GOOD FRIEND INTERNATIONAL HOLDINGS INC.
友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The board of directors (the "Board") of Good Friend International Holdings Inc. (the "Company") presents the unaudited condensed consolidated financial information of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**496,105**	558,638
Cost of revenue	*5*	**(381,127)**	(409,529)
Gross profit		**114,978**	149,109
Other income	*6*	**116,262**	29,925
Distribution and selling expenses		**(61,824)**	(67,629)
Administrative expenses		**(29,566)**	(34,713)
Research and development costs		**(14,508)**	(15,030)
Other gains and losses		**3,558**	(16,444)
Other operating expenses		**(178)**	(688)
Finance costs		**(11,550)**	(6,096)
Share of profit of joint ventures		**1,317**	1,620
Share of loss of associates		**(80,756)**	(9,913)

	Notes	Six months ended 30 June **2019** ***RMB'000*** **(Unaudited)**	 2018 *RMB'000* (Unaudited)
Profit before income tax	*7*	**37,733**	30,141
Income tax expense	*8*	**(16,606)**	(10,316)
Profit attributable to owners of the Company		**21,127**	19,825
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income of associates		**108**	41
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		**4,370**	11,359
Exchange difference arising on translation of foreign operations		**253**	(5,874)
Net fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		**355**	1,292
		4,978	6,777
		5,086	6,818
Total comprehensive income attributable to owners of the Company		**26,213**	26,643
Earnings per share *(expressed in RMB per share)*			
– Basic	*9*	**0.05**	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2019

	Notes	**30 June 2019 *RMB'000* (Unaudited)**	31 December 2018 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**213,513**	204,710
Right-of-use assets		**127,030**	–
Prepaid lease payments		**–**	120,147
Intangible assets		**1,808**	2,215
Investments in joint ventures		**21,822**	20,505
Investments in associates	*11*	**251,966**	331,323
Deferred income tax assets		**25,381**	27,520
		641,520	706,420
Current assets			
Inventories		**508,556**	524,752
Trade and other receivables and prepayment	*12*	**321,640**	345,810
Contract assets		**43,681**	46,727
Loan receivable		**35,627**	35,627
Receivables at FVTOCI		**55,429**	106,400
Prepaid lease payments		**–**	2,905
Amount due from ultimate holding company		**936**	–
Amount due from fellow subsidiaries and associates of ultimate holding company		**2,466**	23
Amounts due from joint ventures		**497**	461
Amounts due from associates and subsidiaries of associates		**459,374**	151,059
Restricted bank deposits and bank balances		**75,609**	69,987
Financial assets at fair value through profit or loss ("FVTPL")		**635**	108,020
Bank balances and cash		**151,896**	112,673
		1,656,346	1,504,444

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
Current liabilities			
Trade and other payables and accrued expenses	*13*	**292,178**	242,969
Contract liabilities		**315,864**	358,751
Amount due to ultimate holding company		**824**	638
Amount due to immediate holding company		**3,210**	2,832
Amounts due to fellow subsidiaries and associates of ultimate holding company		**3,412**	3,637
Amounts due to joint ventures		**200**	362
Amounts due to an associate and subsidiaries of an associate		**24,901**	28,435
Lease liabilities		**3,981**	–
Provision for litigation claim		**60,117**	60,117
Refund liabilities		**100,903**	100,903
Current income tax liabilities		**12,850**	21,979
Bank borrowings		**615,746**	563,239
Warranty provision		**4,790**	5,311
		1,438,976	1,389,173
Net current assets		**217,370**	115,271
Total assets less current liabilities		**858,890**	821,691
Non-current liabilities			
Lease liabilities		**1,505**	–
Other borrowings		**35,927**	35,093
Deferred income		**78,839**	70,192
		116,271	105,285
Net assets		**742,619**	716,406
Capital and Reserves			
Share capital		**4,022**	4,022
Share premium		**82,281**	82,281
Capital reserves		**77,338**	77,338
Other reserves		**63,977**	58,361
Retained earnings		**515,001**	494,404
Total equity		**742,619**	716,406

NOTES:

1. GENERAL INFORMATION

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

The Company was incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 January 2006. In addition, 67,200,000 units of Taiwan depositary receipts, representing 67,200,000 newly issued shares of the Company, were issued and listed on the Taiwan Stock Exchange Corporation on 18 March 2010. Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong, and Fair Friend Enterprise Company Limited, a company incorporated in Taiwan, are the immediate holding company and the ultimate holding company, respectively.

These condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. These condensed consolidated financial statements were approved for issue by the Board of Directors on 30 August 2019.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases, and the related interpretations.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of RMB3,322,000 and right-of-use assets of RMB126,374,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75% per annum.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**6,246**
Lease liabilities discounted at relevant incremental borrowing rates	**6,006**
Less: Recognition exemption – short-term leases	**(2,684)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as of 1 January 2019	**3,322**
Analysed as	
Current	**1,975**
Non-current	**1,347**
	3,322

	Note	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		3,322
Reclassification from prepaid lease payments	*(a)*	123,052
		126,374
By class:		
Leasehold lands		123,052
Land and buildings		3,322
		126,374

(a) Upfront payments for leasehold lands in People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB2,905,000 and RMB120,147,000, respectively, were reclassified to right-of-use assets

As a Lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	**Adjustments**	**Carrying amounts under HKFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Prepaid lease payments	120,147	(120,147)	–
Right-of-use assets	–	126,374	126,374
Current assets			
Prepaid lease payments	2,905	(2,905)	–
Current liabilities			
Lease liabilities	–	(1,975)	(1,975)
Non-current liabilities			
Lease liabilities	–	(1,347)	(1,347)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

4. REVENUE FROM GOODS

Disaggregation of revenue

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Machine tools	**409,201**	471,784
Parking garage structures	**52,031**	54,096
Forklift trucks	**34,873**	32,758
	496,105	558,638

5. SEGMENT INFORMATION

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

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

The Executive Directors assess the performance of the operating segments based on their respective gross profit, which is consistent with that in the condensed consolidated financial statements.

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

Six months ended 30 June 2019 (unaudited)	**Machines Tools** ***RMB'000***	**Parking Garage Structures** ***RMB'000***	**Forklift Trucks** ***RMB'000***	**Total Group** ***RMB'000***
Revenue (all from external sales)	**409,201**	**52,031**	**34,873**	**496,105**
Cost of revenue	**(301,383)**	**(46,303)**	**(33,441)**	**(381,127)**
Segment profit	**107,818**	**5,728**	**1,432**	**114,978**

Six months ended 30 June 2018 (unaudited)	Machines Tools *RMB'000*	Parking Garage Structures *RMB'000*	Forklift Trucks *RMB'000*	Total Group *RMB'000*
Revenue (all from external sales)	471,784	54,096	32,758	558,638
Cost of revenue	(337,150)	(43,270)	(29,109)	(409,529)
Segment profit	134,634	10,826	3,649	149,109

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

Segment assets and liabilities

No segment assets and liabilities information is provided as no such information is regularly provided to the Executive Directors on making decision for resources allocation and performance assessment.

6. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Compensation income from FFG Werke GmbH	**80,437**	–
Sales of scrap materials	**3,362**	6,736
Government subsidies related of income*	**12,488**	13,266
Repair income	**3,306**	5,585
Rental income	**766**	248
Interest income	**1,027**	1,704
Consultancy income	**11,046**	–
Others	**3,830**	2,386
	116,262	29,925

* *Government subsidies mainly represent the refund of value-added tax in relation to software embedded in the sales of machine tools and parking garage structures. These subsidies are accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.*

7. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	**2,854**	–
Depreciation of property, plant and equipment	**10,159**	10,633
Amortisation of intangible assets	**422**	732
Amortisation of prepaid lease payment	**–**	1,452
Total depreciation and amortization	**13,435**	12,817
Capitalised in inventories	**(4,975)**	(5,573)
	8,640	7,244
Analysed as:		
Charged in selling expense	**571**	466
Charged in administrative expenses	**5,879**	4,801
Charged in other expenses	**1,651**	1,132
Charged in research expenditure	**359**	845
	8,460	7,244
Cost of inventories recognised as an expense	**381,127**	409,529
Net write-down of inventories	**793**	838
Net loss (gain) on disposal of property, plant and equipment	**4**	(117)
Net exchange (gain) loss	**(1,981)**	11,964
Provision for warranty	**1,599**	2,120
Direct operating expenses incurred for rental income	**313**	611

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current Enterprise Income Tax ("EIT")	**14,530**	10,953
Deferred tax charge (credit)	**2,076**	(637)
	16,606	10,316

No provision for Cayman Islands profits tax has been made as the Group did not have any assessable profit arising in Cayman Islands for both periods.

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

EIT is provided at 25% for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). Hangzhou Good Friend renewed its New and High-Tech Enterprise status in 2018, which has been approved by the relevant government authorities, and it is entitled to a reduced tax rate of 15% for a three-year period commencing 2018. Accordingly, the applicable tax rate for Hangzhou Good Friend for the current review period is 15% (six months ended 30 June 2018: 15%).

In according to Detailed Implementation Regulations for implementation of the EIT law of PRC issued on 6 December 2007, dividends paid out by companies established in the PRC to their then foreign investors is subject to 10% withholding tax from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%.

In the current interim period, the directors of the Company have assessed that no dividends will be declared by any of the PRC subsidiaries in the foreseeable future so it is concluded that no withholding tax shall be accrued on the undistributed retained earnings of the PRC subsidiaries as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences would not be reversed in the foreseeable future.

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company amounted to RMB21,127,000 (six months period ended 30 June 2018: profit attributable to owners of the Company amounted to RMB19,825,000) by the number of ordinary shares in issue during the period of 403,200,000 shares (six months period ended 30 June 2018: 403,200,000 shares).

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Basic earnings per share *(RMB per share)*	**0.05**	0.05

No diluted earnings per share was presented as there were no potential dilutive ordinary shares in issue for both periods.

10. DIVIDENDS

During the current interim period, no dividend in respect of the year ended 31 December 2018 (six months ended 30 June 2018: RMB0.06 per ordinary share in respect of the year ended 31 December 2017) was declared and paid to the owners of the Company.

No dividends were paid, declared or proposed during the current interim period. The directors of the Company have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2018: RMB0.05 per ordinary share).

11. INVESTMENTS IN ASSOCIATES

	As of	
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cost of unlisted investments in associates	**415,701**	415,701
Share of post-acquisition losses and other comprehensive expenses	**(195,595)**	(119,317)
Exchange difference arising on translation of foreign operations	**31,860**	34,939
	251,966	331,323

The Group's share of the results in associates for the six months ended 30 June 2019 and 2018 and the aggregate assets and liabilities of the associates as of 30 June 2019 and 2018 are shown below:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Assets	**5,420,183**	5,381,154
Liabilities	**5,096,738**	4,746,967
Revenue	**2,054,034**	2,167,394
Share of loss	**(80,756)**	(9,913)
Share of other comprehensive income*	**4,478**	11,400

* *The share of other comprehensive income represents the aggregate of the share of exchange differences on translation of foreign operations of RMB4,370,000 (2018: RMB11,359,000) and the re-measurement gains on defined benefit plans of RMB108,000 (2018: RMB41,000).*

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	As of	
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**289,389**	323,790
Less: provision for impairment of trade receivables	**(43,490)**	(46,931)
	245,899	276,859
Prepayments	**43,225**	44,713
Others	**32,516**	24,238
Total trade and other receivables and prepayment	**321,640**	345,810

The Group generally allows a credit period of 30 to 180 days to its customers.

The aging analysis of gross trade receivables based on past due date were as follows:

	As of 30 June 2019 *RMB'000* (Unaudited)	As of 31 December 2018 *RMB'000* (Audited)
Current – 30 days	**156,928**	207,953
31 – 60 days	**10,293**	2,365
61 – 90 days	**6,642**	4,568
91 – 180 days	**10,911**	10,353
Over 180 days	**104,615**	98,551
	289,389	323,790

13. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	As of 30 June 2019 *RMB'000* (Unaudited)	As of 31 December 2018 *RMB'000* (Audited)
Trade payables	**206,058**	163,957
Other payables	**40,429**	32,474
Accrued expenses	**45,691**	46,538
Total trade and other payables and accrued expenses	**292,178**	242,969

The Group is normally granted credit terms of 30 to 60 days. The following is an aging analysis of trade payables presented based on maturity date:

	As of 30 June 2019 *RMB'000* (Unaudited)	As of 31 December 2018 *RMB'000* (Audited)
Current – 30 days	**136,523**	92,947
31 – 60 days	**39,666**	44,181
61 – 90 days	**5,995**	5,447
91 – 180 days	**6,050**	6,926
Over 180 days	**17,824**	14,456
	206,058	163,957

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) grew by a year-on-year rate of 6.3% in the first half of 2019, representing a generally stable economic development in China.

For the six months ended 30 June 2019, the Group recorded revenue of approximately RMB496.11 million, representing a decrease of approximately 11.2% as compared to the corresponding period in 2018. During the period under review, sales revenue of CNC machine tools business amounted to approximately RMB409.20 million, representing a decrease of 13.3% as compared to the corresponding period in last year. Revenue of CNC machine tools accounted for approximately 82.5% of the Group's total revenue. On the other hand, sales revenue of the Group's forklift trucks business during the period under review was increased by 6.4%, as compared to corresponding period in last year, to approximately RMB34.87 million and approximately 7.0% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB52.03 million during the period under review, representing a decrease of approximately 3.8% as compared to corresponding period in last year and accounted for approximately 10.5% of the total revenue.

Gross profit and margin

During the period under review, gross profit of the Group amounted to approximately RMB114.98 million. Overall gross profit margin was approximately 23.2%, compared to 26.7% for the corresponding period in last year.

Other income

During the period under review, other income included a compensation income of approximately RMB80.44 million, representing compensation from FFG Werke GmbH (supplier of the corresponding CNC machine tools products) to the Group in respect of the litigation raised by a customer to the Group's subsidiaries as disclosed in the 2018 annual report of the Company.

Distribution and selling expenses

Distribution and selling expenses for the six months ended 30 June 2019 amounted to approximately RMB61.82 million, representing a decrease of 8.6% as compared to corresponding period in last year. During the period under review, distribution and selling expenses as a percentage of the Group's revenue was approximately 12.5%, compared to 12.1% for the corresponding period in last year.

Administrative expenses

Administrative expenses decreased by approximately 14.8% to approximately RMB29.57 million during the period under review. This was mainly attributable to the stringent control of the expenses by the management.

Other gains and losses

Other gains and losses represented mainly foreign exchange gain (2018: foreign exchange loss) during the period under review.

Finance costs

During the period under review, finance costs increased to approximately RMB11.55 million. This was primarily due to the increase of average bank borrowings of the Group during the period under review.

Share of loss of associates

For the six months ended 30 June 2019, share of loss of associates amounted to approximately RMB80.76 million (2018 comparative figures: share of loss of approximately RMB9.91 million). The amount represented the Group's share of results of the associate located in Germany for the period under review.

Profit attributable to owners of the Company

For the six months ended 30 June 2019, profit attributable to owners of the Company amounted to approximately RMB21.13 million, representing an increase of approximately 6.6% as compared to the same period last year.

Prospects

Tension on trade between China and the United States will be a key uncertainty for China's economic growth. Therefore the management remain cautious about the prospects of the economy of China for the second half of 2019. The Group will keep close track of the global economic trend and market situation in order to capture business opportunities and reduce operation risks. On the other hand, the management will continue to control operating costs for achieving better operating results of the Group. The management is optimistic on the long-term development prospects of the Group.

Liquidity and financial resources

The working capital of the Group was mainly financed by internal cash flows generated from its operation and its existing banking facilities. As at 30 June 2019, the Group's bank balances and cash amounted to approximately RMB151.90 million (at 31 December 2018: RMB112.67 million). As at 30 June 2019, the Group had net current assets of approximately RMB217.37 million (at 31 December 2018: RMB115.27 million) and short-term bank borrowings of approximately RMB615.75 million (at 31 December 2018: RMB563.24 million). The current ratio (total current assets to total current liabilities) of the Group as at 30 June 2019 was approximately 1.2 (at 31 December 2018: 1.1). The gearing ratio as at 30 June 2019 (total interest bearing liabilities to total assets) was approximately 26.8% (at 31 December 2018: 25.5%), indicated that the Group's overall financial position remained solid.

Capital structure

The share capital of the Company as at 30 June 2019 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2018: HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each).

Staff and remuneration policies

As at 30 June 2019, the Group employed a total of approximately 1,130 full time employees (31 December 2018: 1,160) in Hong Kong and the PRC. The Group's emolument policies are formulated on the basis of market trends, future plans and the performance of individuals, which will be reviewed periodically. Apart from provident fund scheme and state-managed social welfare scheme, share options (if any) may also be awarded to employees according to assessment of individuals' performance.

Capital commitments and contingencies

As at 30 June 2019, the Group had capital expenditure commitments mainly for construction of buildings of approximately RMB41.58 million (at 31 December 2018: RMB53.13 million) which were contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 30 June 2019 (at 31 December 2018: Nil).

Charges on the group's assets

As at 30 June 2019, the Group had restricted bank deposits with an amount of approximately RMB75.61 million (at 31 December 2018: RMB69.99 million) which mainly represented bank balances being frozen by banks as the respective banks had received notice from court with regard to the litigation as disclosed in the 2018 annual report of the Company.

Subsidiaries of the Company had pledged their land use rights and building with an aggregate carrying amount of RMB83.41 million (31 December 2018: RMB95.36 million) as at 30 June 2019 in order to secure banking facilities granted to the Group.

Interim dividend

The Directors resolved not to declare an interim dividend for the six months ended 30 June 2019 (2018 interim dividend: RMB0.05).

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the period under review.

Corporate governance

The Company has complied with the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2019 except the following.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Chu Chih-Yaung, was unable to attend the annual general meeting of the Company held on 5 June 2019 due to business trip. Mr. Chiu Rung-Hsien, an executive Director of the Company, took the chair of the annual general meeting pursuant to the Articles of Association of the Company.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Chen Hsiang-Jung, the then Chief Executive Officer and executive Director of the Company was pass away on 8 November 2018. Mr. Chu Chih-Yaung, the Chairman of the Board, was appointed as Chief Executive Officer on 7 December 2018. Although these two roles are performed by the same individual since 7 December 2018, certain responsibilities have been shared with other executive Directors to balance the power and authority. In addition, all major decisions have been made in consultation with members of the Board as well as senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place. The Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

Audit committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code which comprises three independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the unaudited financial results of the Group for the six months ended 30 June 2019.

By order of the Board
Good Friend International Holdings Inc.
Chu Chih-Yaung
Chairman

Hong Kong, 30 August 2019

As at the date of this announcement, the Board of the Company comprises (i) four executive directors, namely Mr. Chu Chih-Yaung, Mr. Chen Min-Ho, Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien; and (ii) three independent non-executive directors, namely Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang.