

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 REPORT 2019



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHU Chih-Yaung (*Chairman and Chief Executive Officer*)

CHEN Min-Ho

WEN Chi-Tang

CHIU Rung-Hsien

Independent Non-Executive Directors

KOO Fook Sun, Louis

CHIANG Chun-Te

YU Yu-Tang

COMPANY SECRETARY

LO Tai On

AUTHORISED REPRESENTATIVES

CHU Chih-Yaung

CHIU Rung-Hsien

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
KGI Bank
Mega International Commercial Bank
Taiwan Shin Kong Commercial Bank
Bank SinoPac
Bangkok Bank

STOCK CODE

2398

WEBSITE

<http://www.goodfriend.hk>



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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.

Financial Review

Revenue

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.

DISCLOSURE OF INTERESTS

Directors' interest in shares

As at 30 June 2019, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

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

(a) Interests in the Company

Name of Director	Nature of interest	Number and class of securities	Approximate percentage of the issued shares as at 30 June 2019
Mr. Chu Chih-Yaung ("Mr. Chu")	Corporate interest	20,000,000 (Note)	4.96%

Note: These 20,000,000 Shares were held by Sunward Gold Global Investments Limited ("Sunward"). Mr. Chu held 72.22% of the issued shares of Sunward and accordingly was deemed to be interested in the 20,000,000 Shares held by Sunward under the SFO.

(b) Interests in the associated corporations of the Company

Name of Directors	Name of associated corporations	Nature of interest	Number and class of securities	Approximate percentage of shareholdings as at 30 June 2019
Mr. Chu	Taiwan FF	Beneficial owner	15,572,255 ordinary shares	15.20%
	Taiwan FF	Spouse interest (Note 1)	2,585,926 ordinary shares	2.52%
	Fair Fine (Hangzhou) Industrial Co., Ltd. (Note 2)	Beneficial owner	750 ordinary shares	0.03%

Notes:

- (1) Ms. Wang Tz-Ti ("Ms. Wang"), the spouse of Mr. Chu, held 2.52% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
- (2) Fair Fine (Hangzhou) Industrial Co., Ltd. is a non-wholly-owned subsidiary of Taiwan FF and is therefore an associated corporation of the Company for the purpose of the SFO.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had any interest of long position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, none of the Directors or chief executive of the Company, had any interest of short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Save for the share option scheme of the Company adopted on 2 June 2016, no time during the period under review, were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age; or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement (other than the share option scheme as disclosed below) to enable the Directors to acquire such rights or benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Share option scheme

The Company adopted a share option scheme (the "Scheme") on 2 June 2016, pursuant to which the Board may, at its discretion, grant options to Directors and other eligible persons (as defined in the Scheme) to enable them to subscribe for shares of the Company as incentives and/or rewards for their contribution to the success of the Group. Particulars of the Scheme are set out in the circular of the Company dispatched on 29 April 2016.

No share option was granted by the Company since adoption of the Scheme.

Substantial shareholders

As at 30 June 2019, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

Name of shareholders	Nature of interest	Number of ordinary shares held	Approximate percentage of the issued shares as at 30 June 2019
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Beneficial owner	232,000,000 shares (<i>Note</i>)	57.54%
Taiwan FF	Interest of controlled corporation	232,208,000 shares (<i>Note</i>)	57.59%

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2019.

OTHER INFORMATION

Changes of director's information under rule 13.51B(1) of the Listing Rules

The Company is not aware of change of information of directors of the Company since the 2018 Annual Report which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Interim dividend

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

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.

Nomination committee

The Company established a nomination committee (the “Nomination Committee”), with written terms of reference in compliance with the CG Code and consists of three independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang.

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

Remuneration committee

The Company established a remuneration committee (the “Remuneration Committee”), with written terms of reference in compliance with the CG Code and consists of three independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang.

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

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

Hong Kong, 30 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	496,105	558,638
Cost of revenue	5	<u>(381,127)</u>	<u>(409,529)</u>
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	13	<u>(80,756)</u>	<u>(9,913)</u>
Profit before income tax	7	37,733	30,141
Income tax expense	8	<u>(16,606)</u>	<u>(10,316)</u>
Profit attributable to owners of the Company		<u>21,127</u>	<u>19,825</u>
Other comprehensive income (expense):			
<i>Items that will not be reclassified to profit or loss:</i>			
Share of other comprehensive income of associates		<u>108</u>	<u>41</u>



		Six months ended 30 June	
Notes		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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")		<u>355</u>	<u>1,292</u>
		<u>4,978</u>	<u>6,777</u>
		<u>5,086</u>	<u>6,818</u>
Total comprehensive income attributable to owners of the Company		<u>26,213</u>	<u>26,643</u>
Earnings per share (expressed in RMB per share)			
– Basic	9	<u>0.05</u>	<u>0.05</u>

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	11	213,513	204,710
Right-of-use assets	11	127,030	–
Prepaid lease payments		–	120,147
Intangible assets		1,808	2,215
Investments in joint ventures	12	21,822	20,505
Investments in associates	13	251,966	331,323
Deferred income tax assets	14	25,381	27,520
		<u>641,520</u>	<u>706,420</u>
Current assets			
Inventories		508,556	524,752
Trade and other receivables and prepayment	15	321,640	345,810
Contract assets	16	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	25	936	–
Amount due from fellow subsidiaries and associates of ultimate holding company	25	2,466	23
Amounts due from joint ventures	25	497	461
Amounts due from associates and subsidiaries of associates	25	459,374	151,059
Restricted bank deposits and bank balances		75,609	69,987
Financial assets at fair value through profit or loss ("FVTPL")	18	635	108,020
Bank balances and cash		151,896	112,673
		<u>1,656,346</u>	<u>1,504,444</u>

		30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Current liabilities			
Trade and other payables and accrued expenses	19	292,178	242,969
Contract liabilities		315,864	358,751
Amount due to ultimate holding company	25	824	638
Amount due to immediate holding company	25	3,210	2,832
Amounts due to fellow subsidiaries and associates of ultimate holding company	25	3,412	3,637
Amounts due to joint ventures	25	200	362
Amounts due to an associate and subsidiaries of an associate	25	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	20	615,746	563,239
Warranty provision		4,790	5,311
		<u>1,438,976</u>	<u>1,389,173</u>
Net current assets		<u>217,370</u>	<u>115,271</u>
Total assets less current liabilities		<u>858,890</u>	<u>821,691</u>
Non-current liabilities			
Lease liabilities		1,505	-
Other borrowings	20	35,927	35,093
Deferred income	22	78,839	70,192
		<u>116,271</u>	<u>105,285</u>
Net assets		<u>742,619</u>	<u>716,406</u>
Capital and Reserves			
Share capital	21	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		<u>742,619</u>	<u>716,406</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 31 December 2017 (audited)	4,022	82,281	77,338	39,576	624,187	827,404
Effect arising from adoption of HKFRS 9	-	-	-	(3,106)	(5,755)	(8,861)
Effect arising from adoption of HKFRS 15	-	-	-	-	(22,973)	(22,973)
Adjusted balance at 1 January 2018	4,022	82,281	77,338	36,470	595,459	795,570
Profit for the period	-	-	-	-	19,825	19,825
Other comprehensive income (expense)						
Share of other comprehensive income of associates (note 13)	-	-	-	11,359	41	11,400
Exchange difference arising on translation of foreign operations	-	-	-	(5,874)	-	(5,874)
Net fair value gain on receivables at FVTOCI	-	-	-	1,292	-	1,292
	-	-	-	6,777	41	6,818
Total comprehensive income	-	-	-	6,777	19,866	26,643
Dividend recognized as distributions (note 10)	-	-	-	-	(24,192)	(24,192)
At 30 June 2018 (unaudited)	4,022	82,281	77,338	43,247	591,133	798,021
At 31 December 2018 (audited)	4,022	82,281	77,338	58,361	494,404	716,406



	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserves <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total equity <i>RMB'000</i>
Profit for the period					21,127	21,127
Other comprehensive income						
Share of other comprehensive income of associates (<i>note 13</i>)	-	-	-	4,370	108	4,478
Exchange difference arising on translation of foreign operations	-	-	-	253	-	253
Net fair value gain on receivables at FVTOCI	-	-	-	355	-	355
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,978</u>	<u>108</u>	<u>5,086</u>
Total comprehensive income (expense)	-	-	-	4,978	21,235	26,213
Transfer to statutory reserves	-	-	-	638	(638)	-
At 30 June 2019 (unaudited)	<u>4,022</u>	<u>82,281</u>	<u>77,338</u>	<u>63,977</u>	<u>515,001</u>	<u>742,619</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Operating activities		
Cash generated from (used in) operations	135,567	(38,873)
Income tax and withholding tax paid	<u>(19,071)</u>	<u>(9,108)</u>
Net cash generated from (used in) operating activities	<u>116,496</u>	<u>(47,981)</u>
Investing activities		
Acquisition of property, plant and equipment and intangible assets	(18,173)	(21,224)
Repayment from associates and subsidiaries of an associate	16,367	48,393
Advance to associates and subsidiaries of an associate	(232,564)	(63,570)
Proceeds from disposal of property, plant and equipment	27	335
Purchase of financial assets at FVTPL	(131,905)	(220,210)
Withdrawal of financial assets at FVTPL	239,290	179,650
Interest received	875	1,652
Placement of restricted bank deposits	(20,892)	(2,716)
Withdrawal of restricted bank deposits	<u>15,270</u>	<u>19,146</u>
Net cash used in investing activities	<u>(131,705)</u>	<u>(58,544)</u>

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)
Financing activities		
Proceeds from bank borrowings	1,663,563	481,867
Repayment of bank borrowings	(1,605,381)	(377,153)
Repayment of lease liabilities	(1,450)	–
Proceeds from government subsidy	8,647	–
Dividends paid	–	(24,192)
Interest paid	(11,446)	(6,096)
Net cash generated from financing activities	<u>53,933</u>	<u>74,426</u>
Net increase (decrease) in cash and cash equivalents	38,724	(32,099)
Cash and cash equivalents at the beginning of the period	112,673	98,071
Effect of foreign exchange rate changes	499	1,111
Cash and cash equivalent at the end of the period, represented by bank balances and cash	<u><u>151,896</u></u>	<u><u>67,083</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 depository 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

3.1 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

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Allocation of consideration to components of a contract (Continued)

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability; and
- any lease payments made at or before the commencement date.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.



3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments included in the measurement of the lease liabilities represent the fixed payments of the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3.1.2 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

	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	<u>3,322</u>
Analysed as	
Current	1,975
Non-current	<u>1,347</u>
	<u>3,322</u>

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

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

- (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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

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

As a Lessor (Continued)

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 <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Carrying amounts under HKFRS 16 at 1 January 2019 <i>RMB'000</i>
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 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Machine tools	409,201	471,784
Parking garage structures	52,031	54,096
Forklift trucks	34,873	32,758
	<u>496,105</u>	<u>558,638</u>

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.

5. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2019 (unaudited)	Machine Tools <i>RMB'000</i>	Parking Garage Structures <i>RMB'000</i>	Forklift Trucks <i>RMB'000</i>	Total Group <i>RMB'000</i>
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	<u>107,818</u>	<u>5,728</u>	<u>1,432</u>	<u>114,978</u>
Six months ended 30 June 2018 (unaudited)	Machine Tools <i>RMB'000</i>	Parking Garage Structures <i>RMB'000</i>	Forklift Trucks <i>RMB'000</i>	Total Group <i>RMB'000</i>
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	<u>134,634</u>	<u>10,826</u>	<u>3,649</u>	<u>149,109</u>

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 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (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

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

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

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 Administrative 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 (Unaudited)	2018 (Unaudited)
Basic earnings per share (RMB per share)	<u>0.05</u>	<u>0.05</u>

No diluted (loss) 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. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB31,000 (six months ended 30 June 2018: RMB218,000) for proceeds of RMB27,000 (six months ended 30 June 2018: RMB335,000), resulting in a loss on disposal of RMB4,000 (six months ended 30 June 2018: net gain on disposal RMB117,000). In addition, the Group spent RMB18,159,000 (six months ended 30 June 2018: RMB21,143,000) on additions to property, plant and equipment.

During the current interim period, the Group entered into new lease agreements for the use of office rental for 1 to 4 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised RMB3,510,000 of right-of-use assets and RMB3,510,000 lease liabilities.

12. INVESTMENTS IN JOINT VENTURES

	As of	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cost of unlisted investments in joint ventures	27,666	27,666
Share of post-acquisition losses	(5,844)	(7,161)
	<u>21,822</u>	<u>20,505</u>

13. INVESTMENTS IN ASSOCIATES

	As of	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (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
	<u>251,966</u>	<u>331,323</u>

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 RMB'000 (Unaudited)	2018 RMB'000 (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).

14. DEFERRED TAXATION

The followings are the major deferred tax assets recognised and movements thereon during the current and preceding interim periods:

	Allowance for doubtful receivables <i>RMB'000</i>	Allowance for inventories <i>RMB'000</i>	Warranty provision <i>RMB'000</i>	Sales commission <i>RMB'000</i>	Deferred income <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
As of 1 January 2018 (audited)	4,245	1,066	819	976	15,295	–	22,401
Effect arising on adoption of HKFRS 15	–	–	–	–	–	4,054	4,054
Effect arising on adoption of HKFRS 9	619	–	–	–	–	–	619
Adjusted balance at 1 January 2018	4,864	1,066	819	976	15,295	4,054	27,074
Charge to other comprehensive income	(228)	–	–	–	–	–	(228)
Credit (charge) to profit or loss	462	(35)	(46)	256	–	–	637
As of 30 June 2018 (unaudited)	5,098	1,031	773	1,232	15,295	4,054	27,483
As of 1 January 2019 (audited)	4,744	1,195	766	1,466	15,295	4,054	27,520
Charge to other comprehensive income	(63)	–	–	–	–	–	(63)
Charge to profit or loss	(247)	(14)	(76)	(82)	–	(1,657)	(2,076)
As of 30 June 2019 (unaudited)	4,434	1,181	690	1,384	15,295	2,397	25,381

15. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	As of	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (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)	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

16. CONTRACT ASSETS

	As of	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Machine Tools	28,350	30,692
Parking Garage Structures	15,343	16,265
	43,693	46,957
Less: loss allowance on contract assets	(12)	(230)
	<u>43,681</u>	<u>46,727</u>

17. IMPAIRMENT ASSESSMENT OF FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

18. FINANCIAL ASSETS AT FVTPL

The Group entered into structured deposits with banks, the return of these investments is not guaranteed.

19. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	As of	
	30 June 2019 RMB'000 (Unaudited)	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	<u>292,178</u>	<u>242,969</u>

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)	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
	<u>206,058</u>	<u>163,957</u>

20. BANK BORROWINGS AND TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

During the current interim period, the Group obtained new bank loans amounting to RMB1,663,563,000 (six months ended 30 June 2018: RMB481,867,000). The loans carry interest at variable market rates ranging from 0.9% to 5.66% per annum and are repayable in instalments within one year.

21. SHARE CAPITAL

	Number of shares <i>RMB'000</i>	Nominal value <i>RMB'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
As of 1 January 2018 (audited),		
30 June 2018 (unaudited),		
31 December 2018 (audited) and		
30 June 2019 (unaudited)	<u>1,000,000</u>	<u>10,211</u>
Issued and fully paid:		
As of 1 January 2018 (audited),		
30 June 2018 (unaudited),		
31 December 2018 (audited) and		
30 June 2019 (unaudited)	<u>403,200</u>	<u>4,022</u>

22. DEFERRED INCOME

	As of	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Assets related government grants	<u>78,839</u>	<u>70,192</u>

In November 2016, Fair Friend (Henan) Precision Machinery Co., Ltd. ("Fair Friend Henan"), one of the Company's wholly-owned subsidiaries, received certain government grants and subsidies amounting to RMB61,180,000 for its specified purpose to invest in plants and equipment. These grants and subsidies will be recognised in profit or loss over the useful lives of the relevant assets. In June 2019, Fair Friend Henan received another government grant of RMB8,647,000 which is not fully paid in the prior year for its specified purpose to invest in plants and equipment. Up to the date of the approval of the interim report, the related construction of the plants and equipment are still under construction and thus the deferred income is not yet recognised in profit or loss.

Furthermore, in April 2018, Fair Friend Henan received an interest-free loan government grant with the benefit amounted to RMB9,012,000.

23. CAPITAL COMMITMENTS

	As of	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Capital expenditure contracted for but not provided in respect of construction of plant	<u>41,577</u>	<u>53,134</u>

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets at FVTPL	Unlisted financial products and structure deposits: 635	Unlisted financial products and structure deposits: 108,020	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Actual yield from the investment
Receivables at FVTOCI	Receivables at FVTOCI 55,429	Receivables at FVTOCI 106,400	Level 2	Discounted cash flow method was used to capture the present value of the cash flows to be derived from the receivables.	N/A

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

The directors of the Company consider that the carrying amount of financial assets recorded at amortised cost in the condensed consolidated financial statements approximates their fair value. There was no transfer between Level 1 and 3 during the current interim period.

The following table represents the changes in Level 3 receivables at structured deposits during the six months ended 30 June 2019:

	Financial assets at FVTPL as of 30 June 2019 <i>RMB'000</i> (Unaudited)
At beginning of the period	108,020
Addition	131,905
Disposal	<u>(239,290)</u>
At the end of the reporting period	<u><u>635</u></u>

25. RELATED PARTY TRANSACTIONS

(1) Transaction and balances

During the current interim period and by the end of the reporting period, the Group had the following transactions and balances with its related parties:

Transactions

Name of company	Relationship	Nature of transactions	Six months ended 30 June	
			2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Ultimate holding company				
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	–	429
		Purchase of goods	4,738	13,400
		Receive of service	4,054	–
Subsidiary of ultimate holding company				
FFG DMC Co., Ltd ("FFG DMC")	Subsidiary of ultimate holding company	Sales of goods	581	–
		Purchase of goods	2,465	–
Immediate holding company				
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchase of goods	25,516	27,027
Fellow subsidiaries and associates of ultimate holding company				
Kegai (Shanghai) Machinery & Equipment Co., Ltd	Fellow subsidiary	Purchase of goods	–	1,463
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Sales of service	1,080	93
		Rental income	36	22
		Sales of goods	–	326
Hangzhou Best Friend Technology Co., Ltd ("Best Friend")	Associate of ultimate holding company	Sales of goods	4	–
		Interest income	33	–

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Transactions (Continued)

Name of company	Relationship	Nature of transactions	Six months ended 30 June	
			2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Joint ventures				
Anest Iwata Feeler Corporation ("AIF")	Joint venture	Purchase of goods	–	39
		Sales of goods	–	17
		Sales of service	610	602
		Rental income	23	32
		Receive of service	–	7
Hangzhou Feeler Mectron Machinery Co., Ltd. ("Feeler Mectron")	Joint venture	Sales of service	195	130
		Purchase of goods	–	834
		Rental income	34	34
Hangzhou Union Friend Machinery Co., Ltd. ("UFM")	Joint venture	Sales of goods	–	4
		Purchase of goods	929	1,118
		Sales of service	45	18
		Interest income	7	12
Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler")	Joint venture	Purchase of service	20	13
		Sales of service	10	9
Associate and subsidiary of an associate				
SMS Holding Co., Ltd	Subsidiary of an associate of the Group	Sales of goods	63	7
MAG IAS (Shanghai) Co., Ltd. ("MAS IAS")	Subsidiary of an associate of the Group	Interest Income	36	–

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

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

Balances

Name of company	Relationship	Nature of Balances	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Ultimate holding company				
Fair Friend	Ultimate holding company	Trade payable (note (b))	(696)	(510)
		Advance to (note (b))	936	-
		Advance from (note (b))	(128)	(128)
Amount due from ultimate holding company			936	-
Amount due to ultimate holding company			(824)	(638)
Immediate holding company				
Hong Kong GF	Immediate holding company	Trade payable (note (b))	(3,210)	(2,832)
Amount due to immediate holding company			(3,210)	(2,832)
Fellow subsidiaries and associates of ultimate holding company				
SANC Machines & Tools Co., Ltd	Fellow subsidiary	Trade payable (note (b))	(3,258)	(3,253)
EQUIPTOP HITECH CORP.	Fellow subsidiary	Trade payable (note (b))	(144)	(144)
		Advance from (note (b))	-	(124)
FFG DMC	Fellow subsidiary	Trade receivable (note (a))	708	-
		Other receivable (note (b))	270	-
		Advance from (note (b))	(10)	(116)
Feeler Takamatsu	Associate of ultimate holding company	Other receivable (note (b))	38	22

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Name of company	Relationship	Nature of Balances	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Best Friend	Associate of ultimate holding company	Trade receivable <i>(note (a))</i>	4	1
		Other receivable <i>(note (b))</i>	1,446	-
Amount due from fellow subsidiaries and associates of ultimate holding company			2,466	23
Amounts due to fellow subsidiaries and associates of ultimate holding company			(3,412)	(3,637)
Joint ventures				
AIF	Joint venture	Other receivable <i>(note (b))</i>	123	127
		Trade payable <i>(note (b))</i>	-	(42)
Feeler Mectron	Joint venture	Trade receivable <i>(note (a))</i>	24	-
		Other receivable <i>(note (b))</i>	18	-
		Trade payable <i>(note (b))</i>	(33)	(33)
UFM	Joint venture	Trade payable <i>(note (b))</i>	(166)	(287)
		Other receivable <i>(note (b))</i>	326	319
		Trade receivable <i>(note (a))</i>	-	6
Nippon Cable Feeler	Joint venture	Other receivable <i>(note (b))</i>	6	9
		Other payable <i>(note (b))</i>	(1)	-
Amounts due from joint ventures			497	461
Amounts due to joint ventures			(200)	(362)

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Name of company	Relationship	Nature of Balances	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Associates and subsidiaries of an associate				
FFG Werke GmbH	Associate	Advance to <i>(note (b))</i>	1,357	1,357
		Trade payable <i>(note (b))</i>	(23,486)	(24,679)
		Other receivable <i>(note (b))</i>	80,804	386
		Shareholder loan <i>(note (c))</i>	62,327	20,978
FFG Europe S.p.A ("FFG Europe")	Associate	Other receivable <i>(note (b))</i>	766	766
		Shareholder loan <i>(note (c))</i>	28,298	36,089
Jobs Automazione S.p.A	Subsidiary of an associate of the Group	Other receivable <i>(note (b))</i>	38,553	17,333
		Trade payable <i>(note (b))</i>	(1,415)	(2,844)
		Other payable <i>(note (b))</i>	–	(912)
Sky Thrive Rambaudi S.r.l	Subsidiary of an associate of the Group	Other receivable <i>(note (b))</i>	3,227	3,239
		Shareholder loan <i>(note (c))</i>	6,058	6,082
SMS Holding Co., Ltd	Subsidiary of an associate of the Group	Trade receivable <i>(note (a))</i>	4	–
FFG European and American Holdings GmbH	Associate	Other receivable <i>(note (b))</i>	221,914	54,791
MAG Global Holding GmbH	Subsidiary of an associate of the Group	Other receivable <i>(note (b))</i>	575	575

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Name of company	Relationship	Nature of Balances	30 June	31 December
			2019	2018
			RMB'000	RMB'000
			(Unaudited)	(Audited)
Grinding technology S.r.l	Subsidiary of an associate of the Group	Other receivables <i>(note (b))</i>	9,455	9,463
MAG IAS	Subsidiary of an associate of the Group	Other receivable <i>(note (b))</i>	6,000	-
		Shareholder loan <i>(note (b))</i>	36	-
Amount due from associates and subsidiaries of an associate			459,374	151,059
Amount due to an associate and subsidiaries of an associate			(24,901)	(28,435)

- (a) The Group allows a normal credit period of 90 days for sales made to the fellow subsidiaries, the ultimate holding company and its associates, and subsidiaries of associate. Balances are unsecured and interest free. As of 30 June 2019 and 31 December 2018, the aging of above balances was mostly within 6 to 12 months.
- (b) Balances are unsecured, interest free and repayable on demand.
- (c) Balances are unsecured, interest free and repayable on demand and guaranteed by Fair Friend.

(2) Compensation of directors and key management personnel

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries	1,175	1,556
Performance related bonuses	207	201
Retirement benefits scheme contributions	28	54
	<u>1,410</u>	<u>1,811</u>

26. PLEDGE OF ASSETS

	As of	
	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Prepaid lease payments	–	87,600
Right-of-use assets	83,411	–
Property, plant and equipment	–	7,763
Restricted bank deposits	<u>16,850</u>	<u>15,900</u>
	<u>100,261</u>	<u>111,263</u>

The Group has pledged its prepaid lease payments, right-of-use assets and buildings in order to secure the general banking facilities granted to the Group.

The Group has restricted bank deposits which mainly represent deposits placed in banks for guarantees issued for finance facilities used by the Group.

27. CONTINGENT LIABILITY

On 3 June 2019, the Company issued a guarantee to an independent third party for each of the payment obligations of MAG IAS GmbH and FFG Werke under their respective purchase contracts with the independent third party with a maximum amount of Euro 11,000,000 (equivalent to RMB85,987,000) and Euro 2,000,000 (equivalent to RMB15,634,000), respectively.