – relates to provision of repairs and maintenance services for the above segments.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

5. OPERATING SEGMENT INFORMATION (cont'd)

Year ended 31 December 2012	Precision engineering solution projects HK\$'000	Sales of CNC machining centres HK\$000	Sales of cement production equipment HK\$000	Sales of components and parts HK\$000	After-sales technical support services HK\$000	Total HK\$000
Segment revenue						
Sales to external customers	399,210	124,168	101,796	106,448	86,913	818,535
Intersegment sales	2,070	402	–	1,742	–	4,214
	401,280	124,570	101,796	108,190	86,913	822,749
<i>Reconciliation</i>						
Elimination of intersegment sales						(4,214)
Revenue						818,535
Segment results	96,449	23,052	41,409	11,251	50,921	223,082
<i>Reconciliation</i>						
Interest income						498
Unallocated other income and gains						3,000
Corporate and other unallocated expenses						(114,995)
Finance costs						(30,830)
Profit before tax						80,755
Segment assets	486,885	54,446	45,886	31,216	63,831	682,264
<i>Reconciliation</i>						
Corporate and other unallocated assets						495,131
Total assets						1,177,395
Segment liabilities	253,239	73,162	19,527	42,768	53,939	442,635
<i>Reconciliation</i>						
Corporate and other unallocated liabilities						164,272
Total liabilities						606,907
Other segment information						
Other non-cash expenses*	–	(79)	(134)	–	–	(213)
Depreciation	–	(558)	(295)	(1,002)	(46)	(1,901)
Capital expenditure**	–	(3,233)	(1,292)	(7,601)	–	(12,126)

* Other non-cash expenses constitute allowance for inventories and allowance for doubtful debts that are directly attributable to the respective business segment.

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

5. OPERATING SEGMENT INFORMATION (cont'd)

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

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

5. OPERATING SEGMENT INFORMATION (cont'd)

Reconciliation of other segment information

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Depreciation and amortization		
Directly attributable to operating segments	(1,901)	(2,028)
Corporate and other unallocated depreciation and amortization costs	(2,431)	(2,179)
Total depreciation and amortization costs	(4,332)	(4,207)
Capital expenditure		
Directly attributable to operating segments	(12,126)	(8,869)
Corporate and other unallocated capital expenditure	(6,509)	(3,891)
Total capital expenditure	(18,635)	(12,760)

Geographical information

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

	2012		2011	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Asia Pacific region:				
The PRC	208,037	25.4	246,583	32.7
Singapore	97,104	11.9	111,672	14.8
Indonesia	232,576	28.4	107,479	14.3
Malaysia	42,417	5.2	51,275	6.8
Thailand	55,625	6.8	29,241	3.9
India	82,788	10.1	94,238	12.5
Hong Kong	22,787	2.8	4,088	0.5
Others	4,869	0.6	3,650	0.5
Europe	72,332	8.8	105,222	14.0
Others	–	–	118	0.0
Total	818,535	100.0	753,566	100.0

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

5. OPERATING SEGMENT INFORMATION (cont'd)

Geographical information (cont'd)

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
PRC	38,447	33,883
Singapore	6,909	392
Malaysia	–	–
	45,356	34,275

Information about major customers

During the year ended 31 December 2012, except for a sale to PT. Buana Prima Raya Precision Machine Tools which accounted for approximately 18.9% (2011: 13.6%) of the Group's total revenue for the year ended 31 December 2012, no revenue from transactions with a single external customer amounted to 10% of the Group's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Revenue		
Sale of goods	731,622	733,054
Rendering of services	86,913	20,512
	818,535	753,566
Other income		
Bank interest income	498	557
Rental income	407	114
Government subsidy	651	523
Gain on disposal of property, plant and equipment (net)	1,165	–
Management fee	264	–
Sponsorship	282	–
Others	231	175
	3,498	1,369

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

7. ADMINISTRATIVE EXPENSES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Listing expenses	25,621	–
Depreciation	4,319	4,195
Amortisation of prepaid land lease payments	13	12
Bad debts written off	245	–
Write-back of impairment on doubtful debts	–	(81)
Loss on disposal of property, plant and equipment (net)	–	2

8. FINANCE COSTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Interest on finance leases	77	156
Bank overdraft interest and charges	344	714
Bank and other finance charges	6,275	4,035
Interest on bank loans wholly repayable within five years	136	425
Fair value change of embedded derivatives	–	312
Amortised interest on redeemable convertible loan	23,998	19,824
	30,830	25,466

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Loss on disposal of subsidiary	368	–
Cost of inventories sold	585,261	565,368
Net foreign exchange loss*	15,351	459
Employee benefits expenses (including directors' remuneration)**	33,507	27,445

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

** This amount includes contribution to retirement benefits schemes of HK\$4,837,000 (2011: HK\$3,522,000).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

10. INCOME TAX EXPENSE

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current tax:		
– Current year	23,712	19,859
– Over provision in prior year	–	24
Deferred tax (<i>Note 27</i>)		
– Current year	1,928	4,629
Total income tax recognised in profit or loss	<u>25,640</u>	<u>24,512</u>

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

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

Hong Kong income tax

The corporate income tax rate applicable to Hong Kong company of the Group was 16.5% for the year ended 31 December 2012. There was no assessable profits derived from or earned in Hong Kong for the year ended 31 December 2011.

Singapore income tax

The corporate income tax rate applicable to Singapore companies of the Group was 17% for the year ended 31 December 2012 (2011: 17%).

PRC income tax

The corporate income tax rate applicable to companies of the Group incorporated in the PRC was 25% for the year ended 31 December 2012 (2011: 25%).

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

10. INCOME TAX EXPENSE (cont'd)

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

Name of subsidiaries/ jointly-controlled entity	Details of tax concessions
CW International (Shanghai) Co., Ltd.	CW International (Shanghai) Co., Ltd. is a foreign invested enterprise ("FIE") which engages in manufacturing and is exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax reduction for the subsequent three years (the "FIE Tax Holiday"). The first year of its FIE Tax Holiday is financial year ended 31 December 2007. Accordingly, it was exempted from corporate income tax for the years ended 31 December 2007 and 2008 and is subject to corporate income tax at a reduced rate of 12.5% for the three years ended 31 December 2009, 2010 and 2011. It is subject to corporate income tax rate of 25% for the year ended 31 December 2012.
Tianjin FeiSiTe Machinery Co., Ltd.	Tianjin FeiSiTe Machinery Co., Ltd. is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. The first year of its FIE Tax Holiday is 31 December 2005. Accordingly, it was exempted from corporate income tax for the years ended 31 December 2005 and 2006 and was subject to corporate income tax at a reduced rate of 12%, 12.5% and 12.5% for the years ended 31 December 2007, 2008 and 2009 respectively. For the years ended 31 December 2010, 2011 and 2012, the tax rate was 15% under High-Tech Enterprise Certification.
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. is a FIE which engages in manufacturing and is entitled to the FIE Tax Holiday. The first year of its FIE Tax Holiday is financial year ended 31 December 2008. Accordingly, it was exempted from corporate income tax for the years ended 31 December 2008 and 2009 and was subject to corporate income tax at a reduced rate of 12.5% for the three years ended 31 December 2010, 2011 and 2012.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

10. INCOME TAX EXPENSE (cont'd)

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before tax	<u>80,755</u>	<u>92,527</u>
Tax at the domestic rates applicable to profits in the countries where the Group operates	16,419	21,766
Expenses not deductible for tax	11,155	4,411
Income not subject to tax	(322)	(335)
Over provision in respect of previous year	–	(24)
Effect of tax incentives	(3,512)	(6,751)
Effect of withholding tax on the undistributed profits (<i>Note 27</i>)	1,902	4,641
Others	(2)	804
Income tax expense for the year	<u>25,640</u>	<u>24,512</u>

11. DIRECTORS' REMUNERATION

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Fees	403	–
Other remuneration:		
– Salaries and bonuses	4,703	3,437
– Retirement benefit scheme contributions	249	144
	<u>5,355</u>	<u>3,581</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

11. DIRECTORS' REMUNERATION (cont'd)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2012 HK\$'000	2011 HK\$'000
Mr. Kuan Cheng Tuck	372	–
Mr. Ong Su Aun	248	–
Mr. Johnny Chan	248	–
	868	–

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

(b) Executive directors

In respect of individuals, who act as executive directors of the Company as at the date of this report, the remuneration received or receivable from the Group during each of the years ended 31 December 2012 and 2011 is as follows:

	Salaries HK\$'000	Bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Year ended 31 December 2012				
Mr. Wong Koon Lup	1,687	261	98	2,046
Mr. Lim Chwee Heng	1,247	192	90	1,529
Mr. Wong Mun Sum	1,217	99	61	1,377
	4,151	552	249	4,952
Year ended 31 December 2011				
Mr. Wong Koon Lup	1,298	–	52	1,350
Mr. Lim Chwee Heng	974	–	52	1,026
Mr. Wong Mun Sum	1,165	–	40	1,205
	3,437	–	144	3,581

During the years ended 31 December 2012 and 2011, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the years ended 31 December 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

12. FIVE HIGHEST PAID EMPLOYEES

The five employees with the highest remuneration in the Group for the years ended 31 December 2012 and 2011 were as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Directors	4,952	3,581
Employees	2,546	2,106
	7,498	5,687

The five highest paid employees for the years ended 31 December 2012 and 2011 include three directors, details of whose remuneration are set out in Note 11 above. Details of the remaining two non-directors, highest paid employees for the years ended 31 December 2012 and 2011 were as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Salaries	2,035	2,025
Bonuses	338	–
Retirement benefit scheme contributions	173	81
	2,546	2,106

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	–
	2	2

During the years ended 31 December 2012 and 2011, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any remuneration during the years ended 31 December 2012 and 2011.

13. DIVIDENDS

No dividend is to be paid or proposed by the Directors of the Company for the year ended 31 December 2012 (2011: nil).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$55,115,000 (2011: HK\$68,015,000) and the weighted average number of 575,777,047 ordinary shares in issue during the year.

The number of ordinary shares used to compute basic earnings per share amount for the year ended 31 December 2011 was 466,417,000, representing the number of shares upon completion of the reorganisation exercise disclosed in Note 29 but before issuance of 162,500,000 shares to the public for subscriptions by way of initial public offering.

For comparison purpose, had the total number of shares of 616,417,000 (representing the total number of shares issued after the Company's initial public offering) been used to compute basic earnings per share, the basic earnings per share amount would have been 11.03 HK cents for the year ended 31 December 2011.

No diluted earnings per share amounts have been presented for the years ended 31 December 2012 and 2011 as there are no dilutive potential ordinary shares as at 31 December 2012 and 2011.

	2012	2011
Earnings per share (<i>HK cents</i>)	9.57	14.58

15. PROPERTY, PLANT AND EQUIPMENT

	Building <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Renovation <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Computers <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction -in-progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost								
At 1 January 2012	1,086	21,738	6,800	3,689	1,606	9,598	8,287	52,804
Exchange differences	8	240	106	193	60	110	214	931
Additions	-	6,537	101	100	395	19	11,483	18,635
Disposals	-	(4,868)	-	(15)	(52)	(350)	-	(5,285)
Reclassification/adjustment	-	6,732	(142)	81	(100)	19	(6,732)	(142)
At 31 December 2012	1,094	30,379	6,865	4,048	1,909	9,396	13,252	66,943
Accumulated depreciation								
At 1 January 2012	154	7,058	2,782	3,424	1,177	4,853	-	19,448
Exchange differences	2	48	77	247	(33)	108	-	449
Charge for the period	51	1,856	562	89	254	1,507	-	4,319
Disposals	-	(1,369)	-	(12)	(42)	(315)	-	(1,738)
At 31 December 2012	207	7,593	3,421	3,748	1,356	6,153	-	22,478
Carrying amount								
At 31 December 2012	887	22,786	3,444	300	553	3,243	13,252	44,465

At 31 December 2012, the carrying amount of the Group's assets held under finance lease amounted to HK\$1,249,000.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

16. PREPAID LAND LEASE PAYMENTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
At 1 January	823	798
Additions	–	–
Exchange differences	6	37
Charge to profit or loss	(13)	(12)
At the end of the year	816	823
Amount to be amortised		
– Not later than one year	13	12
– Later than one year but not later than five years	52	52
– Later than five years	751	759
	816	823

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

17. GOODWILL

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Cost and carrying amount	34,667	34,396

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
CW Advanced Technologies Pte. Ltd.	168	158
Tianjin FeiSiTe Machinery Co., Ltd.	34,499	34,238
	34,667	34,396

The recoverable amounts of the above CGUs were determined based on value-in-use calculations which use cash flow projections based on financial budgets approved by the management for the next financial year, and discount rates 17% (2011: 17%) per annum for those financial years reported. Cash flows beyond the budget period were extrapolated using an estimated constant growth rate of 3% per annum. This growth rate did not exceed the average long-term growth rate for the relevant markets.

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Name of entity	Legal form and place of incorporation/ establishment/ operations	Percentage of ownership interest and voting power held		Principal activities
		2012 %	2011 %	
KIWA-CW Machine Manufacturing Pte. Ltd.	Limited private company Singapore	50	50	Investment holding
紀和機械製造(上海)有限公司 KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. ⁽¹⁾	Wholly owned foreign enterprise PRC	50	50	Manufacturing and trading of CNC machining centres

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

The aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, income and expenses related to the Group's interests in the jointly-controlled entity are as follows:

	2012 HK\$'000	2011 HK\$'000
Current assets	25,789	25,861
Non-current assets	7,653	4,968
Current liabilities	21,912	21,065
Non-current liabilities	174	505
Income	42,603	51,708
Expense	40,184	49,874

Upon adopting IFRS 11, the Group will no longer account for the results and financial position of the jointly-controlled entities as set out above and the consolidated results and financial position of the Group will correspondingly decrease. Had IFRS 11 being adopted for the financial year ended 31 December 2012, the Group would have equity accounted its share of results and investments in jointly-controlled entities of approximately HK\$2,092,000 and HK\$11,356,000 respectively.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

19. INVENTORIES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Raw materials, at cost	9,744	13,228
Work-in-progress, at cost	5,545	3,251
Finished goods, at cost	8,000	5,206
Inventories, at cost	23,289	21,685
Movement in allowance accounts:		
At 1 January	449	249
Allowance recognized during the year	33	208
Translation differences	(41)	(8)
At end of the year	441	449

20. TRADE RECEIVABLES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	534,828	462,246
Less: Impairment	(347)	(334)
Accrued revenue	95,687	104,666
	630,168	566,578

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

20. TRADE RECEIVABLES (cont'd)

Included in trade receivables are retention sums as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Retention sums	4,894	2,481

The following is an aged analysis of the Group's trade receivables (net of allowance for doubtful debts and excluding accrued revenue) at the end of each of the years ended 31 December 2012 and 2011, presented based on invoice date:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
0 to 90 days	267,638	181,359
91 to 180 days	203,968	121,024
181 to 360 days	51,068	122,314
Over 360 days	11,807	37,215
	534,481	461,912

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Past due but not impaired		
– Less than 3 months past due	60,126	62,023
– 3 months to 6 months past due	8,203	53,712
– 6 months to 12 months past due	16,041	21,990
– More than 12 months past due	11,892	1,009
	96,262	138,734
Neither past due nor impaired	438,219	323,178
Total trade receivables (net of allowance for doubtful debts and excluding accrued revenue)	534,481	461,912

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

20. TRADE RECEIVABLES (cont'd)

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

The Group's trade receivables that are impaired at the end of the years ended 31 December 2012 and 2011 and the movement of the allowance accounts used to record the impairment are as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables – nominal amounts	347	334
Less: Allowance for impairment	<u>(347)</u>	<u>(334)</u>
At 31 December	<u>–</u>	<u>–</u>
Movement in allowance accounts:		
At 1 January	334	433
Exchange differences	13	(18)
Impairment losses recognised on receivables	–	61
Impairment losses reversed	<u>–</u>	<u>(142)</u>
At 31 December	<u>347</u>	<u>334</u>

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

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Singapore dollar	33,225	–
Chinese Renminbi	–	54,199
United States dollar	72,674	151,150
EUR	75,100	199,164
Japanese yen	16,902	9,969
Swiss franc	<u>1,910</u>	<u>14,379</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

21. OTHER RECEIVABLES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Other receivables	111,953	40,117	–	–
Deposits	1,713	928	–	–
Prepayments for expenses	1,003	22,453	221	–
Prepayments to suppliers	195,659	84,243	6,007	–
Amounts due from subsidiaries	–	–	166,216	–
	310,328	147,741	172,444	–
Less: Impairment	–	–	–	–
	310,328	147,741	172,444	–

Included in other receivables were amounts due from related parties amounting to HK\$49,055,000 (2011: HK\$2,300,000). The amounts due from related parties and subsidiaries were unsecured, interest-free and repayable on demand.

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

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Singapore dollar	17,310	–	137,202	–
United States dollar	4,656	2,784	–	–
EUR	790	–	–	–
Japanese yen	500	4,537	–	–
Chinese Renminbi	–	758	–	–
Hong Kong dollar	1,593	–	–	–

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Movement in allowance accounts:				
At 1 January	–	145	–	–
Exchange differences	–	(5)	–	–
Amounts written off during the year	–	(140)	–	–
At 31 December	–	–	–	–

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

22. PLEDGED DEPOSITS AND CASH AND BANK BALANCES

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Cash on hand	54	126	–	–
Bank balances	130,226	32,349	202	–
Non-pledged fixed deposits	3,307	6,325	–	–
Cash and bank balances	133,587	38,800	202	–
Pledged deposits	–	–	–	–

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

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

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
United States dollar	5,246	132	–	–
EUR	100	3,284	–	–
Japanese yen	790	198	–	–
Hong Kong dollar	60,324	3	202	–

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

23. BANK LOANS AND OVERDRAFTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Bank overdrafts repayable on demand	–	1
Bank loans	<u>1,705</u>	<u>8,112</u>
	<u>1,705</u>	<u>8,113</u>
Carrying amount repayable:		
On demand or within one year	1,705	6,499
Two years to five years, inclusive	<u>–</u>	<u>1,614</u>
	<u>1,705</u>	<u>8,113</u>

The bank overdrafts bore interest at the prime lending rate of the bank during the years ended 31 December 2012 and 2011.

The bank loans bore interest at rates at 5.0% per annum and ranged from 5.0% to 13.5% per annum at 31 December 2012 and 2011 respectively. These bank loans were secured by corporate guarantees given by a subsidiary of the Company, namely, CW Group Pte. Ltd. at 31 December 2012 and 2011 respectively. In addition to the above, a bank loan of CW Advanced Technologies Pte. Ltd. with a carrying amount of HK\$1,705,000 and HK\$3,152,000 as at 31 December 2012 and 31 December 2011 respectively was further secured by personal guarantees of the directors of the Company, namely, Mr. Wong Koon Lup and Mr. Wong Mun Sum.

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
United States dollar	<u>–</u>	<u>1,341</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

24. TRADE PAYABLES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade payables	282,616	321,476
Bills payables	160,249	56,740
	442,865	378,216

The following is an aged analysis of the Group's trade payables (excluding bills payable) at the end of the years ended 31 December 2012 and 2011, presented based on invoice date:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
0 to 90 days	188,040	236,817
91 to 180 days	22,879	58,156
181 to 360 days	52,878	16,031
Over 360 days	18,819	10,472
	282,616	321,476

Bills payables were payable to the bank within 180 days for the years ended 31 December 2012 and 2011.

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Singapore dollar	6,205	4,081
United States dollar	3,936	74,294
EUR	47,660	187,887
Japanese yen	4,029	21,069
Malaysia ringgit	61	50

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Other payables	76,340	30,379	161	–
Deposits received	34,051	59,086	–	–
Accrued expenses	11,575	12,468	–	–
Dividend payable	1,911	1,809	–	–
Amounts due to subsidiaries	–	–	25,371	–
	123,877	103,742	25,532	–

Included in other payables were amounts due to related parties amounting to HK\$53,356,000 (2011: HK\$14,993,000). The amounts due to related parties and subsidiaries were unsecured, interest-free and repayable on demand.

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

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
United States dollar	1,706	6,833	–	–
EUR	1,159	22,415	–	–
Japanese yen	3,802	896	–	–
Singapore dollar	1	6,379	25,372	–
Malaysian ringgit	–	2,069	–	–
Hong Kong dollar	34	–	–	–
Chinese Renminbi	162	6,568	–	–

26. FINANCE LEASE PAYABLE

	Minimum lease payments		Present value of minimum lease payments	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Amounts payable:				
Within one year	580	581	550	561
In the second to fifth years, inclusive	82	714	80	621
Total minimum finance lease payments	662	1,295	630	1,182
Less: Future finance charges	(32)	(113)	–	–
Total net finance lease payable	630	1,182		
Portion classified as current liabilities			(550)	(561)
Non-current portion			80	621

26. FINANCE LEASE PAYABLE (cont'd)

The Group leased certain of its plant and equipment under finance leases. The average lease term is 4 years (2011: 5 years). Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 3.50% to 8.04% and 3.50% to 8.04% per annum for the years ended 31 December 2012 and 2011 respectively. All leases were on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

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

27. DEFERRED TAX

The following are the deferred tax assets recognised and movements thereon during the years ended 31 December 2012 and 2011:

	Revenue deferred <i>HK\$'000</i>	Provisions <i>HK\$'000</i>	Unutilised tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011	33	47	–	80
Exchange differences	1	3	–	4
Credit to profit or loss during the year (<i>Note 10</i>)	12	–	–	12
At 31 December 2011 and 1 January 2012	46	50	–	96
Exchange differences	3	2	–	5
Charge to profit or loss during the year (<i>Note 10</i>)	(26)	–	–	(26)
At 31 December 2012	23	52	–	75

At the end of the years ended 31 December 2012 and 2011, the Group has tax losses of approximately HK\$7,013,000 and HK\$7,015,000 respectively, that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognized due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

27. DEFERRED TAX (cont'd)

The following are the deferred tax liabilities recognised and movements thereon during the years ended 31 December 2012 and 2011:

	Accelerated tax depreciation <i>HK\$'000</i>	Provisions <i>HK\$'000</i>	Undistributed profits of PRC subsidiaries <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011	145	34	(15,394)	(15,215)
Exchange differences	4	(26)	(706)	(728)
Charge to profit or loss during the year (<i>Note 10</i>)	–	–	(4,641)	(4,641)
At 31 December 2011 and 1 January 2012	149	8	(20,741)	(20,584)
Exchange differences	8	2	34	44
Payment during the year	–	–	9,871	9,871
Charge to profit or loss during the year (<i>Note 10</i>)	–	–	(1,902)	(1,902)
At 31 December 2012	157	10	(12,738)	(12,571)

Pursuant to the PRC Corporate Income Tax Law, withholding tax is levied on dividends declared to foreign investor in respect of profits earned by the PRC subsidiary effective from 1 January 2008. Deferred taxation has been provided for in the consolidated statement of financial position in respect of temporary differences attributable to the profits earned by Tianjin FeiSiTe Machinery Co., Ltd. and CW International (Shanghai) Co., Ltd. for the years ended 31 December 2012 and 2011.

28. REDEEMABLE CONVERTIBLE LOAN AND DERIVATIVE LIABILITIES

Redeemable convertible loan and derivative liabilities comprise:

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Redeemable convertible loan	<i>(ii)</i>	–	54,479
Derivative liabilities			
– Pre-IPO investment	<i>(i)</i>	–	9,400
– Redeemable convertible loan	<i>(ii)</i>	–	34,034
		–	43,434

28. REDEEMABLE CONVERTIBLE LOAN AND DERIVATIVE LIABILITIES (cont'd)**(i) Pre-IPO investment**

The derivative relates to an anti-dilution clause stipulated in the sale and purchase agreement entered into between SG Tech Holdings Limited and Septwolves Group (Asia) Investments Limited ("Septwolves") dated 9 April 2010 and supplemented by a supplemental agreement on 31 May 2010. The anti-dilution clause stipulates that Septwolves shareholdings would maintain at 6% of the enlarged share capital prior to the successful listing of the Group on an approved Stock Exchange through issuance and allotment of new shares to Septwolves in the event of new shares being issued so as to maintain Septwolves shareholdings at 6% of the enlarged share capital. Accordingly, pursuant to the anti-dilution clause, SG Tech Holdings Limited allotted and issued 141,944 shares to Septwolves after the allotment of 800,000 shares of SG Tech Holdings Limited to Mr. Fu Junwu on 14 December 2010 and the conversion of 923,796 shares of SG Tech Holding Limited pursuant to the terms of the redeemable convertible loan agreement (see details below). On 13 April 2012, 27,985,000 ordinary shares of the Company were issued to Septwolves pursuant to the Reorganisation Exercise undertaken by the Group.

(ii) Redeemable convertible loan

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

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

(ii) Redeemable convertible loan (cont'd)

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

The movement of the liability component and various options of the redeemable convertible loan for the year ended 31 December 2012 and 2011 is set out below:

	Liability component	Derivative liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2011	37,544	33,660
Interest charged to profit or loss	19,824	–
Change in fair value charged to profit or loss	–	266
Foreign currency translation	(2,889)	108
At 31 December 2011 and 1 January 2012	54,479	34,034
Interest charged to profit and loss	23,998	–
Derecognition of redeemable convertible loan	(78,477)	(34,034)
At 31 December 2012	–	–

The liability component is measured at amortised cost. No interest was paid during the year ended 31 December 2012 and 2011. The fair value of redeemable convertible loan and derivative liabilities were valued by an independent professional valuer, Asset Appraisal Limited. Valuations were based on discounted future cash flows taking into considerations certain parameters such as probability of conversion.

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

On 5 March 2012, SG Tech Holdings Limited received a notice of conversion from the Investors. According to the terms of the redeemable convertible loan agreement, the principal amount of the redeemable convertible loan was fully converted into 923,796 shares in SG Tech Holdings Limited and such shares were allotted and issued to the Investors in proportion to their respective contributions to the redeemable convertible loan. On 13 April 2012, 92,379,600 ordinary shares of the Company were issued to the respective investors for share swap exercise pursuant to the Reorganisation Exercise undertaken by the Group.

29. ISSUED CAPITAL

Reorganisation of the Company ("Reorganisation Exercise")

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

On 14 March 2012, the shareholders of the Company resolved to increase the authorized share capital of the Company from HK\$390,000 to HK\$100,000,000 by the creation of additional 9,961,000,000 shares, each ranking pari passu with the shares then in issue in all respects.

In addition, the shareholders also passed a resolution to capitalise an amount of HK\$4,617,528.30 standing to the credit of the share premium account of the Company and to appropriate such amount as to capital to pay up in full at par 461,752,830 shares for allotment and to issue to the person(s) whose name(s) will appear on the register of members of the Company at 8:00 am (Hong Kong time) on 29 March 2012 in proportion to its/their then existing shareholding(s) in the Company, each ranking pari passu in all respects with the then existing issued shares.

Upon completion of the Reorganisation Exercise, the Company became the holding company of the Group.

The Company issued the prospectus and the supplemental prospectus on 20 March 2012 and 5 April 2012, respectively, pursuant to which the Company and certain shareholders offered 150,000,000 shares and 12,500,000 shares, respectively to the public for subscription by way of initial public offering. Consequently, the subscription price was determined at HK\$1.33 per share and the Company received net proceeds of approximately HK\$163.8 million prior to charging of listing expenses which were deferred as at 31 December 2011. The Company's shares were subsequently listed for trading on the Main Board of The Stock Exchange of Hong Kong Limited on 13 April 2012.

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

	<i>HK\$'000</i>
Authorised share capital:	
10,000,000,000 shares of HK\$0.01 per share	<u>100,000</u>
Issued and fully paid share capital:	
616,417,000 shares of HK\$0.01 per share	<u>6,164</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

30. SHARE PREMIUM AND OTHER RESERVES

(a) Share premium

During the financial year ended 31 December 2012, premium amounting to HK\$421,925,000 arose from the 616,417,000 shares under the Reorganisation Exercise and initial public offering as described in Note 29.

	<i>Notes</i>	2012 HK\$'000	2011 HK\$'000
Statutory reserve	<i>(b)</i>	8,156	7,497
Foreign currency translation reserve	<i>(c)</i>	29,855	15,379
Capital contribution	<i>(d)</i>	–	391
Fair value of derivative	<i>(e)</i>	–	(2,000)
Merger reserve	<i>(f)</i>	(4,618)	–
Premium paid for acquisition of non-controlling interest		(90,012)	(90,012)
		(56,619)	(68,745)

(b) Statutory reserve

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

(c) Foreign currency translation reserve

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

(d) Capital contribution

Capital contribution relates to the fair value of the put option granted by the existing major shareholders to subscribers of the redeemable convertible loan (as described in Note 28) to acquire the converted shares as and when desired by the subscribers to the redeemable convertible loan.

(e) Fair value of derivative

Fair value of derivatives relates to fair value of anti-dilution clause at inception as described in Note 28(i). Subsequent fair value changes have been taken to the profit or loss.

(f) Merger reserve

Merger reserve represents the difference between the consideration paid and the share capital of a subsidiary restructured under common control.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the years ended 31 December 2012 and 2011.

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

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

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Financial assets				
Trade receivables	630,168	566,578	–	–
Other receivables (current and non-current)	113,666	41,045	166,216	–
Pledged deposits	–	–	–	–
Cash and cash equivalents	133,587	38,800	202	–
	877,421	646,423	166,418	–
Financial liabilities				
Bank loans and overdrafts (current and non-current)	1,705	8,113	–	–
Trade payables	442,865	378,216	–	–
Other payables and accruals	89,826	44,656	25,532	–
Derivative liabilities	–	54,479	–	–
Redeemable convertible loan	–	43,434	–	–
Finance lease payable (current and non-current)	630	1,182	–	–
	535,026	530,080	25,532	–

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Year ended 31 December 2012

32. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies

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

(i) Foreign exchange risk management

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

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

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

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Liabilities		
United States dollar	5,642	187,380
EUR	63,732	214,030
Japanese yen	7,832	24,942
Singapore dollar	4,643	10,283
Malaysia ringgit	52	1,415
Chinese Renminbi	162	6,568
Hong Kong dollar	34	3
Assets		
United States dollar	82,576	156,516
EUR	75,990	276,726
Japanese yen	18,192	25,859
Singapore dollar	50,036	37
Malaysia ringgit	–	1,201
Hong Kong dollar	61,917	–
Swiss franc	1,915	–

32. FINANCIAL INSTRUMENTS (cont'd)

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

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

Foreign currency sensitivity

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

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Impact of:		
United States dollar	7,693	(3,086)
EUR	1,226	6,270
Japanese yen	1,036	92
Singapore dollar	4,539	(1,025)
Swiss franc	191	–
Malaysia ringgit	(5)	(21)
Chinese Renminbi	(16)	(657)
Hong Kong dollar	6,188	(1)

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

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the years ended 31 December 2012 and 2011.

(ii) Interest rate risk management

Interest rate risk arises from potential changes in interest rates that may have an adverse effect on the Group's results in the years ended 31 December 2012 and 2011 and in future years.

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

At 31 December 2012 and 2011, it is estimated that a 50 basis point increase in interest rates would decrease the Group's profit before tax by approximately HK\$31,000 and HK\$26,000 respectively.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

32. FINANCIAL INSTRUMENTS (cont'd)

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

(iii) Credit risk management

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

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

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

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

(iv) Liquidity risk management

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

(v) Non-derivative financial liabilities

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

	On demand or within 1 year HK\$'000	Within 2 to 5 years HK\$'000	Total HK\$'000
Group			
31 December 2012			
Bank loans and overdrafts	1,806	–	1,806
Trade payables	446,953	–	446,953
Other payables and accruals	89,826	–	89,826
Finance lease payable	580	82	662

32. FINANCIAL INSTRUMENTS (cont'd)

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

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

	On demand or within 1 year <i>HK\$'000</i>	Within 2 to 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group			
31 December 2011			
Bank loans and overdrafts	6,949	1,667	8,616
Trade payables	378,216	–	378,216
Other payables and accruals	44,656	–	44,656
Derivative liabilities	54,479	–	54,479
Redeemable convertible loan	43,434	–	43,434
Finance lease payable	581	635	1,216
	On demand or within 1 year <i>HK\$'000</i>	Within 2 to 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company			
31 December 2012			
Other payables and accruals	25,532	–	25,532

(c) Fair value and fair value hierarchy

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

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

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

Fair value hierarchy

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

- Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: Fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

32. FINANCIAL INSTRUMENTS (cont'd)

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

Fair value hierarchy (cont'd)

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Level 3		
Derivative liabilities	–	43,434
	–	43,434

Reconciliation of Level 3 fair value measurements of financial liabilities

	Unlisted options <i>HK\$'000</i>
At 1 January 2011	43,014
Total gains or losses in profit or loss	312
Foreign currency translation recognized in other comprehensive income	108
At 31 December 2011	43,434
At 1 January 2012	43,434
Derecognition of redeemable convertible loan	(67,213)
Total losses in profit or loss	23,779
At 31 December 2012	–

33. OPERATING LEASES

(a) Operating leases – as lessee

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Minimum lease payments paid under operating leases		
Premises	4,209	2,847
Office equipment	88	84
	4,297	2,931

33. OPERATING LEASES (cont'd)

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

At 31 December 2012 and 2011, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and office equipment which fall due as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within one year	4,739	2,946
In the second to fifth years, inclusive	8,497	2,817
	<u>13,236</u>	<u>5,763</u>

34. CONTINGENT LIABILITIES

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

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

35. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

During the years ended 31 December 2012 and 2011, the Group entered into the following significant transactions with related parties:

<u>Relationship/Name of related party/Nature of transaction</u>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<i>Company controlled by Mr. Fu Junwu</i>		
天津市興彩科工貿有限公司 Rental expenses	138	135
<i>Jointly-controlled entities</i>		
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd. Sales of goods	2,994	1,520
Purchases of goods	484	796
	<u>484</u>	<u>796</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

35. RELATED PARTY DISCLOSURES (cont'd)

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

A shareholder of the jointly-controlled entities

<u>Relationship/Name of related party/Nature of transaction</u>	<u>2012</u> <u>HK\$'000</u>	<u>2011</u> <u>HK\$'000</u>
KIWA Machinery Co., Ltd.		
Sales of goods	4,823	2,816
Purchases of goods	1,723	1,977
Royalty expenses	244	260

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

(b) Outstanding balances with related parties

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

Due from related parties (Trade receivables)

<u>Name of related party</u>	<u>Notes</u>	<u>2012</u> <u>HK\$'000</u>	<u>2011</u> <u>HK\$'000</u>
KIWA Machinery Co., Ltd.	(i)	1,119	501
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	(ii)	488	–
		1,607	501

Notes

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

35. RELATED PARTY DISCLOSURES (cont'd)

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

Due from related parties (Other receivables)

Name of related party	Notes	2012 HK\$'000	2011 HK\$'000
天津市興彩科工貿有限公司	(i)	41	40
KIWA-CW Machine Manufacturing Pte. Ltd.	(ii)	–	1,728
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	(ii)	4,776	485
KIWA Machinery Co., Ltd.	(iii)	–	47
Mr. Fu Junwu	(iv)	6,892	–
Fu Yang International Co., Ltd.	(v)	37,346	–
		49,055	2,300

Notes

- (i) A substantial shareholder of the Company, Mr. Fu Junwu, had beneficial interests in this company during the years ended 31 December 2012 and 2011.
- (ii) Jointly-controlled entity.
- (iii) A shareholder of the jointly-controlled entities.
- (iv) A substantial shareholder of the Company.
- (v) A substantial shareholder of the Company, Mr. Fu Junwu, had beneficial interests in this company during the year ended 31 December 2012. Fu Yang International Co., Ltd. was previously a subsidiary of the Group, until it was disposed of to the substantial shareholder Mr. Fu during the year ended 31 December 2012.

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

Due to related parties (Trade payables)

Name of related party	Notes	2012 HK\$'000	2011 HK\$'000
KIWA Machinery Co., Ltd.	(i)	468	–
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	(ii)	1,564	2,550
		2,032	2,550

Notes

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2012

35. RELATED PARTY DISCLOSURES (cont'd)

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

Due to related parties (Other payables)

<u>Name of related party</u>	<u>Notes</u>	<u>2012</u> <u>HK\$'000</u>	<u>2011</u> <u>HK\$'000</u>
天津市興彩科工貿有限公司	(i)	43	12
Mr. Wong Koon Lup, a director of the Company		5,728	6,108
Mr. Wong Mun Sum, a director of the Company		183	24
Mr. Chan Cheow Hai, a director of the Company		–	431
Mr. Fu Junwu	(ii)	43,732	4,920
KIWA-CW Machine Manufacturing Pte. Ltd.	(iii)	–	66
KIWA-CW Machine Manufacturing (Shanghai) Co., Ltd.	(ii)	1,467	1,911
KIWA Machinery Co., Ltd.	(iv)	2,203	1,521
		<u>53,356</u>	<u>14,993</u>

Notes

- (i) A substantial shareholder of the Company, Mr. Fu Junwu, had beneficial interests in this company during the years ended 31 December 2012 and 2011.
- (ii) A substantial shareholder of the Company.
- (iii) Jointly-controlled entity.
- (iv) A shareholder of the jointly-controlled entities.

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

(c) Compensation of key management personnel

The remuneration of the Company's directors, who are also identified as members of key management of the Group, are set out in Note 11.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2013.

PARTICULARS OF PROPERTIES

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2013
Unit 3-3-1202 TEDA Triones City, Southeast of the junction of Kunwei Road and Jingzhonghe Avenue, Hebei District, Tianjin, the People's Republic of China	<p>The property comprises a residual unit on Level 12 of a 32-storey building which was completed in 2009.</p> <p>The property has a gross floor area of 186.40 sq m.</p> <p>The land use term of the property has been granted for a term from 12 June 2006 to 11 June 2076 for residential use.</p>	As at the date of valuation, the Property was owner-occupied as residential use.	RMB2,810,000

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000
Revenue	291,643	289,711	469,450	753,566	818,535
Cost of sales	(198,410)	(185,017)	(324,206)	(574,097)	(595,453)
Gross profit	93,233	104,694	145,244	179,469	223,082
Other income and gains	3,502	4,149	2,064	1,369	3,498
Selling and distribution expenses	(15,652)	(18,365)	(18,814)	(27,995)	(31,138)
Administrative expenses	(23,559)	(24,122)	(27,401)	(34,105)	(68,137)
Finance costs	(4,521)	(4,053)	(28,669)	(25,466)	(30,830)
Other operating expenses	(3,256)	(1,674)	(1,060)	(745)	(15,720)
Profit before tax	49,747	60,629	71,364	92,527	80,755
Income tax expense	(8,142)	(14,179)	(20,744)	(24,512)	(25,640)
Profit for the year	41,605	46,450	50,620	68,015	55,115
Profit for the year attributable to:					
Owners of the Company	25,640	24,939	26,852	68,015	55,115
Non-controlling interests	15,965	21,511	23,768	–	–
	41,605	46,450	50,620	68,015	55,115

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December				
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000
Total assets	330,366	404,116	575,415	843,475	1,177,395
Total liabilities	(191,821)	(218,348)	(432,887)	(626,193)	(606,907)
Non-controlling interests	(33,152)	(54,642)	–	–	–
	105,393	131,126	142,528	217,282	570,488