

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2398



**ANNUAL  
REPORT  
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  
YU Yu-Tang  
KAO Wen-Cheng

## COMPANY SECRETARY

LO Tai On

## AUTHORISED REPRESENTATIVES

CHU Chih-Yaung  
CHIU Rung-Hsien

## LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

## AUDIT COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*  
YU Yu-Tang  
KAO Wen-Cheng

## REMUNERATION COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*  
YU Yu-Tang  
KAO Wen-Cheng

## NOMINATION COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*  
YU Yu-Tang  
KAO Wen-Cheng

## AUDITOR

RSM Hong Kong

## 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

**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE**

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

**HONG KONG BRANCH SHARE  
REGISTRAR AND TRANSFER OFFICE**

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

**PRINCIPAL BANKERS**

Bank of China  
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**

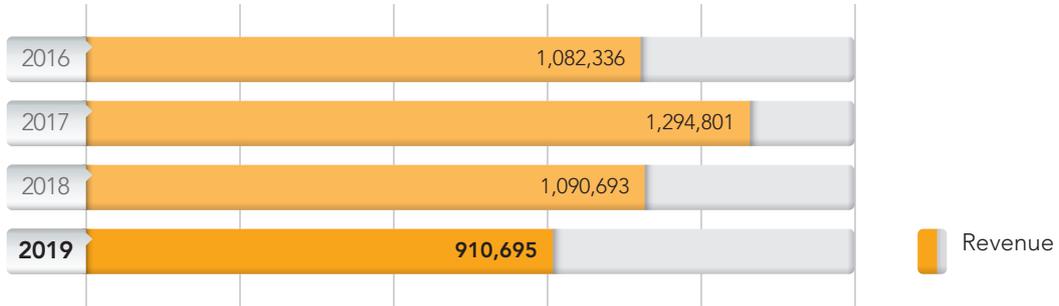
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**WEBSITE**

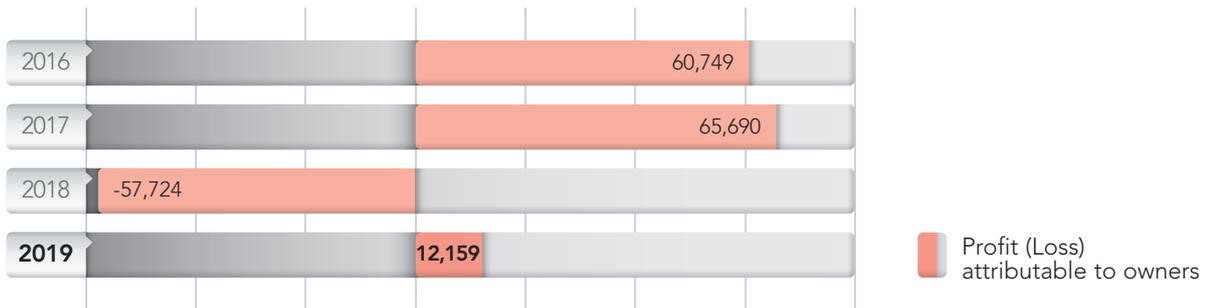
<http://www.goodfriend.hk>

# Financial Highlights

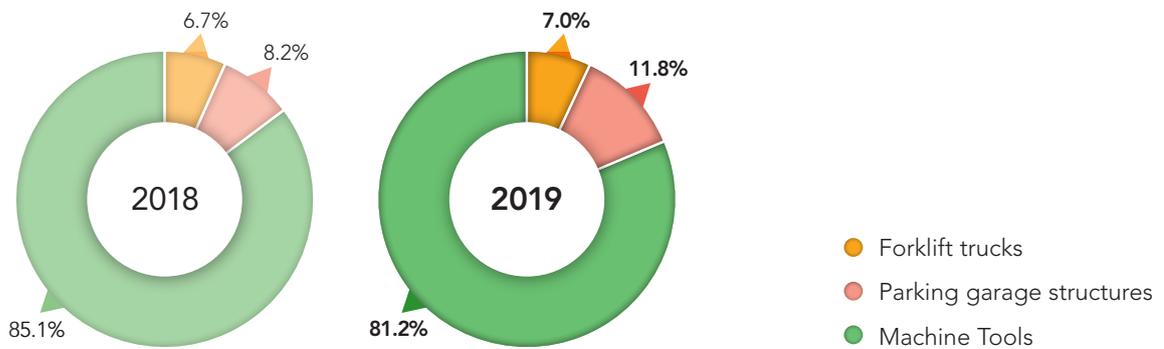
## REVENUE (RMB'000)



## PROFIT (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY (RMB'000)



## BUSINESS SEGMENTS (In terms of revenue)



## TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

|   | 2019<br>RMB'000  | 2018<br>RMB'000 | Change<br>(%) |
|---|------------------|-----------------|---------------|
| Revenue                                 | <b>910,695</b>   | 1,090,693       | (16.5)%       |
| Gross profit                            | <b>209,098</b>   | 290,727         | (28.1)%       |
| Profit( Loss) attributable to owners    | <b>12,159</b>    | (57,724)        | 121.1%        |
| Shareholders' equity                    | <b>708,479</b>   | 716,406         | (1.1)%        |
| Total assets                            | <b>2,124,080</b> | 2,210,864       | (3.9)%        |
| Earnings (Loss) per share – basic (RMB) | <b>0.03</b>      | (0.14)          | 121.4%        |

## SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

|  | 2019         | 2018   | Change<br>(%) |
|--|--------------|--------|---------------|
| Gross profit margin <sup>Note 1</sup>      | <b>23.0%</b> | 26.7%  | (13.9)%       |
| Net profit (loss) margin <sup>Note 2</sup> | <b>1.3%</b>  | (5.3)% | 124.5%        |
| Inventory turnover days <sup>Note 3</sup>  | <b>256.5</b> | 239.4  | 7.1%          |
| Debtors' turnover days <sup>Note 4</sup>   | <b>74.5</b>  | 92.7   | (19.6)%       |
| Creditors' turnover days <sup>Note 5</sup> | <b>84.7</b>  | 74.8   | 13.2%         |
| Current ratio (Times) <sup>Note 6</sup>    | <b>1.0</b>   | 1.1    | (9.1)%        |
| Quick ratio (Times) <sup>Note 7</sup>      | <b>0.6</b>   | 0.7    | (14.3)%       |
| Gearing ratio (%) <sup>Note 8</sup>        | <b>18.8%</b> | 25.5%  | (26.3)%       |
| Return on equity (%) <sup>Note 9</sup>     | <b>1.7%</b>  | (8.1)% | 121.0%        |

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

Note 2: Net profit (loss) margin is calculated as profit (loss) attributable to owners divided by revenue.

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

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

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

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

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

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

Note 9: Return on equity is calculated as profit (loss) attributable to owners divided by total shareholders' equity at the end of the corresponding year.

# Chairman's Statement



I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the report on the results of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2019 (the "year").

## FINANCIAL PERFORMANCE

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB910.70 million, representing a decrease of approximately 16.5% compared to 2018. Profit attributable to owners amounted to approximately RMB12.16 million was recorded in the current year; whilst in 2018 loss attributable to owners amounted to approximately RMB57.72million.

## FINAL DIVIDEND

The Board resolved not to recommend a final dividend for the year ended 31 December 2019 (2018: Nil).

## 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 6.1% in 2019, representing a generally stable economic development in China. For the year ended 31 December 2019. Sales volume and sales revenue of the Group's major products CNC machines tools amounted to 1,527 units and RMB739.06 million respectively.

## PROSPECTS

With the COVID-19 coronavirus outbreak, China's economic prospects in 2020 will be full of challenges. The management remain cautions about China's economic prospects. The Group will keep close track on market situation in order to capture business opportunity and reduce operation risks.

Looking ahead, with the current complex economic environment, the Group will continue to strengthen its business foundation under a consistent cautious manner under tough market environment, in order to weather against the volatility and uncertainty of the market condition ahead. The management is optimistic on the long-term development prospects of the Group.

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

## ACKNOWLEDGEMENT

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

### CHU Chih-Yaung

*Chairman*

Hong Kong, 31 March 2020



# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB910.70 million, representing a decrease of approximately 16.5% as compared to 2018. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,527 units, 7,792 units and 841 units respectively (2018 comparative figures: 2,028 units, 10,902 units and 999 units). CNC machine tools remained the major source of the Group's revenue. During the year, sales revenue of CNC machine tools business amounted to approximately RMB739.06 million, representing a decrease of approximately 20.4% as compared to 2018. Revenue of CNC machine tools accounted for approximately 81.2% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB107.35 million during the year, representing an increase of approximately 19.5% as compared to 2018 and accounted for approximately 11.8% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 11.4%, as compared to 2018, to approximately RMB64.29 million and approximately 7.0% of the Group's total revenue.

### Gross profit and margin

For the year ended 31 December 2019, gross profit of the Group amounted to approximately RMB209.10 million. Overall gross profit margin was approximately 23.0%, compared to 26.7% for 2018. The gross profit margin of CNC machine tools (the Group's major product) during the year was approximately 25.6%.

### Other income

During the year, other income included a compensation income of approximately RMB72.67 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, amounted to approximately RMB121.93 million for the year ended 31 December 2019, decreased by approximately 8.1% as compared to last year. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 13.4%, compared to approximately 12.2% for 2018.

### Administrative expenses

Administrative expenses for the year ended 31 December 2019 increased by approximately 11.6% as compared to 2018. This was mainly due to the increase of the staff costs and office expenses during the year.

### Other gains and losses

Other gains and losses represented mainly foreign exchange loss during the year.

## Management Discussion and Analysis

### Finance costs

During the year, finance costs increased to approximately RMB24.74 million. This was primarily due to the increase of average bank borrowings of the Group during 2019.

### Share of loss of associates

For the year ended 31 December 2019, share of loss of associates amounted to approximately RMB57.09 million. The amount represented the Group's share of results of "FFG European and American Holdings GmbH" (an associate located in Germany) during the year.

### Profit attributable to owners of the Company

For the year ended 31 December 2019, profit attributable to owners of the Company amounted to approximately RMB12.16 million. For the year ended 31 December 2018, loss attributable to owners of the Company amounted to approximately RMB57.72 million.

### Liquidity and financial resources

As at 31 December 2019, the Group had net current assets of approximately RMB34.62 million (2018: RMB115.27 million), shareholders' fund of approximately RMB708.48 million (2018: RMB716.41 million) and short-term bank borrowings of approximately RMB400.07 million (2018: RMB563.24 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Bank balances and cash as at 31 December 2019 amounted to approximately RMB74.86 million (2018: RMB112.67 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.0 times (2018: 1.1 times). The gearing ratio (ratio of total debts to total assets) was approximately 18.8% (2018: 25.5%), indicating that the Group continued to maintain solid financial position.

### Capital structure and treasury policies

The share capital of the Company as at 31 December 2019 was HK\$4,030,740 divided into 403,074,000 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).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As at 31 December 2019, the total outstanding short-term borrowings stood at approximately RMB400.07 million (2018: RMB563.24 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year.

## SIGNIFICANT INVESTMENT

The Group had no significant investment held for the year ended 31 December 2019.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2019.

## SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2019 are set out in note 6B to the consolidated financial statements.

### Staff and remuneration policies

As at 31 December 2019, the Group employed a total of 1,080 (2018: 1,160) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB154.02 million (2018: RMB152.51 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

The Company had adopted on 2 June 2016 a share option scheme for the purpose of providing incentive and rewards to eligible participants for their contributions to the Group. No share option was granted by the Group since its adoption.

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year ended 31 December 2019, the Group contributed approximately RMB5.54 million (2018: RMB4.91 million) to the said schemes.

### Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB24.25 million (2018: RMB53.13 million) which are contracted but not provided in the consolidated financial statements for the year ended 31 December 2019. The Group had no material contingent liabilities as at 31 December 2019 (2018: Nil).

### Charges on the Group's assets

As at 31 December 2019, the Group had restricted bank balances with an amount of approximately RMB106.33 million (2018: RMB69.99 million), which mainly represented bank balances being frozen by banks in relation to a litigation claim raised by a customer, as well as deposits placed in banks for acceptance bills.

Meanwhile, a subsidiary of the Company pledged its right-of-use assets/prepaid lease payments with an aggregate carrying amount of approximately RMB82.48 million (2018: RMB95.36 million) to secure financing facilities granted to it. As at 31 December 2019, the subsidiary has utilized such secured financing facilities of approximately RMB36.76 million (2018: RMB35.09 million).

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2019. However, the Group will continue to seek new business development opportunities.

#### Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2019, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as Hong Kong dollars, United States dollars, Euro and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group had no hedging activities during the year. However, the management of the Group has been monitoring the exchange rate risk, and will consider hedging against major foreign currency risk when required.

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

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Chu Chih-Yaung** (朱志洋先生), aged 73, was appointed as an executive Director and the Chief Executive Officer in September 2005 and December 2018 respectively. He is the Chairman of the Board responsible for the Group's overall strategic planning, management, business development, and the formulation of the Group's corporate policies. Mr. Chu has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. Mr. Chu is also a director of Hangzhou Global Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co., Ltd., both are wholly-owned subsidiaries of the Company.

**Mr. Chen Min-Ho** (陳明河先生), aged 69, was appointed as an executive Director in December 2005. He is responsible for the overall business operation of the Group. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Rich Friend (Shanghai) Precision Machinery Co., Ltd., Hangzhou Glory Friend Machinery Technology Co., Ltd and Huller Hille (Shanghai) Machinery Co., Ltd. He joined the Group in 1993.

**Mr. Wen Chi-Tang** (溫吉堂先生), aged 55, was appointed as an executive Director in December 2005. He was the vice general manager of machine tools division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the general manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Wen has more than 34 years of experience in the machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. He joined the Group in 2003.

**Mr. Chiu Rung-Hsien** (邱榮賢先生), aged 62, was appointed as an executive Director in December 2005. He was the manager of the parking garage structures division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the senior manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Chiu has more than 35 years of experience in the mechanics and manufacturing industry. He joined the Group in 2001.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Koo Fook Sun, Louis** (顧福身先生), aged 63, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He has more than 20 years of experience in investment banking and professional accounting. Mr. Koo currently act as an independent non-executive director of Li Ning Company Limited, Xingda International Holdings Limited and Winfull Group Holdings Limited, all of which are companies listed on the Main Board of the Stock Exchange. He acted as an independent non-executive director of Midland Holdings Limited, which is listed on the Main Board of the Stock Exchange until June 2017. He is a certified public accountant.

**Mr. Yu Yu-Tang** (余玉堂先生), aged 83, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee, nomination committee and remuneration committee of the Company. He was a consultant of the Taiwan Hsin Chu County Government (台灣新竹縣政府) and the Provincial Government.

## Biographical Details of Directors and Senior Management

**Mr. Kao Wen-Cheng** (高文誠先生), aged 60, was appointed as an independent non-executive Director on 10 January 2020 and is a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Kao has previously served at the Petitions and Appeals Committee of the Ministry of Economic Affairs, R.O.C. and the office of the Vice President of the Legislative Yuan, R.O.C. From 2008 to 2012, he served as the deputy general secretary of the Straits Exchange Foundation, R.O.C. (財團法人海峽交流基金會). From 2012 to 2018, he served as the deputy general secretary of The Third Wednesday Club (中華民國三三企業交流會). From 2012 to 2017, he served as a consultant of China Trust Commercial Bank, and is currently a specialized committee member of the Chairman's Office of China Trust Commercial Bank. From 2012 to 2019, he served as the general secretary of the Straits Economic and Cultural Interchange Association (海峽兩岸經貿文化交流協會), and is currently the vice-chairman of the association. Currently, Mr. Kao is also an independent director of Jiangsu Longchen Greentech Co., Ltd. (江蘇榮成環保科技股份有限公司).

### SENIOR MANAGEMENT

**Mr. Chiang Chia-Shin** (強家鑫先生), aged 61, was appointed as the manufacturing, marketing and after sales service manager of Hangzhou Global Friend and is responsible for the manufacturing, operating, marketing and after sales service of forklifts trucks in Mainland China. Mr. Chiang graduated from mechanical engineering department of Taiwan Fushin Institute Technology School (台灣復興工業專科學校) in 1979. He joined the Group in 1 July 2000 and has over 34 years of experience in the design, manufacturing and production of the motor vehicle parts and forklifts trucks.

**Mr. Wu Li-Chen** (吳立城先生), aged 58, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend and then was promoted as the senior manager with effect from January 2014. He joined the Group in October 2000 and has over 35 years of experience in the machine tools industry.

**Mr. Huang Fei-Hsiung** (黃飛雄先生), aged 50, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Huang graduated from City University of Hong Kong in DBA with a degree in 2015. Before he joined the Group in May 2019, he served in Taiwan's listed companies and has over 25 years of experience in the fields of auditing, accounting and finance, business management.

**Mr. Yip Sai Keung, Esmond** (葉世強先生), aged 54, was appointed as the financial controller of the Company and is responsible for the finance and accounting functions of the Group. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yip joined the Group in November 2007 and has about 30 years of experience in the fields of corporate finance, auditing and accounting.

# Report of the Directors

The board of directors of the Company (the "Board") is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

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

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 7 and pages 8 to 11 respectively of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES FOCUSING THE COMPANY

A description of possible risks and uncertainties that the Group may be facing are set out in the Chairman's Statement on pages 6 to 7 of this annual report. The financial risk management objectives and policies of the Group are set out in note 38 to the consolidated financial statements.

## ENVIRONMENTAL POLICY

The Group has strong commitment towards environmental protection. It is the Group's policy to encourage and promote awareness towards environmental protection to our employees. It has implemented green office practices such as double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance in the Group's offices. Moreover, the Group has been committed to operating in compliance with applicable environmental laws and regulations and has taken steps to ensure that any waste and by-products produced as a result of its operations are properly treated and discharged so as to minimise the adverse effects to the environment.

The management will review the Group's environmental practices from time to time and will consider implementing further ecology friendly measures and practices in the operation to enhance environmental protection and sustainability.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the directors of the Company (the "Directors") are aware, there was no material non-compliance with applicable laws and regulations by the Group that has a significant impact on the Group's business and operations.

### KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Board recognises that our employees are valuable assets contributing to the Group's future success. The Group provides competitive remuneration package to attract, motivate and retain our employees. The Board also regularly reviews the remuneration package of our employees and makes necessary adjustments to conform to the prevailing market practices.

The Board also treasures that maintaining good relationship with our customers and suppliers is vital to achieve the Group's long-term goals.

During the year, there was no significant dispute between the Group companies and our business partners.

### IMPORTANT EVENT THAT HAVE OCCURRED SINCE THE FINANCIAL YEAR END

There was no important event that has occurred since the financial year end and up to the date of this report.

### SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2019 is set out in note 6B to the consolidated financial statements.

### RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 71 to 167.

The Directors resolved not to recommend a final dividend for the year ended 31 December 2019.

### RESERVES

Movements in the reserves of the Company during the year are set out in note 44 to the consolidated financial statements.

### ANNUAL GENERAL MEETING

An annual general meeting will be held on Tuesday, 30 June 2020 (the "2020 AGM"). Details of the 2020 AGM, notice of 2020 AGM and proxy form are set out in the circular of the Company dated 15 May 2020 which will be despatched to shareholders of the Company (the "Shareholders") together with the 2019 annual report.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2019 are set out in note 27 to the consolidated financial statements.

## BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2019 are set out in note 31 to the consolidated financial statements.

## DIRECTORS

The Directors during the year and as at the date of this report were as follows:

### Executive Directors

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

Mr. CHEN Min-Ho

Mr. WEN Chi-Tang

Mr. CHIU Rung-Hsien

### Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis

Mr. YU Yu-Tang

Mr. KAO Wen-Cheng (appointed on 10 January 2020)

Mr. CHIANG Chun-Te (resigned on 10 January 2020)

Pursuant to article 87 of the articles of association of the Company (the "Articles"), Messrs. Chu Chih-Yaung and Chen Min-Ho, Directors who have been longest in office since their last re-election, will retire by rotation and will offer themselves for re-election at the 2020 AGM.

Pursuant to the Article 86(3) of the Articles, Mr. Kao Wen-Cheng, who was appointed as a new Director on 10 January 2020, will retire at the 2020 AGM and, being eligible, offer himself for re-election.

### INDEPENDENCE CONFIRMATION

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme of the Company adopted on 2 June 2016, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or were the Company, its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 11 January 2018 with the Company for a term of three years commencing from 11 January 2018 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

A service agreement has been entered into between each of the independent non-executive Directors and the Company for a fixed term of 2 years commencing from 10 January 2020, and may be terminated by not less than three months' notice in writing served by either party to the other.

None of the Directors who are proposed for re-election at the forthcoming 2020 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2019, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

### SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 2 June 2016, i.e. the date on which the Scheme was adopted by resolution of the Shareholders at general meeting (the "Adoption Date"). The purpose of the Scheme is to motivate eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationship with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executive (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. Eligible persons of the Scheme include the Company's executive directors, managers, or other employees holding executive, managerial, supervisory or similar positions in any member of the Group ("Executives"), directors or proposed directors (including independent non-executive directors) of any member of the Group, consultant of any member of the Group, dependent of any of the foregoing persons, and such other persons as the Board may approve from time to time having contributed to the Company or the Group.

The principal terms of the Scheme are summarised as follows:

- (a) The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 10% of the number of the Company's shares in issue as at the Adoption Date (which were 403,200,000 shares) unless shareholders' approval has been obtained, and which must not exceed 30% of the total number of the Company's shares in issue from time to time (or such other percentage as may be allowed under the Listing Rules).

As at the date of this report, as no option had been granted under the Scheme, the Company had the capacity to grant options to subscribe for a maximum of 40,320,000 shares in aggregate, which represents the total unutilised mandate limit under the Scheme and represents 10% of the issued shares of the Company as at the Adoption Date and approximately 10% of the issued shares of the Company as at the date of this report.

- (b) The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each eligible person under the Scheme or any other share option schemes adopted by the Company (including both exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the total number of issued shares of the Company.
- (c) The subscription price in respect of each share of the Company issued pursuant to the exercise of options granted under the Scheme shall be determined by the Board and notified to an eligible person at the time of the grant of the options and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of option, which must be a business day ("Date of Grant"); (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Company's share on the Date of Grant.
- (d) The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than ten years from the relevant Date of Grant. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

- (e) The Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised.
- (f) Upon acceptance of an option, the grantee shall pay HK\$1 to the Company as consideration for the grant within 28 days from the Date of Grant.
- (g) The Scheme shall be valid and effective for a period of ten years from the date of fulfilment of the conditions precedent for the Scheme, i.e. 2 June 2016.

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

### DIRECTORS' INTEREST IN SHARES

As at 31 December 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

#### 1(a). Long positions in shares, underlying shares and debentures of the Company

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

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

## Report of the Directors

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

| Name of Director   | Name of associated corporations                      | Nature of interest       | Number and class of securities | Approximate percentage of shareholdings |
|--------------------|--|--------------------------|--------------------------------|---|
| Mr. Chu Chih-Yaung | Fair Friend Enterprise Company Limited ("Taiwan FF") | Beneficial owner         | 15,527,255 ordinary shares     | 15.16%                                  |
|                    | Taiwan FF  | Spouse interest (Note 1) | 2,540,969 ordinary shares      | 2.48%                                   |
|                    | Fair Fine (Hangzhou) Industrial Co., Ltd. (Note 2)   | Beneficial owner         | 750 ordinary shares            | 0.03%                                   |

#### Notes:

- Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung, held 2.48% of the issued share capital of Taiwan FF. Mr. Chu Chih-Yaung was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
- 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 31 December 2019, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, none of the Directors or chief executive of the Company had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the interests or short positions of every person, other than 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:

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

| Name of shareholder                                     | Nature of interest                 | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|------------------------------------|--------------------------------|--|
| Good Friend (H.K.) Corporation Limited ("Hong Kong GF") | Beneficial owner                   | 232,000,000 shares<br>(Note)   | 57.56%   |
| Taiwan FF   | Interest of controlled corporation | 232,208,000 shares<br>(Note)   | 57.61%   |

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2019.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transaction by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2019, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

## EMOLUMENT POLICY

The Company established a remuneration committee for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

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

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 9 to the consolidated financial statements.

### RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 40 to the consolidated financial statements. Details of any related party transactions which also constitute connected transactions or continuing connected transactions not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below. The Group has complied with the requirements in accordance with Chapter 14A of the Listing Rules in respect of such transactions.

#### Non-exempt connected transaction

As disclosed in the announcement of the Company dated 6 June 2019, the Company had on 3 June 2019 entered into, inter alia, the guarantee (the "Guarantee") with Siemens Aktiengesellschaft ("Siemens"), to guarantee Siemens of up to EUR2 million on any outstanding payment obligations of FFG Werke GmbH ("FFG Werke") and its subsidiaries under their procurement contracts with Siemens for the period from 3 June 2019 to 31 December 2021 (unless terminated earlier by Siemens).

As Taiwan FF is the holding company of Hong Kong GF, the controlling shareholder of the Company, Taiwan FF is therefore an associate of Hong Kong GF and a connected person of the Company under the Listing Rules. As the Company and Taiwan FF indirectly hold approximately 39% and 10% shareholding in FFG Werke respectively, FFG Werke constitutes a commonly held entity under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Guarantee for FFG Werke is more than 0.1% but less than 5%, the Guarantee for FFG Werke constitutes a connected transaction of the Company and accordingly is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### Non-exempt continuing connected transactions

As disclosed in the announcement of the Company dated 26 May 2017 and the circular of the Company dated 27 June 2017, the Company had on 26 May 2017 entered into: (a) a components agreement (the "CKD Components Agreement") with Taiwan FF, pursuant to which the Group (and/or its permitted designates) (the "GF Parties") will supply CKD components to Taiwan FF and its subsidiaries (and/or its permitted designates) (the "FF Parties") and the FF Parties will supply CKD components to the GF Parties for a term of three years from 13 July 2017; and (b) a machine tools agreement (the "CNC Machine Tools Agreement") with Taiwan FF, pursuant to which the GF Parties can purchase from the FF Parties the designated CNC machine tools and have the right to sell designated CNC machine tools in the PRC, Hong Kong and Macau Special Administrative Region (the "Sales Region") on an exclusive basis, and the FF Parties will authorize the GF Parties to sell designated CNC machine tools in the Sales Region on an exclusive basis for a period of three years from 13 July 2017.

As Taiwan FF is the holding company of Hong Kong GF, the controlling shareholder of the Company, Taiwan FF is therefore an associate of Hong Kong GE and a connected person of the Company under the Listing Rules. The transactions under the CKD Machine Tools Agreement and the CNC Machine Tools Agreement respectively constituted continuing connected transactions of the Company, and are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The resolutions approving the CKD Components Agreement and the CNC Machine Tools Agreement, the transactions contemplated thereunder and the annual caps thereof were duly passed by the independent Shareholders at the extraordinary general meeting held on 13 July 2017. The annual caps for the supply of CKD components to FF Parties by the GF Parties and the purchase of CKD components from the FF Parties by the GF Parties for the period from 1 January 2019 to 31 December 2019 under the CKD Components Agreement were RMB3.85 million and RMB114.03 million respectively and the actual supply amount and purchase amount of the period were RMBnil and RMB38.61 million respectively. The annual cap for the purchase of CNC machine tools from the FF Parties by the GF Parties for the period from 1 January 2019 to 31 December 2019 under the CNC Machine Tools Agreement was RMB809.09 million and the actual purchase amount of the period was RMB5.78 million.

The independent non-executive Directors have reviewed the CKD Components Agreement and the CNC Machine Tools Agreement and the transactions thereunder conducted during the year and confirmed that they have been entered into, in all material respects:–

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the respective terms of the CKD Components Agreement and the CNC Machine Tools Agreement and on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has issued a report of its factual findings to the Board confirming the matters as required in accordance with Rule 14A.56 of the Listing Rules.

### PRE-EMPTIVE RIGHTS

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

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

During the year, the Company purchased a total of 126,000 shares of the Company on the Stock Exchange at an aggregate consideration of approximately HK\$113,038.00 and all the 126,000 repurchased shares were cancelled on delivery of the share certificates. The repurchase was effected by the Board for the enhancement of shareholders' value. Details of the repurchases are as follows:

| Month     | Total number of shares | Highest price paid per share<br>HK\$ | Lowest price paid per share<br>HK\$ | Approximate aggregate consideration<br>HK\$ |
|-----------|------------------------|--------------------------------------|-------------------------------------|---|
| July 2019 | 126,000                | 0.91                                 | 0.88                                | 113,038.00                                  |

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year under review.

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 13.65% of the Group's total turnover for the year and the largest customer accounted for approximately 7.22% of the Group's total turnover. The five largest suppliers accounted for approximately 28.25% of the Group's total purchases for the year and the largest supplier accounted for approximately 15.28% of the Group's total purchases.

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

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

### SUFFICIENCY OF PUBLIC FLOAT

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

### PERMITTED INDEMNITY

The Articles provides that every Director shall be indemnified out of the funds of the Company against all liabilities incurred by him in relation to the Company in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted. In addition, liability insurance for Directors and senior management of the Company is maintained by the Company with appropriate coverage for certain legal actions against the Directors and senior management.

### EQUITY-LINKED AGREEMENTS

Saved for the Scheme as disclosed in the section headed "Share Option Scheme" above, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as those set out in note 40 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, its parent company, its subsidiaries or fellow subsidiaries were a party and in which Director or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

### AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Corporate Governance Code. The duties of the Audit Committee includes review and supervise the financial reporting process and risk management and internal control systems of the Group. The Audit Committee currently comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te\* and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2019.

### CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 26 to 40.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 168.

### AUDITOR

RSM Hong Kong ("RSM") was appointed as auditor of the Company by the Board with effect from 25 October 2019 to fill the casual vacancy arising from the resignation of Deloitte Touche Tohmatsu on 24 October 2019 and to hold office until the conclusion of the forthcoming 2020 AGM. A resolution will be proposed at the forthcoming 2020 AGM to re-appoint RSM as auditor of the Company.

Save for the above, there were no other changes of auditor of the Company in the past three years.

The consolidated financial statements for the year ended 31 December 2019 have been audited by RSM.

On behalf of the Board

**Good Friend International Holdings Inc.**

**CHU Chih-Yaung**

*Chairman*

Hong Kong, 31 March 2020

\* Mr. Chiang Chun-Te resigned as an independent non-executive Director on 10 January 2020 and Mr. Kao Wen-Cheng was appointed as an independent non-executive Director on 10 January 2020.

# Corporate Governance Report

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of directors of the Company (the "Board") should attend the annual general meeting. Mr. Chu Chih-Yaung, the Chairman of the Board was unable to attend the annual general meeting of the Company held on 5 June 2019 due to his business trip and Mr. Chiu Rung-Hsien, the executive director of the Company (the "Director"), took the chair of the annual general meeting pursuant to the articles of association of the Company ("Articles").

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.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2019, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

## BOARD OF DIRECTORS

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

The Board currently comprises seven Directors with four executive Directors and three independent non-executive Directors:

### Executive Directors

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

Mr. CHEN Min-Ho

Mr. WEN Chi-Tang

Mr. CHIU Rung-Hsien

### Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis

Mr. YU Yu-Tang

Mr. KAO Wen-Cheng (appointed on 10 January 2020)

Mr. CHIANG Chun-Te (resigned on 10 January 2020)

Such balanced board composition is formed to ensure a strong independent objectivity exists across the Board and has adhered to the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors is set out on pages 12 to 13 under the section headed "Biographical Details of Directors and Senior Management".

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

### Chairman and Chief Executive Officer

The Chairman of the Board, is in-charge of the leadership of the Board and strategies planning of the Group. The Chief Executive Officer of the Company is responsible for the day-to-day management of the Group's business.

Mr. CHEN Hsiang-Jung, the then Chief Executive Officer and executive Director, 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.

The positions and roles of Chairman of the Board and Chief Executive Officer of the Company have been held and performed by same individual since 7 December 2018.

## Independent non-executive Directors

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

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

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

## Role of the Board

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

## Corporate Governance Functions

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

1. develop and review the Company's policies and practices on corporate governance and make recommendations;
2. review and monitor the training and continuous professional development of Directors and senior management;
3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under the Appendix 14 to the Listing Rules.

The Board had performed the above duties during the year.

## Directors' training

Based on the training records provided to the Company by the Directors and the Company's record, the Directors participated in the following training during 2019:

| Directors                                    | Type of trainings |
|--|-------------------|
| <b>Executive Directors</b>                   |                   |
| CHU Chih-Yaung                               | A, B              |
| CHEN Min-Ho                                  | A, B              |
| WEN Chi-Tang                                 | A, B              |
| CHIU Rung-Hsien                              | A, B              |
| <b>Independent Non-Executive Directors</b>   |                   |
| KOO Fook Sun, Louis                          | A, B              |
| YU Yu-Tang                                   | A, B              |
| CHIANG Chun-Te (resigned on 10 January 2020) | A, B              |

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

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

## Frequency of Board Meetings and Attendance

Board meetings are held at least four times a year and the Board meets as and when required. During the year ended 31 December 2019, the Board convened a total of four regular meetings and the attendances of the Directors at these Board meetings are as follows:

| Directors  | Number of attendance |
|--|----------------------|
| Mr. CHU Chih-Yaung                               | 4/4                  |
| Mr. CHEN Min-Ho                                  | 2/4                  |
| Mr. WEN Chi-Tang                                 | 2/4                  |
| Mr. CHIU Rung-Hsien                              | 4/4                  |
| Mr. KOO Fook Sun, Louis                          | 4/4                  |
| Mr. YU Yu-Tang                                   | 4/4                  |
| Mr. CHIANG Chun-Te (resigned on 10 January 2020) | 2/4                  |

The Directors received formal notices, agenda and meeting's papers in advance of each Board meeting.

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

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

## AUDIT COMMITTEE

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

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

The chief responsibilities of the Audit Committee include making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of the risk management and internal control systems of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited financial statements of the Company for the six months ended 30 June 2019. The audited financial statements of the Company for the year ended 31 December 2019 has also been reviewed by the Audit Committee.

The forthcoming annual general meeting of the Company will be held on Tuesday, 30 June 2020 (the "2020 AGM"). With the recommendation of the Audit Committee, RSM Hong Kong, Certified Public Accountants (who had been appointed by the Board as the auditor of the Group on 25 October 2019 to fill the casual vacancy arising from the resignation of Deloitte Touche Tohmatsu) has been proposed for re-appointment as auditor of the Company at the forthcoming 2020 AGM.

### Frequency of Meetings and Attendance

During the year 2019, the Audit Committee met three times, during which the management of the Company and the external auditor were also in attendance, if appropriate. Details of the attendance by members of the Audit Committee of such meetings are as follows:

| <b>Name of members</b>                           | <b>Number of attendance</b> |
|--|-----------------------------|
| Mr. KOO Fook Sun, Louis                          | 3/3                         |
| Mr. YU Yu-Tang                                   | 3/3                         |
| Mr. CHIANG Chun-Te (resigned on 10 January 2020) | 1/3                         |

\* was appointed on 10 January 2020

## NOMINATION OF DIRECTORS

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

The Company established a nomination committee (the "Nomination Committee"), with written terms of reference in compliance with the CG Code and consists of three independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman), Mr. YU Yu-Tang and Mr. Kao Wen-Cheng\*.

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

During the year, the Nomination Committee had convened a meeting to review and consider the background of Mr. Kao Wen-Cheng and recommended to the Board for consideration of the appointment of Mr. Kao Wen-Cheng as an independent non-executive Director to fill the vacancy following the resignation of Mr. Chiang Chun-Te as an independent non-executive Director on 10 January 2020. The Nomination Committee also considered the current Board size and diversity as adequate for the Company's present operations. In addition, the Committee has reviewed and satisfied with the independence of all independent non-executive Directors.

In accordance with the Articles, at least one-third of the Directors will retire from office at the forthcoming annual general meeting. Pursuant to article 87 of the articles of association of the Company (the "Articles"), Messrs. Chu Chih-Yaung and Chen Min-Ho, Directors who have been longest in office since their last re-election, will retire by rotation and will offer themselves for re-election at the 2020 AGM.

Pursuant to the article 86(3) of the Articles, Mr. Kao Wen-Cheng, who was appointed as a new Director on 10 January 2020, will retire at the 2020 AGM and, being eligible, offer himself for re-election.

### Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2019 and details of the attendance of its meeting are as follows:

| Name of members                                  | Number of attendance |
|--|----------------------|
| Mr. KOO Fook Sun, Louis                          | 1/1                  |
| Mr. YU Yu-Tang                                   | 1/1                  |
| Mr. CHIANG Chun-Te (resigned on 10 January 2020) | 0/1                  |

\* was appointed on 10 January 2020

### Board Diversity Policy

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

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

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

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

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

### Nomination Policy

A Nomination Policy which sets out the criteria and procedures when identifying suitably qualified candidates to be appointed and re-elected as Directors, was adopted by the Board during the year.

The Nomination Committee will consider the following factors in assessing the proposed candidates:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Willingness to devote adequate time to discharge duties as a member of the Board;
- Board Diversity Policy and any measurable objectives adopted for achieving diversity on the Board;
- Requirements for independent directors;
- Such other perspectives appropriate to the Company's business or as suggested by the Board.

Besides, the following procedures for nomination should be adopted:

1. The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board periodically and make recommendation on any proposed changes to the Board to complement the Company's corporate strategy;
2. When it is necessary to fill a causal vacancy or appoint an additional director, the Nomination Committee identifies or selects candidates as recommended to the Committee, with or without assistance from external agencies or the Company, pursuant to the criteria above;
3. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);
4. The Nomination Committee makes recommendation to the Board including the terms and conditions of the appointment;
5. The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee.

### Dividend Policy

Under the Companies Law of Cayman Islands and the Articles, dividends may be paid out of the profits of the Company, or subject to solvency of the Company, out of sums standing to the credit of the share premium account of the Company. However, no dividend shall exceed the amount recommended by Directors.

Declaration and recommendation of payment of dividends of the Company is subject to the approval of the Directors, depending on results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors may consider relevant from time to time. Any future declaration, recommendation and payment of dividends of the Company may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of the Directors. The Company does not have any predetermined dividend payout ratio.

## REMUNERATION OF DIRECTORS

The Company established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the CG Code and consists of three independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman), Mr. YU Yu-Tang and Mr. KAO Wen-Cheng\*.

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

### Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2019 to review the existing remuneration packages of each of the Directors and senior management of the Company and details of the attendance of its meeting are as follows:

| <b>Name of members</b>                           | <b>Number of attendance</b> |
|--|-----------------------------|
| Mr. KOO Fook Sun, Louis                          | 1/1                         |
| Mr. YU Yu-Tang                                   | 1/1                         |
| Mr. CHIANG Chun-Te (resigned on 10 January 2020) | 0/1                         |

### Emolument policy

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

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. Each of the executive Directors is entitled to the respective basic salary which is reviewed annually. Details of the Directors' remuneration are set out in note 9 to the consolidated financial statements.

The Company had adopted a share option scheme on 2 June 2016 which was effective for a period of 10 years until 1 June 2026. The purpose of the share option scheme was to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimize their future contributions for the benefit of the Group. Details of the share option scheme are set out in the section headed "Share Option Scheme" of the "Report of the Directors".

\* was appointed on 10 January 2020

## Remuneration of Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2019 is set out below:

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

Further particulars regarding Director's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 9(a) and 9(b) to the consolidated financial statements, respectively.

## COMPANY SECRETARY

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

## CONSTITUTIONAL DOCUMENTS

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

## AUDITOR'S REMUNERATION

For the year under review, the remuneration paid/payable to the Company's existing auditor, RSM Hong Kong, is set out below:

| Services rendered to the Group | Fee paid/payable<br>HK\$'000 |
|--------------------------------|------------------------------|
| Audit services                 | 1,500                        |
| Non-audit services             | 120                          |

For the year under review, the remuneration paid/payable to the Company's previous auditor, Deloitte Touche Tohmatsu, Hong Kong, is set out below:

| Services rendered to the Group | Fee paid/payable<br>HK\$'000 |
|--------------------------------|------------------------------|
| Audit services                 | 0                            |
| Non-audit services             | 400                          |

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board has acknowledged its responsibility for the risk management and internal control systems of the Group, and has established and continuously supervised and reviewed the effectiveness of the systems operation as required in the Principle C.2 of the CG Code with the purpose of managing the risk of failure to achieve the business objective, enhancing the effective and efficient operation, reasonably guaranteeing the reliability of financial reporting as well as in compliance with applicable laws and regulations, and safeguarding the assets of the Group. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

#### Characteristics of Risk Management and Internal Control Organization Systems

The Company has established and improved the risk management and internal control organization systems comprising the Audit Committee of the Board, senior management and all the departments of the Company as required in the Principle C.2.2 of the CG Code in a bid to guarantee that the Company has sufficient resources, employee qualification, experience, training courses and relevant budgets in terms of the risk management and internal control. All the departments of the Company are the first defending line of the risk management and internal control, the senior management is the second, and the Audit Committee of the Board is the third. The Audit Committee and the Board are the top decision-making organs of the risk management and internal control systems of the Company.

#### Internal Audit Function

In light of the size, nature and complexity of the Company business, it was decided that the Audit Committee would be directly responsible for the establishment and improvement of internal control of the Company and for reviewing its effectiveness. Every year the Company hires a third-party organization to confirm testing scope based on the annual risk evaluation result and carry out the internal control review according to the practical condition of the Company.

#### Conducting Risk Management and Internal Control

The Company reviews the effectiveness of the risk management and internal control systems and evaluates all the significant monitoring aspects including the financial monitoring, operation monitoring and compliance monitoring on a yearly basis according to five internal control factors, namely, internal environment, risk evaluation, control activities, information & communication, and internal supervision.

Centring on the overall operation objective, the Company gradually established the risk management system through implementing the basic risk management process in each phase of its management and in the course of its operations, which comprehensively identified and dealt with possible risks at the Company level in operations, forming the unique risk pool and risk framework with sound systems of the Company, providing the basis for the risk management and internal control.

The senior management of the Company organized all the risk responsible departments to conduct comprehensive and in-depth analysis on the risk identification results from the aspect of the possibility of risk occurrence and the extent of its impact, selected major risks exposed to the Company, made specific and in-depth responses to major risks and formulated major risk response plans. The major risk response plans shall be implemented upon the review of the senior management, the deliberation of the Audit Committee, and the approval of the Board.

### Formation of Long-Term Mechanism of Risk Management and Internal Control

The Company carried out the basic risk response measures of internal control through specific business process on the basis of fully identifying and evaluating risks, established the management procedures and internal control measures for significant processes of the preparation and disclosure of financial reports, and finally confirmed the long-term mechanism of risk management with the Risk Management System (《風險管理制度》). The management procedures of relevant processes, the internal control measures and the Risk Management System have been implemented upon the approval and signature by the senior management.

The Risk Management System specifies the overall objective, basic principles, assignment of responsibilities, reporting channels, methodology, main job contents and daily work of the risk management. It is stipulated in the System that the senior management shall conduct the risk management annually, continuously monitor the major risks and risk changes in the operation and management of each risk responsible department, formulate the Risk List and Risk Management Framework (《風險清單及風險管理框架》), which shall be submitted to the senior management and the Audit Committee, and report the risk management framework and organization system construction of each risk responsible department, risk pre-warning mechanism, the identification, evaluation methods and results of the risk information during the current year, and the resources and matters to be co-ordinately solved.

It is also provided in the System that the senior management shall supervise and assess whether each department can conduct the risk management according to relevant regulations and their work efficiency on a regular or irregular basis (at least once a year), prepare the Risk Summary and Evaluation Report (《風險彙總評估報告》), and put forward improvement suggestions for the effectiveness of the risk management. Relevant departments shall formulate specific rectification proposals according to the improvement suggestions, appoint a specific person for the implementation of each task, and stipulate on the expected date of completion of rectification. The senior management shall continuously monitor the progress of rectification. The Risk Summary and Evaluation Report shall be directly submitted to the senior management and the Audit Committee of the Board.

The results of risk management and internal control indicated that there weren't any material faults or weak points in the major risk monitoring. The management processes of the Company, such as financial reports and information disclosures, strictly complied with the provisions of the Listing Rules, and the risk management and internal control were effective according to the evaluation of the Board.

During the year, the Board also renewed and ensured the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget.

### PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Board has established the Inside Information Policy for the handling and dissemination of inside information. The Inside Information Policy stipulated the obligations of the Group, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. Management of the Company must take all reasonable measures from time to time to ensure that proper safeguards are in place to prevent a breach of a disclosure requirement in relation to the Company. They must promptly bring any possible leakage or divulgence of inside information to the attention of the Financial Controller who will notify the Board as soon as reasonably practicable accordingly for taking the appropriate prompt action. In the event that there is evidence of any material violation of the Inside Information Policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

### DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's accounts for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2019, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATION

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

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

An annual general meeting of the Company was held on 5 June 2019 (the "2019 AGM"). A notice convening the 2019 AGM contained in the circular dated 29 April 2019 was dispatched to the Shareholders together with the 2018 Annual Report. The chairman of the Board was unable to attend the 2019 AGM due to his business trip. Mr. Chiu Rung-Hsien, the Executive Director, attended and chaired the 2019 AGM. Other directors were unable to attend the 2019 AGM due to their other business commitment.

The Chairman of the 2019 AGM explained detailed procedures for conduction a poll. All the resolutions proposed at the 2019 AGM were passed separately by the Shareholders by way of poll. The results of the poll were published on the websites of Hong Kong Exchanges and Clearing Limited ("HKEX") and the Company after the meetings.

A notice convening 2020 AGM will be published on the websites of HKEX and the Company and dispatched together with the 2019 Annual Report to the Shareholders as soon as practicable in accordance with the Articles and the CG Code.

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

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

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

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

### SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year at such place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM"). The procedures are subject to the Articles and applicable legislation and regulations.

#### Procedures for Shareholders to convene EGM:

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

The written requisition must state the business to be transacted at the meeting, signed by the requisitionist(s) and deposited at the Company's principal place of business in Hong Kong or the Company's registered office for the attention of the Board or the Secretary of the Company, and may consist of several documents in like form, each signed by the requisitionist(s). The requisition will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the requisition is proper and in order, the Secretary of the Company will ask the Board to consider convening an EGM, on the contrary, if the requisition has been verified as invalid, the requisitionist(s) will be advised of the outcome and accordingly, an EGM will not be convened.

Any meeting convened by the requisitionists should be convened with the same manner as that in which meetings are convened by the Board.

## *Corporate Governance Report*

### Procedures for putting forward proposals at general meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written request, duly signed by the shareholder concerned, setting out the proposals at the Company's principal place of business in Hong Kong for the attention of the Board and the Secretary of the Company with sufficient lead time in advance. The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Secretary of the Company will pass the request to the Board. Whether a proposal will be put to a general meeting will be decided by the Board in its discretion.

The procedures for Shareholders to propose a person for election as director is posted on the Company's website at [www.goodfriend.hk](http://www.goodfriend.hk).

### AUDITOR'S STATEMENT

The auditor of the Company acknowledge their responsibilities in the auditor's report on the financial statements of the Group for the year ended 31 December 2019.

Hong Kong, 31 March 2020

# Environmental, Social and Governance Report

## ABOUT THE REPORT

Good Friend International Holdings Inc. (the “Company” together with its subsidiaries, hereinafter referred to as the “Group”, we or us) hereby presents the annual Environmental, Social and Governance (“ESG”) Report for the financial year ended 31 December 2019 (“FY2019”) in accordance with the ESG Reporting Guide (the “ESG Guide”) as set out in Appendix 27 to the Rules Governing the Listing of Securities (the “Main Board Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company has complied with the “comply or explain” provisions set out in the ESG Guide. The ESG Report should be read in conjunction with the Corporate Governance Report on page 26 of our Annual Report 2019.

The ESG Report focuses on the principal business activities of the Group. After comprehensive consideration of a series of indicators such as sales, business type, profit amount and asset amount, the scope of the ESG Report is consistent with the ESG Report for the previous financial year ended 31 December 2018 (“FY2018”), covering the following entities in the People’s Republic of China (the “PRC”): Hangzhou Good Friend Precision Machinery Precision Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. While the ESG Report does not cover all the Group’s operations, the Group aims to improve its internal data collection mechanism and gradually expand the scope of the disclosure.

The ESG Report is prepared and published in both English and Chinese at the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website (<http://www.goodfriend.hk>). In the event of contradiction or inconsistency between the English version and the Chinese version, the English version shall prevail.

The board (the “Board”) of directors (the “Directors”) of the Company is responsible for the ESG strategy and reporting, including the assessment and determination of relevant risks in these aspects, and guarantee of proper ESG risk management and internal monitoring system. We have appointed the business and functional departments to identify the relevant ESG matters and evaluate the significance of these matters to our business and interested parties by reviewing the Company’s operation and conducting internal discussions. The management has confirmed the effectiveness of the ESG risk management and internal monitoring system with the Board.

# Environmental, Social and Governance Report

## SELECTION OF MAJOR ISSUES

### Communication with stakeholders

Judging from the characteristics of the business and operation, we identified major stakeholders such as investors, governments and regulators, employees, non-governmental organisations, customers, suppliers and communities.

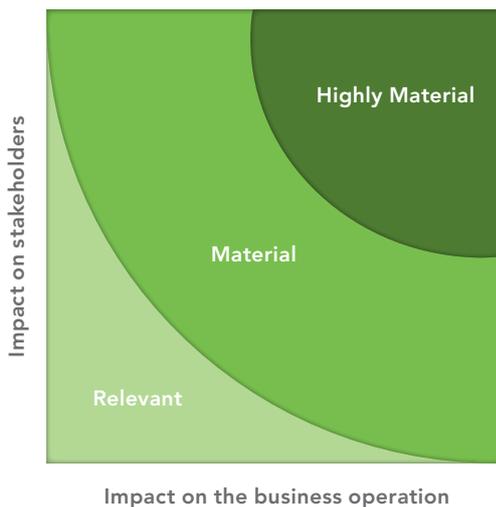
| Stakeholders                   | Expectation & requirement   | Communication & response  |
|--------------------------------|---|---|
| Investors                      | <ul style="list-style-type: none"> <li>• Protection of shareholders' rights and interests</li> <li>• Maintenance and appreciation of assets value</li> <li>• Enterprise governance mechanism</li> <li>• Authentic, accurate, prompt and complete disclosure of information</li> </ul> | <ul style="list-style-type: none"> <li>• Shareholders' meeting</li> <li>• Press releases and announcements</li> <li>• Company reports</li> <li>• Information on the company website</li> <li>• Investors' meetings</li> </ul> |
| Governments and regulators     | <ul style="list-style-type: none"> <li>• Compliance with laws and regulations</li> <li>• Pay taxes in accordance with law</li> <li>• Protect the environment</li> <li>• Industry development</li> <li>• Give back to the community</li> </ul>   | <ul style="list-style-type: none"> <li>• Meeting</li> <li>• Compliance report</li> <li>• Onsite check</li> <li>• Special investigation</li> <li>• Proper submission of documents</li> </ul>                                   |
| Employees                      | <ul style="list-style-type: none"> <li>• Equal employment</li> <li>• Competitive salary system</li> <li>• Employee training</li> <li>• Career development</li> <li>• Humanity care</li> <li>• Health and safety protection</li> </ul>   | <ul style="list-style-type: none"> <li>• Labour contracts</li> <li>• After-work activities</li> <li>• Manager mailbox</li> <li>• Voluntary activities</li> <li>• Daily communication</li> </ul>                               |
| Non-governmental organisations | <ul style="list-style-type: none"> <li>• Investment for local development</li> <li>• Participate in local community projects</li> <li>• Take on environmental responsibility</li> <li>• Human rights</li> <li>• Fair share of benefits</li> </ul>                                     | <ul style="list-style-type: none"> <li>• Annual ESG report</li> <li>• Direct communication</li> <li>• Production plant visit</li> </ul>   |
| Customers                      | <ul style="list-style-type: none"> <li>• Customer satisfaction management</li> <li>• Customer complaint management</li> <li>• Product responsibility</li> </ul>   | <ul style="list-style-type: none"> <li>• Daily communication</li> <li>• Regular interviews and visits</li> <li>• Customer service centre and hotline</li> </ul>   |
| Suppliers                      | <ul style="list-style-type: none"> <li>• Suppliers' code of conduct</li> <li>• Supplier assessment</li> <li>• Supplier cooperation</li> </ul>   | <ul style="list-style-type: none"> <li>• High-level meetings</li> <li>• Workshop</li> <li>• Suppliers' summits</li> <li>• Supplier entry and assessment</li> <li>• Fieldwork</li> <li>• Daily communication</li> </ul>        |
| Communities                    | <ul style="list-style-type: none"> <li>• Noise management</li> <li>• Support economic development</li> <li>• Enthusiasm towards public welfare</li> </ul>   | <ul style="list-style-type: none"> <li>• Charitable activities</li> <li>• Community services</li> <li>• Environmental protection activities</li> </ul>  |

# Environmental, Social and Governance Report

## Assessment of Material Issues

After collecting opinions from internal and external stakeholders, the ESG issues were prioritised according to two perspectives, namely their impact on the business operation as well as their impact on the stakeholders' rights and interests, so as to reflect their influence on the environment and society, and better respond to the expectations and demands of the stakeholders. Our material ESG issues have been identified and prioritised as below:

Matrix for material issues



### Highly Material

- Employee care
- Remuneration and benefits
- Occupational health and safety
- Product and service quality

### Material

- Waste management
- Environmental compliance
- Diversity and equal opportunities
- Anti-discrimination
- Staff development and training
- Prohibition of child and forced labour
- Responsible supply chain management
- Customer health and safety
- Marketing and Labelling
- Customer privacy and corporate information protection
- Intellectual property
- Business ethics
- Socio-economic compliance

### Relevant

- Air emission management
- Greenhouse gas emission
- Climate change
- Water efficiency
- Energy efficiency
- Material consumption
- Environmental impact mitigation
- Community investment

## MARKET

Without the high standard which we set for ourselves, we cannot become the largest CNC<sup>1</sup> machine tools manufacturer in the PRC. Since the Company was founded, we have adhered to the business philosophy of sincerity and integrity. Therefore, in order to grow better and faster, we not only select our partners strictly and demand for high quality but also do our best to serve our customers with enthusiasm.

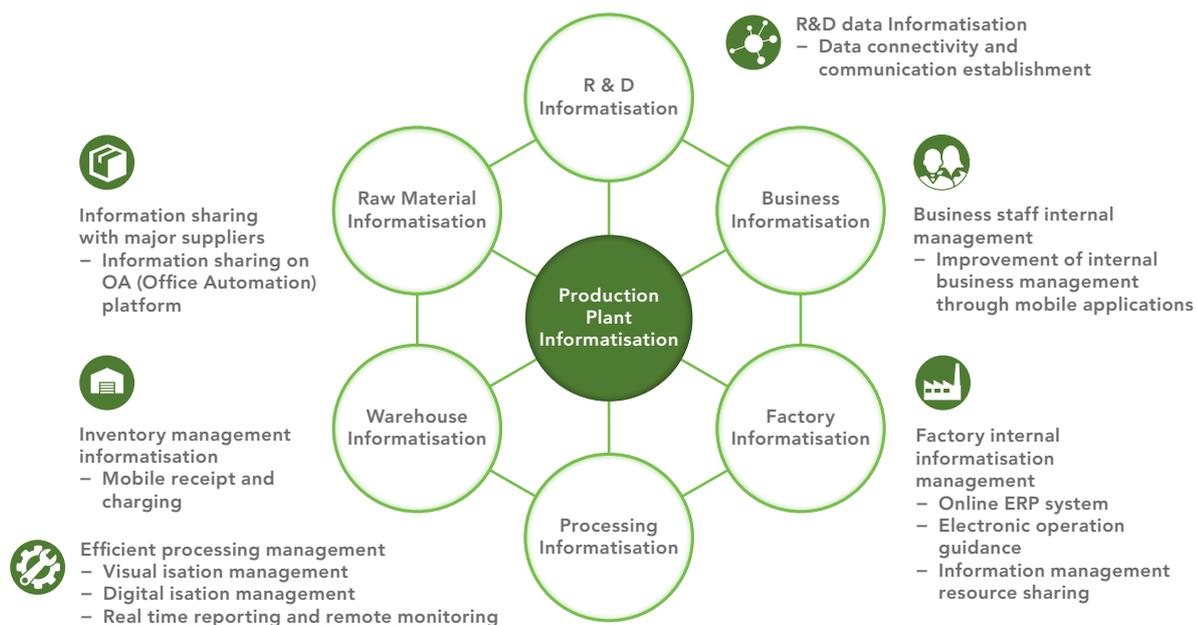
In FY2019, we did not find any products, which were returned to us due to safety or health problems.

# Environmental, Social and Governance Report

## Quality assurance

The Group is specialised in manufacturing CNC machine tools, car parking garage structure and forklift trucks. We always insist that all products must pass strict quality control system to free our customers from worries. As for product quality, we have obtained the ISO 9001 Quality Management System and implemented a product safety management system covering material supply, production, packaging and delivery. Every year, we conduct self-inspection in the quality management in accordance with the established material supply inspection management, process inspection management, finished product inspection management, and defective product control management procedures, and organise the internal quality review.

Industry 4.0<sup>2</sup> enables us to obtain precise, traceable and high-quality data for each type of product. In order to improve the quality of products, we are integrating digitalisation, visualisation and information networks into our production plants. We have successfully applied six categories of informatisation to the daily operation of the machine tool division based on customers' demands, covering the whole process of CNC machine tool research and development ("R & D"), design, manufacturing, inspection, delivery and after-sales service, in order to enhance the product quality and to promote the development of CNC machine tools.



<sup>1</sup> It refers to computer numerical control, which is commonly called CNC.

<sup>2</sup> The term "Industry 4.0", also known as the Fourth Industrial Revolution, was originated and coined by a group of scientists business/industry executives that proposed to the German government on how to develop its high-tech strategy in order to maintain the global manufacturing share and its leading industrial country status.

## Environmental, Social and Governance Report

In addition, we also contribute to improving the quality control of the mechanics, manufacturing and machine tools industry. In order to improve the quality and technical requirements of the industry in the PRC, we have been actively participating in the drafting of the *Standard for Mechanical Parking Equipment Design* ("機械式停車設備設計規範"), which has been led by National Technical Committee on Cranes Standardisation SAC/TC227 since FY2018.

Technology is important for quality improvement. We are committed to technological innovation and continuously improve the technical content of our products to enhance the quality of our products. Now we have owned over 30 valid patents, including 15 software copyrights. We also formulate the *Patent Management System* ("專利管理制度") to regulate the patent development and protection processes.

### Customer Service

Quality is an essential factor for sustainable development of an enterprise while the customers are the driving force for its development. With a solid and stable customer base, we can actively promote various activities to enable the enterprise to flourish.

We strive to provide high-quality services for customers. In order to timely submit customers' orders and boost customer satisfaction, we implement lean management internally and set up a cross-sectoral subdivision and special investigation team. By summarising and classifying business management data, we easily locate the occurrence points and detection points of problems and promptly solve the problems in the daily operation process. In addition, we regularly conducted satisfaction surveys on product quality and after-sales service. In FY2019, no customer complaints occurred, our average customer satisfaction rate was 97% (FY2018: 98%).

In addition, we set access control on customer files to secure customers' privacy to the best.

### Supplier Management

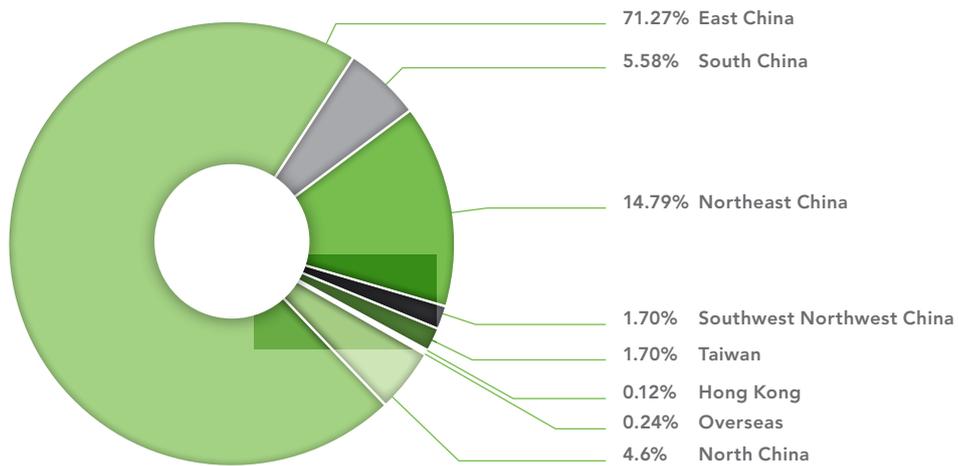
The high-quality environmental-friendly products we provide to customers depends on our excellent supplier management. We impose strict requirements on suppliers. We carry out strict and fair supplier access procedures and evaluation mechanism through formulation of the *Supplier Management Procedures* ("供應商管理程序"), the *Supplier Management Process Flow Chart* ("供應商管理作業流程圖") and *Supplier Monthly Assessment Form* ("供應商月度評核表") and other related policies and procedures. When selecting a new supplier, we will conduct a series of evaluation procedures based on these systems, including the on-site inspection, sampling, quality assurance, etc.

At the same time, we continue enhancing our management on the environmental and social risks of suppliers, requiring suppliers to comply with relevant environmental protection requirements and supervising our suppliers to obtain accreditation under the ISO 14000 Environmental Management System. When evaluating suppliers, we take into consideration their environmental and social impacts and select the suppliers with excellent quality and strong environmental awareness.

# Environmental, Social and Governance Report

We give priority to local suppliers in order to promote the local economic development. In FY2019, we cooperated with 824 suppliers<sup>3</sup> (FY2018: 769), which are mainly from Jiangsu, Zhejiang and Shanghai. The geographical distribution<sup>4</sup> is as follows.

FY2019 Suppliers by geographical locations



For qualified suppliers, we conduct monthly and annual review and disqualify suppliers who do not pass the review. For excellent suppliers, we present the “**Excellent Supplier Award**” to them at the end of the year.

## Business Ethics

In order to build a positive and healthy operating environment and ensure sound development of the Group, we establish the *Anti-Corruption Management Methods* (“反貪污受賄管理法”) internally and strictly comply with the laws and regulations. For suppliers, when signing the contract, we require them to sign the *Letter of Commitment of Manufacturer* (“廠商承諾書”) to ensure the transparency of the whole transaction process. In addition, we provide various anonymous channels for reporting immoral matters.

We strictly comply with the related laws and regulations, including but not limited to the Criminal Law of the PRC. In FY2019, we have not been involved in any lawsuits relating to corruption, bribery, blackmail, fraud, or money laundering.

<sup>3</sup> The figure refers to the suppliers with amount incurred in FY2019.

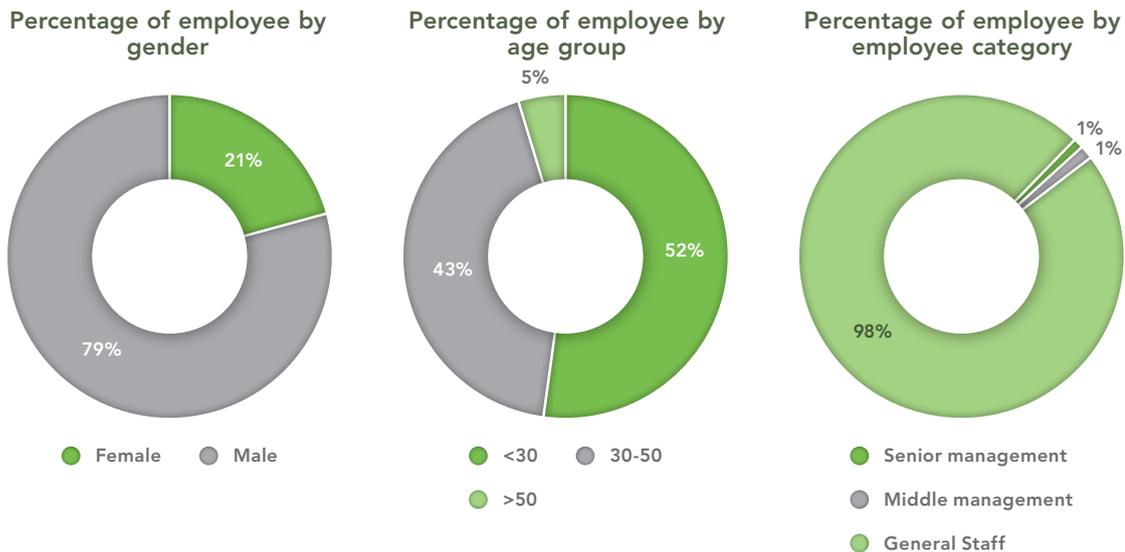
<sup>4</sup> Due to rounding, the sum may not be 100%.

## EMPLOYEE

The Group strictly abides by the international conventions on human rights and labour, as well as the labour and employment regulations and policies of the place where the premises are located. Up to now, it has identified a total of 40 applicable laws, rules and standards, and established relevant systems, including but not limited to *Labour Contract Management* (“勞動合同管理”), *Employment Management* (“員工聘用管理”), *Occupational Physical Examination* (“職業健康體檢”), *Work-related Accident Handling* (“工傷事故處理”), *Dismissal Management* (“離職管理”).

We are committed to creating an innovative, win-win and fair working environment for our employees. While ensuring employees’ safety and health in the workplace, we focus on taking care of our employees and organise diverse activities to promote employees’ physical and mental health. In order to realise the common development of enterprise and individuals, we improve the system of talent cultivation, set channels for internal communication, and provide a good career development platform for our employees.

In FY2019, the total number of employees<sup>5</sup> reached 1,075 (FY2018: 1,147), among which 194 (FY2018: 216) were female and they accounted for 21% (FY2018: 19%) of the total employees. The overall employee turnover ratio was 22% (FY2018: 22%). The breakdown of the percentage of the workforce by gender, age group and employee category is illustrated as below.



<sup>5</sup> It refers to the number of employees as at 31 December 2019.

# Environmental, Social and Governance Report

## Employment and Labour Standards

### *Labour standards*

The Group persists in the equal and fair employment and prohibits any form of discrimination in employment. We ensure our employees will not suffer from discrimination due to race, nationality, colour, religion, physical disability, gender, sexual orientation, club members or marital status.

The Group protects the rights of career development of our female employees. We stipulate that female and male employees are equally entitled to promotion and professional training on technology and management skills. We require a certain proportion of female employees participating in various training and development opportunities, such as further education, on-the-job training and overseas exchange.

We strictly comply with the International Labour Conventions, local laws and regulations relating to labour standards, including but not limited to Provisions on the Prohibition of Using Child Labour and Law of the PRC on the Protection of Minors.

We strictly prohibited child labour and any form of coercion, harassment, physical punishment, psychological oppression or language assault. We respect employees' rights of association.

We did not involve in any child labour, forced labour and discrimination cases in FY2019.

### *Salary and welfare*

We comply with the Labour Contract Law of the PRC. In the PRC, according to the national social security policies, we timely pay social insurances including endowment insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, as well as housing fund for employees in full. We also buy commercial insurances for our employees to improve their abilities to overcome unexpected difficulties.

We established *Staff Management Policy* ("員工管理規則"), which states explicitly that remuneration, insurance and welfare policies should be timely adjusted based on employees' capability, performance and achievement. For example, we awarded a bonus to staff of CNC machine tools division with no or low absenteeism as well as supervisors with excellent performance on duty.

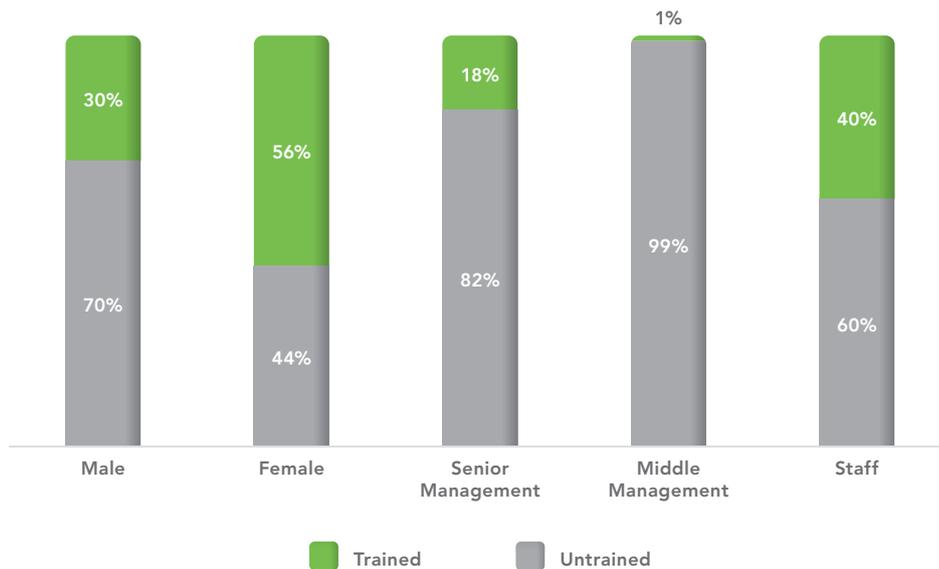
# Environmental, Social and Governance Report

## Training and Development

The development of the enterprise is closely connected with the growth of the employees. The development of the technical skills and abilities of the employees represents the future of the enterprise. The key to our success is to ensure that each employee is equipped with the corresponding skills for their positions. We encourage our employees to continuously improve and develop themselves, and provide all employees with various of training and skills related competitions so that employees can learn from each other, identify areas of improvements and upgrade themselves.

In FY2019, the average training hours of each employee were 29 hours (FY2018: 22 hours).

Percentage of trained employees by gender and category



In addition, we cooperated with the Hangzhou Vocational and Technical College to establish the Fair Friend Institute of Electromechanical, which has been the cradle for nurturing our talents. Fair Friend Institute of Electromechanical is a key training base for advanced manufacturing talents in Zhejiang Province. It has advanced equipment of RMB130 million with around 20 professors and associate professors as well as 50 full-time and part-time doctoral and master students. It provides employees with a platform for development and training.

# Environmental, Social and Governance Report

## Safety and Health

Occupational safety and health of the employees is the foundation of the sustainable development of the Group. Although there is no significant occupational safety and health threat in our production and operation processes, we always focus on preventing accidents from happening to protect occupational safety and health for our employees. In strict compliance with the Labour Law of the PRC, the Law of the PRC on Prevention and Control of Occupational Disease and other local laws and regulations on prevention and treatment of occupational diseases, we also continuously perfect the health management of employees and formulate the *Occupational Safety and Health Education System* ("職業安全健康教育制度").

We have obtained accreditation under the ISO 45001 Occupational Health and Safety Management System. We constantly enhance the level of occupational health and safety management, forming a comprehensive mechanism of self-monitoring, self-discovery and self-improvement. Every year, we carry out a complete and comprehensive review on the surrounding environment of production plants to ensure the safety of our employee in the workplace. In FY2019, we did not aware of any work-related fatalities or significant accidents.

Dust and noise are the main factors that cause occupational health problems. To protect our employees' health, we have taken the actions below:

- **Decontamination of dust**

During the production of car parking garage structures, the dust produced by welding threatens the health of the employees. Therefore, we installed 8 dust purifiers which inhale smoke, dust and exhaust gas through the suction of the fan. Meanwhile, the flame arrester at the inlet prevents the entry of the spark generated by welding, filters the smoke etc. The purified gas is draught through the outlet. In this way, it not only ensures the safety of the employees but also protects the natural environment.

- **Noise management**

Nosie from machineries may cause damage to hearing of our employees. To prevent our employees from hearing loss, our Processing Department invested RMB150,000 to build a workshop with vibratory stress relief (VSR) technology, which can reduce the noise level to 98 dB in the workshop and the noise level to 78 dB outside the workshop. We also prohibit our employees from entering the workshop until the vibration process is completed. In such case, the possibility of employees' physical injuries in workplace is reduced.

- **Disease prevention**

We provide regular physical examination for employees to prevent the occurrence of diseases. Our staff canteens provide a high-quality balanced diet for our employees.

# Environmental, Social and Governance Report

## Care for Employees

We often organise a wide variety of recreational activities to help employees relieve the pressure of work so that they can maintain a work-life balance. For example, we organise “**Walk with joy and perseverance**” (“歡樂出發毅路同行”) every year to enhance employees’ awareness of nature conservation and to relieve their work stress. We have successfully organised activities for our employees’ families for many years to strengthen their family bonding. We regularly organise sports events where our employees can collaborate and work as a team to help promoting a feeling of company solidarity.

In FY2019, we established a running group on a mobile application platform, namely “**Joyrun**” (“悦跑圈”) to promote physical fitness among our employees.

In addition, we help employees in difficulty to ease their financial pressures. For instance, we provide a housing subsidy of RMB500 per month for employees with housing difficulties, which is intended to relieve the pressure of high rent. We also encourage employees to help each other. If any employees are under financial pressure due to specific circumstance, we will take the initiative to raise funds and provide financial assistance for them to tide over the difficulties.

## ENVIRONMENT

The Group focuses on the sustainable development management and improving the utilisation rate of resources. We strive to mitigate the impacts on environment in every aspect of our operational processes. We have received ISO14001 Environmental Management System certification for our production plants. We also organised annual internal and external review to ensure that the environmental management system is manageable and effective in the long run.

The Group has continuously optimised the environmental and energy management system, and formulated the *Environmental Quality Manual* (“品質環境手冊”), *Hazardous Material Specification* (“危害物說明書”), *Operation Instructions* (“作業指導書”) and *Air Pollution Control and Management System* (“空氣污染管制管理”), in order to enhance the standard and systematic management of the environmental protection, energy conservation and emission reduction.

The Group strictly complies with the national and local laws and regulations relating to environmental protection and pollution control, including but not limited to the followings:

- the Environmental Protection Law of the PRC
- the Water Pollution Prevention and Control Law of the PRC
- the Law of the PRC on the Prevention and Control of Atmospheric Pollution
- the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste
- the Law of the PRC on Prevention and Control of Pollution from Environmental Noise

In FY2019, there were no environmental pollution accidents, illegal events or complaints from the surrounding residents.

# Environmental, Social and Governance Report

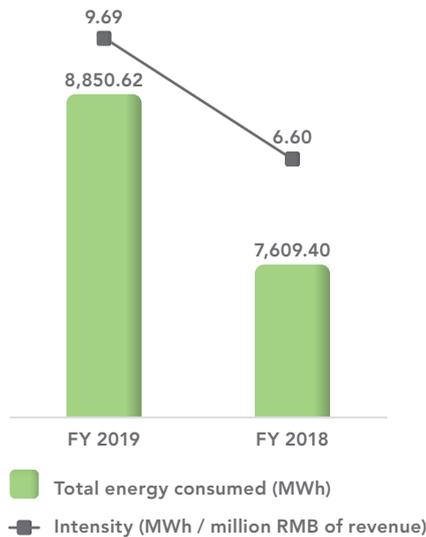
## Resources Management

We consume electricity, gasoline, diesel, natural gas, steel and packaging materials in our operations, and we take various actions to reduce our resource consumption.

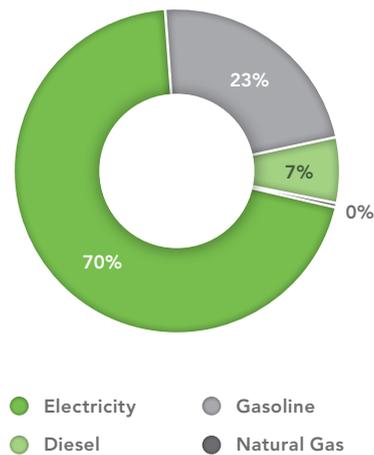
### Low-carbon production

The main source of energy consumption in our operation are electricity, gasoline, diesel and natural gas. In FY2019, we consumed 8,850.62 MWh (FY2018: 7,609.40 MWh) of energy in total and the purchased electricity accounted for 70% (FY2018: 71%) of the total energy consumption. Compared to FY2018, the total energy consumption increased by 16% as there was an increase in gasoline consumption.

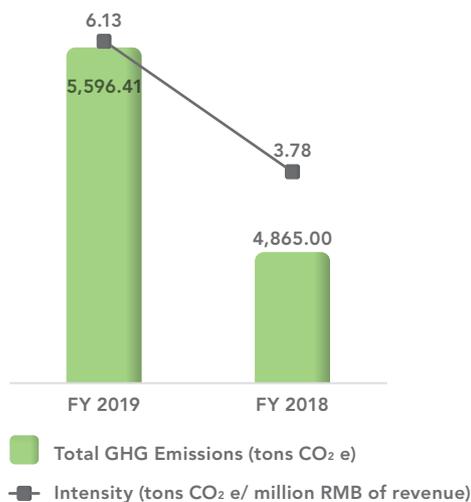
**Total Energy Consumption and its Intensity**



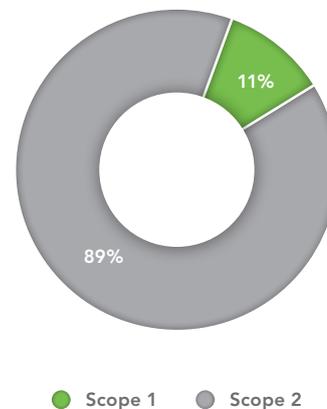
**FY2019 Energy Consumption by Category**



**Total GHG Emissions and its Intensity**



**FY2019 GHG Emissions by Scope**



# Environmental, Social and Governance Report

In FY2019, we have 594.53 tons carbon dioxide equivalent (CO<sub>2</sub> e) (FY2018: 567.70 tons CO<sub>2</sub> e) of direct greenhouse gas (GHG) emissions (Scope 1) and 5,001.88 tons CO<sub>2</sub> e (FY2018: 3,816.71 tons CO<sub>2</sub> e) of indirect GHG emissions (Scope 2). Compared with FY2018, the total GHG emissions increased by 15%, which is aligned with the increase in the total energy consumption.

In order to reduce GHG emissions, we have taken a number of measures. In FY2019, we replaced the power-consuming lamps with energy-saving light-emitting diodes (LEDs) and all streetlights within our production plants' area were equipped with intelligent sensing lighting control module, which has effectively reduced the use of electricity. Meanwhile, we carry out measures of transformer outage every year to reduce energy consumption.

Regarding the production of car parking garage structures, we use equipment complying with the energy efficiency standards in Europe. Although cost of the equipment is higher, we uphold the concept of environmental friendliness and implement environmental protection measures at all costs.

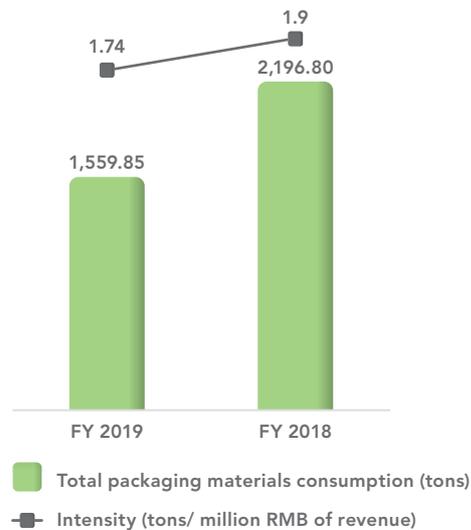
## Raw materials and packaging materials

Production of car parking garage structures requires substantial amount of steel. To avoid unnecessary steel wastes from cutting and assembly of steel structures by ourselves, we have engaged suppliers who customise the steel for us.

Wood is the major type of packaging material consumption. Our CNC machine tools are usually packed with wooden boxes when delivering to our customers. To reduce our packaging material consumption, we have signed an agreement with packaging material suppliers for recycling of packaging materials in order to reduce the consumption and mitigate the impact on the environment.

In FY2019, we consumed 1,563.97 tons of packaging materials, of which 1,559.85 tons are wood.

Packaging Material Consumption and its Intensity



# Environmental, Social and Governance Report

## Air Emission Management

The main types of air pollutants produced from our operation include volatile organic compounds (“VOCs”), nitrogen oxides (“NOx”), sulphur oxides (“SOx”) and particulate matters (“PM”). VOCs from our production process contributed the most to our total air pollutant emission amount. The emission amount of inorganic air pollutants (i.e. NOx, SOx and PM) generated from our mobile vehicles, are regarded as insignificant. In order to improve the working environment and reduce the impact on the surrounding environment, we have established the waste gas treatment project with the support of leaders of the Group according to the requirement of the environmental protection project. The waste gas after treatment has met the emission standard stipulated in the Integrated Emission Standard of Air Pollutants (GB16297-1996).

Dust produced in the production process has a significant impact on employees’ health. It will not only do harm to the surrounding environment but also the whole atmosphere if the emissions are not treated. Smoke recycling equipment was installed, and all the dust gas emissions should be processed before being released into the air again. In FY2019, we also retrofitted the paint spraying facilities to mitigate the impacts of VOCs emissions on both the environment and our employees. These measures will greatly reduce the production activities’ impacts on the surrounding environment.

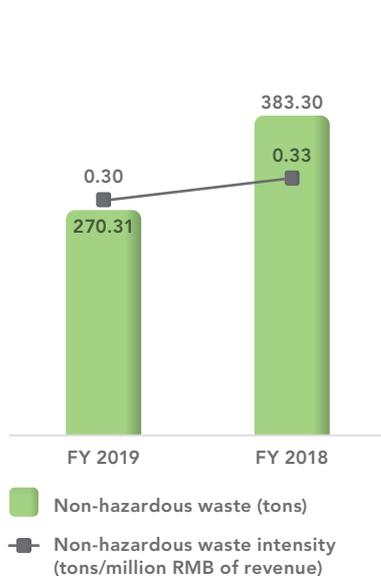
## Waste Management

### Solid wastes

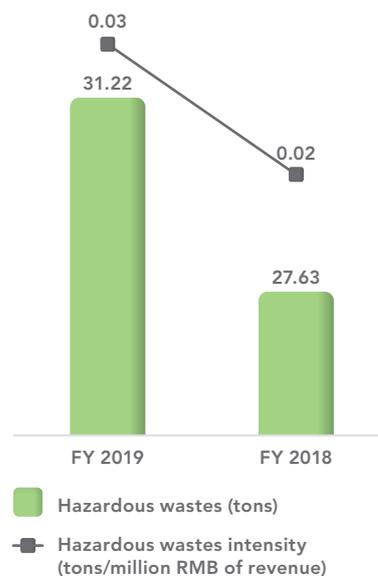
The wastes generated in our production are mainly divided into hazardous wastes and non-hazardous wastes. Non-hazardous wastes mainly include living garbage, scrap iron, grinding wheel and office consumables.

Hazardous wastes mainly include grinding mud, activated charcoal contaminated with paint, paint bucket, waste oil etc.

**Total non-hazardous waste produced and its intensity**



**Total hazardous waste produced and its intensity**



# Environmental, Social and Governance Report

We implemented the *Regulations of Waste Discharge of Management* (“廢棄物排放管理規定”) in the process of production and operation.

We classified wastes according to the National Catalogue of Hazardous Waste and made corresponding disposal guidelines according to different levels. Hazardous wastes such as waste oil will be disposed of by qualified and professional third parties appointed by the Group.

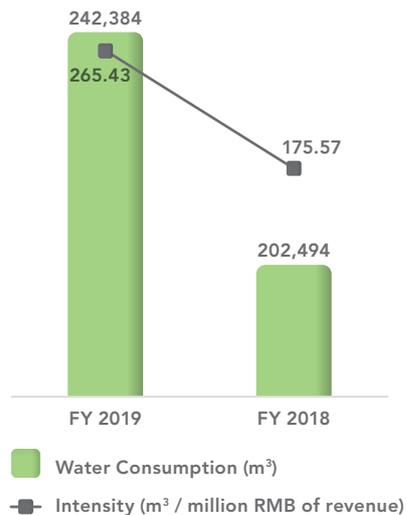
A great deal of heat is generated in the production and cannot be released from the machine, and we use cutting fluid (coolant) for cooling. During the cooling process, the cutting fluid will be mixed with waste oil from the production process and other impurities. We introduced the cutting fluid recovery unit to treat and recycle cutting fluid.

## Water Resource Management

Our water is sourced from the urban water supply system. In FY2019, we consumed 242,384 m<sup>3</sup> (FY2018: 202,494 m<sup>3</sup>) of water.

During the production process, we produce small amounts of industrial and domestic wastewater. The domestic wastewater is mainly discharged from office toilets and kitchens. There was no discharge of poisonous, hazardous and special substance. Industrial wastewater is directly discharged through the municipal sewage pipe network and handled by the municipal government’s sewage treatment plant before the discharge.

Total water consumed and its intensity



## COMMUNITY

We adhere to the concept of **"What comes from the people should be used for the people"** ("取之於民，用之於民"). When running the business, we plough back part of our profits into the society. This concept is deeply rooted in the hearts of every staff in the Group. In addition, in the vicinity of the production plants, there are many residential areas. We always pay attention to our production activities to minimise nuisance to our neighbours.

### Noise Management

Noise is mainly produced by power equipment such as the air compressors, planer type milling machines, horizontal boring machines and cranes. We have installed noise shields and sound-absorbing walls surrounding the equipment to control the noise and reduce the impact on the surrounding residential areas.

### Boost of Economic Growth

Through the cooperation with Hangzhou Vocational and Technical College, we have jointly established Fair Friend Institute of Electromechanical, which not only supplies us with talents who are proficient in both theories and practical operation but also consistently supplies the local community with elites in the field of electromechanics and provides employment opportunities for local students. In 1993, Hangzhou Good Friend Precision Machinery Co., Ltd. was established in Xiaoshan district. It has provided a lot of job opportunities to the local economy, promoted the local economic development, and been honoured as one of the top 10 enterprises for boosting local economic development. Our high-quality CNC machine tools, forklifts and parking garage structures also provide strong support for the upgrade of local industry and enterprise transformation.

### Community Dedication

We actively participate in various community activities and charitable donations. In FY2019, we participated in the voluntary blood donation activity. At our advocacy, a total of 20,000 millilitres of blood were donated, involving 50 employees. In order to help the poor and the disadvantaged, we donated RMB7,000 in the "Spring Wind" ("春風行動") activity organised by the Hangzhou municipal government.

### Education Development

We show great concern and support for the development of education. In FY2019, we co-organised the 13th Vocational and Technical Exhibition with Hangzhou Xiaoshan Technician College ("杭州蕭山技師學院") and sponsored RMB100,000.

# Environmental, Social and Governance Report

## ESG DATA OVERVIEW

| Environmental KPIs                         | Unit                        | FY2019            | FY2018     |
|--|-----------------------------|-------------------|------------|
| <b>Air Emissions</b> <sup>Note 1</sup>     |                             | <b>4,384.41</b>   | 4,315.87   |
| NO <sub>x</sub> <sup>Note 2</sup>          | tons                        | <b>0.08</b>       | 0.15       |
| SO <sub>x</sub> <sup>Note 2</sup>          | tons                        | <b>0.02</b>       | 0.02       |
| PM <sup>Note 2</sup>                       | tons                        | <b>0.01</b>       | 0.01       |
| VOCs                                       | tons                        | <b>25.02</b>      | 14.51      |
| Total                                      | tons                        | <b>25.13</b>      | 14.72      |
| <b>GHG Emissions</b> <sup>Note 3</sup>     |                             |                   |            |
| Scope 1 <sup>Note 2</sup>                  | tons CO <sub>2</sub> e      | <b>594.53</b>     | 499.79     |
| Scope 2 <sup>Note 2</sup>                  | tons CO <sub>2</sub> e      | <b>5,001.88</b>   | 4,365.21   |
| Total <sup>Note 2</sup>                    | tons CO <sub>2</sub> e      | <b>5,596.41</b>   | 4,865.00   |
| Intensity <sup>Note 4</sup>                | tons/million RMB            | <b>6.13</b>       | 3.78       |
| <b>Hazardous wastes</b>                    |                             |                   |            |
| Grinding mud                               | tons                        | <b>21.25</b>      | 23.75      |
| Activated charcoal contaminated with paint | tons                        | <b>2.50</b>       | 2.00       |
| The paint bucket                           | tons                        | <b>2.64</b>       | 1.26       |
| Waste oil                                  | tons                        | <b>4.83</b>       | 0.62       |
| Total hazardous wastes produced            | tons                        | <b>31.22</b>      | 27.63      |
| Intensity <sup>Note 4</sup>                | tons/million RMB            | <b>0.03</b>       | 0.02       |
| <b>Non-hazardous wastes</b>                |                             |                   |            |
| Scrap iron                                 | tons                        | <b>70.65</b>      | 208.67     |
| Living garbage                             | tons                        | <b>166.24</b>     | 173.00     |
| Grinding wheel                             | tons                        | <b>1.43</b>       | 0.52       |
| Office consumables                         | tons                        | <b>0.38</b>       | 1.11       |
| Other industrial garbage                   | tons                        | <b>32.11</b>      | 0.00       |
| Total non-hazardous wastes produced        | tons                        | <b>270.81</b>     | 383.30     |
| Intensity <sup>Note 4</sup>                | tons/million RMB            | <b>0.30</b>       | 0.33       |
| <b>Water consumption</b>                   |                             |                   |            |
| Total                                      | m <sup>3</sup>              | <b>242,384.00</b> | 202,494.00 |
| Intensity <sup>Note 4</sup>                | m <sup>3</sup> /million RMB | <b>265.43</b>     | 175.57     |
| <b>Energy consumption</b>                  |                             |                   |            |
| Electricity                                | MWh                         | <b>6,216.61</b>   | 5,425.32   |
| Gasoline                                   | MWh                         | <b>2,018.20</b>   | 1,610.64   |
| Diesel                                     | MWh                         | <b>577.98</b>     | 573.44     |
| Natural gas                                | MWh                         | <b>37.83</b>      | –          |
| Total                                      | MWh                         | <b>8,850.62</b>   | 7,609.40   |
| Intensity <sup>Note 4</sup>                | MWh/million RMB             | <b>9.69</b>       | 6.60       |

# Environmental, Social and Governance Report

| Environmental KPIs                    | Unit             | FY2019          | FY2018   |
|---------------------------------------|------------------|-----------------|----------|
| <b>Packaging material consumption</b> |                  |                 |          |
| Wood                                  | tons             | <b>1,559.85</b> | 2,066.30 |
| Other materials                       | tons             | <b>31.14</b>    | 130.50   |
| Total                                 | tons             | <b>1,590.99</b> | 2,196.80 |
| Intensity <sup>Note 4</sup>           | tons/million RMB | <b>1.74</b>     | 1.90     |

Note 1: Reference is made to Road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial) issued by the Ministry of Ecology and Environment of the PRC regarding the calculation of NO<sub>x</sub>, SO<sub>x</sub> and PM. The air pollutants emissions incurred by forklift trucks were not included due to the distance travel data were not available.

Note 2: Figure in FY2018 is restated for consistent comparison.

Note 3: Reference is made to the GHG Protocol Tool for Energy Consumption in China (Version 2.1) published by World Resources Institute and 2017 Regional Emission Reduction Project China Regional Grid Baseline Emission Factors issued by the Climate Change Department of the Ministry of Ecology and Environment of the PRC regarding the calculation of the GHG emissions.

Note 4: Intensity is calculated as the total divided by revenue (in million RMB) the corresponding years.

| Social KPIs                            | Unit | FY2019       | FY2018 |
|--|------|--------------|--------|
| <b>Workforce</b>                       |      |              |        |
| Total <sup>Note 5</sup>                | /    | <b>1,075</b> | 1,147  |
| By gender                              |      |              |        |
| Female                                 | /    | <b>194</b>   | 216    |
| Male                                   | /    | <b>881</b>   | 931    |
| By age group                           |      |              |        |
| Under 30                               | /    | <b>305</b>   | 363    |
| From 30 to 50                          | /    | <b>696</b>   | 717    |
| Over 50                                | /    | <b>74</b>    | 67     |
| By employee category                   |      |              |        |
| Senior management                      | /    | <b>6</b>     | 7      |
| Middle management                      | /    | <b>134</b>   | 160    |
| General Staff                          | /    | <b>935</b>   | 980    |
| Employee turnover <sup>Note 6</sup>    | %    | <b>22</b>    | 22     |
| <b>Safety</b>                          |      |              |        |
| Number of work-related fatalities      | /    | <b>0</b>     | 0      |
| Rate of work-related fatalities        | /    | <b>0</b>     | 0      |
| Number of lost days due to work injury | /    | <b>527</b>   | 450    |

## Environmental, Social and Governance Report

| Social KPIs   | Unit           | FY2019    | FY2018 |
|---|----------------|-----------|--------|
| <b>Development and Training</b>                                 |                |           |        |
| Percentage of employees trained <sup>Note 7</sup>               |                |           |        |
| Overall   | %              | <b>65</b> | 86     |
| By gender   |                |           |        |
| Female  | %              | <b>44</b> | 64     |
| Male  | %              | <b>70</b> | 91     |
| By employee category  |                |           |        |
| Senior management   | %              | <b>82</b> | 71     |
| Middle management   | %              | <b>99</b> | 98     |
| General Staff   | %              | <b>60</b> | 84     |
| Average training hours completed per employee <sup>Note 8</sup> |                |           |        |
| Overall   | hours/employee | <b>29</b> | 22     |
| By gender   |                |           |        |
| Female  | hours/employee | <b>26</b> | 13     |
| Male  | hours/employee | <b>30</b> | 24     |
| By employee category  |                |           |        |
| Senior management   | hours/employee | <b>18</b> | 3      |
| Middle management   | hours/employee | <b>32</b> | 21     |
| General Staff   | hours/employee | <b>29</b> | 22     |

Note 5: Social KPIs only cover the four entities: Hangzhou Good Friend Precision Machinery Precision Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. Therefore, variances may exist compared to figures presented in other sections of our Annual Report 2019.

Note 6: Employee turnover rate is calculated as the total number of employees who left employment divided by the sum of the total number of employees who left employment and the total number of employees as at 31 December 2019.

Note 7: Percentage of employees trained is calculated as the total number of employees trained divided by the total number of employees.

Note 8: Average training hours completed per employee is calculated as the total number of training hours divided by the total number of employees.

# Environmental, Social and Governance Report

## APPENDIX I – INDEX OF ESG GUIDE

| Aspect                      | Description  | Sections/Remarks   |
|-----------------------------|--|--|
| <b>A. Environmental</b>     |  |  |
| <b>Aspect A1: Emissions</b> |  |  |
| General disclosure          | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste | Resource management;<br>Air emission management;<br>Waste management;<br>Water resource management |
| A1.1                        | The types of emissions and respective emissions data   | Air emission management  |
| A1.2                        | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)   | Resource management  |
| A1.3                        | Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)   | Waste management   |
| A1.4                        | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)  | Waste management   |
| A1.5                        | Description of measures to mitigate emissions and results achieved   | Resource management;<br>Air emission management;<br>Waste management;<br>Water resource management |
| A1.6                        | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved  | Waste management   |

## Environmental, Social and Governance Report

| Aspect  | Description   | Sections/Remarks   |
|---|---|--|
| <b>Aspect A2: Use of resources</b>                      |   |  |
| General disclosure                                      | Policies on the efficient use of resources, including energy, water and other raw materials   | Resource management;<br>Waste management;<br>Water resource management                             |
| A2.1  | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility) | Resource management  |
| A2.2  | Water consumption in total and intensity (e.g. per unit of production volume, per facility)   | Water resource management  |
| A2.3  | Description of energy use efficiency initiatives and results achieved   | Resource management  |
| A2.4  | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved                                    | Resource management  |
| A2.5  | Total packing material used for finished products (in tonnes) and, if applicable, with reference to per unit produced   | Resource management  |
| <b>Aspect A3: The environment and natural resources</b> |   |  |
| General disclosure                                      | Policies on minimizing the issuer's significant impact on the environment and natural resources   | Resource management;<br>Air emission management;<br>Waste management;<br>Water resource management |
| A3.1  | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them  | Resource management;<br>Air emission management;<br>Waste management;<br>Water resource management |

# Environmental, Social and Governance Report

| Aspect                                     | Description   | Sections/Remarks   |
|--|---|--|
| <b>B. Social</b>                           |   |  |
| <b>Aspect B1: Employment</b>               |   |  |
| General Disclosure                         | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare | Employee   |
| B1.1                                       | Total workforce by gender, employment type, age group and geographical region   | ESG data overview  |
| B1.2                                       | Employee turnover rate by gender, age group and geographical region   | ESG data overview<br>(Remark: Only total employee turnover rate is disclosed.) |
| <b>Aspect B2: Health and safety</b>        |   |  |
| General disclosure                         | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards  | Safety and health  |
| B2.1                                       | Number and rate of work-related fatalities  | ESG data overview  |
| B2.2                                       | Lost days due to work injury  | ESG data overview  |
| B2.3                                       | Description of occupational health and safety measures adopted, how they are implemented and monitored  | Safety and health  |
| <b>Aspect B3: Development and training</b> |   |  |
| General Disclosure                         | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities  | Training and development   |
| B3.1                                       | The percentage of employees trained by gender and employee category (e.g. senior management, middle management)   | ESG data overview  |
| B3.2                                       | The average training hours completed per employee by gender and employee category   | ESG data overview  |

## Environmental, Social and Governance Report

| Aspect                                    | Description  | Sections/Remarks      |
|---|--|-----------------------|
| <b>Aspect B4: Labour standards</b>        |  |                       |
| General disclosure                        | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour standards  | Employment and labour |
| B4.1                                      | Description of measures to review employment practices to avoid child and forced labour standards  | Employment and labour |
| B4.2                                      | Description of steps taken to eliminate such practices when discovered standards   | Employment and labour |
| <b>Aspect B5: Supply chain management</b> |  |                       |
| General Disclosure                        | Policies on managing environmental and social risks of the supply chain  | Supplier management   |
| B5.1                                      | Number of suppliers by geographical region   | Supplier management   |
| B5.2                                      | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored   | Supplier management   |
| <b>Aspect B6: Product responsibility</b>  |  |                       |
| General disclosure                        | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress | Market                |
| B6.1                                      | Percentage of total products sold or shipped subject to recalls for safety and health reasons  | Quality assurance     |
| B6.2                                      | Number of products and service related complaints received and how they are dealt with   | Customer service      |
| B6.3                                      | Description of practices relating to observing and protecting intellectual property rights   | Quality assurance     |
| B6.4                                      | Description of quality assurance process and recall procedures   | Quality assurance     |
| B6.5                                      | Description of consumer data protection and privacy policies, how they are implemented and monitored   | Customer service      |

## Environmental, Social and Governance Report

| Aspect                                 | Description   | Sections/Remarks   |
|--|---|--|
| <b>Aspect B7: Anti-corruption</b>      |   |  |
| General disclosure                     | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | Business ethics  |
| B7.1                                   | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases                               | Business ethics  |
| B7.2                                   | Description of preventive measures and whistleblowing procedures, how they are implemented and monitored  | Business ethics  |
| <b>Aspect B8: Community Investment</b> |   |  |
| General Disclosure                     | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests           | Community  |
| B8.1                                   | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)  | Boost of economic growth;<br>Community dedication; Education development |
| B8.2                                   | Resources contributed (e.g. money or time) to the focus area  | Boost of economic growth;<br>Community dedication; Education development |

# Independent Auditor's Report



**To the Shareholders of Good Friend International Holdings Inc.**  
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries ("Group") set out on pages 71 to 167, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Impairment assessment of trade receivables and contract assets
2. Impairment assessment of inventories

# Independent Auditor's Report

**To the Shareholders of Good Friend International Holdings Inc.**  
(Incorporated in the Cayman Islands with limited liability) (Continued)

## KEY AUDIT MATTERS (Continued)

| Key Audit Matter  | How our audit addressed the Key Audit Matter  |
|---|---|
| <p><b>1. Impairment assessment of trade receivables and contract assets</b></p> <p>Refer to note 21A, 21B and 38(d) to the consolidated financial statements.</p> <p>As at 31 December 2019, the carrying amount (net of impairment) of trade receivables and contract assets amounted to approximately RMB230,255,000.</p> <p>The impairment assessment of trade receivables and contract assets involves judgement and management estimates in evaluating the expected credit loss ("ECL") of the Group's trade receivables and contract assets at the end of the reporting period.</p> <p>The management of the Group estimates the amount of lifetime ECL of trade receivables and contract assets based on provision matrix with appropriate groupings. For collective assessment, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. In addition, trade receivables and contract assets are assessed individually for debtors with significant balances or credit impaired. ECL is estimated based on historical credit loss experience based on the past default experience of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The loss allowance amount of the credit impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.</p> <p>The Group reversed impairment of trade receivables and contract assets totally RMB3,009,000 during the year ended 31 December 2019. The Group's lifetime ECL on trade receivables and contract assets as at 31 December 2019 amounted to RMB39,815,000.</p> | <p>Our procedures in relation to the loss allowance for ECL on trade receivables and contract assets included:</p> <ul style="list-style-type: none"><li>• Obtaining an understanding of the key controls over the impairment assessment of trade receivables and contract assets, including but not limited to the management of the Group's assessment on the creditworthiness of the counterparties;</li><li>• Testing the trade receivables' aging report as at 31 December 2019, on a sample basis, by comparing individual balances in the aging report with the relevant sale agreements, sales invoices and other supporting documents; and</li><li>• Assessing the management of the Group's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at 31 December 2019, including their identification and evaluation of individually assessed trade receivables and contract assets, the reasonableness of the management of the Group's grouping of trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information).</li></ul> |

## To the Shareholders of Good Friend International Holdings Inc.

(Incorporated in the Cayman Islands with limited liability) (Continued)

### KEY AUDIT MATTERS (Continued)

#### Key Audit Matter

#### How our audit addressed the Key Audit Matter

#### 2. Impairment assessment of inventories

Refer to note 5(c) as stated in key sources of estimation uncertainty and 24 to the consolidated financial statements.

As at 31 December 2019, the carrying amount (net of impairment) of inventories amounted to approximately RMB493,053,000.

The cost of inventories of the Group mainly comprises raw materials, direct labour, other direct costs and related production overheads. Given the relatively long production cycles and the unpredictability of the fluctuations of raw material prices, the inventories are exposed to the risk of being carried in excess of net realisable value.

In assessing the net realisable value and making appropriate allowances to inventories, the management estimates impairment of inventories by identifying inventories that are slow moving or obsolete, and consider the inventories' physical conditions, age, market conditions, market prices for similar items, costs of completion and costs necessary to make the sale.

The Group recognised impairment of inventories of RMB667,000 during the year ended 31 December 2019. The aggregate impairment of inventories as at 31 December 2019 amounted to RMB23,135,000.

Our procedures in relation to the impairment assessment of inventories included:

- Obtaining an understanding of the management of the Group's key controls over the impairment assessment of inventories;
- Attending the inventory count performed by the management of the Group to evaluate whether obsolete inventories are properly identified with which the impairment assessment is based;
- Testing the inventories aging report, on a sample basis, with reference to the procurement and/or production records;
- Evaluating the reasonableness of impairment on inventories with reference to the aging report and subsequent movement of the inventories;
- Comparing the carrying amount of inventories on hand to the latest selling prices and/or net realisable value on a sample basis; and
- Evaluating the adequacy of impairment provision on inventories with reference to the information obtained above.

# Independent Auditor's Report

## **To the Shareholders of Good Friend International Holdings Inc.**

*(Incorporated in the Cayman Islands with limited liability) (Continued)*

### **OTHER INFORMATION**

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

### **RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

### To the Shareholders of Good Friend International Holdings Inc.

*(Incorporated in the Cayman Islands with limited liability) (Continued)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# Independent Auditor's Report

## To the Shareholders of Good Friend International Holdings Inc.

*(Incorporated in the Cayman Islands with limited liability) (Continued)*

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wong Tak Man, Stephen.

#### **RSM Hong Kong**

*Certified Public Accountants*

Hong Kong

12 May 2020

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

|  | NOTE | 2019<br>RMB'000  | 2018<br>RMB'000 |
|--|------|------------------|-----------------|
| <b>Revenue</b>   | 6A   | <b>910,695</b>   | 1,090,693       |
| Cost of revenue  | 6B   | <b>(701,597)</b> | (799,966)       |
| <b>Gross profit</b>  |      | <b>209,098</b>   | 290,727         |
| Other income   | 7A   | <b>157,038</b>   | 84,483          |
| Distribution and selling expenses  |      | <b>(121,928)</b> | (132,609)       |
| Administrative expenses  |      | <b>(71,562)</b>  | (64,137)        |
| Research and development costs   |      | <b>(29,086)</b>  | (37,087)        |
| Reversal of impairment/(impairment loss) on trade receivables and contract assets              |      | <b>3,009</b>     | (8,875)         |
| Other gains and losses   | 7B   | <b>(7,547)</b>   | (28,321)        |
| Other expenses   | 7C   | <b>(22,805)</b>  | (87,968)        |
| Other operating expenses   |      | <b>(1,297)</b>   | (1,458)         |
| Finance costs  | 10   | <b>(24,744)</b>  | (14,180)        |
| Share of profit of joint ventures  | 19   | <b>1,141</b>     | 2,118           |
| Share of loss of associates  | 20   | <b>(57,089)</b>  | (45,423)        |
| <b>Profit/(loss) before tax</b>  | 8    | <b>34,228</b>    | (42,730)        |
| Income tax expense   | 11   | <b>(22,069)</b>  | (14,994)        |
| <b>Profit/(loss) attributable to owners of the Company</b>                                     |      | <b>12,159</b>    | (57,724)        |
| <b>Other comprehensive income:</b>   |      |                  |                 |
| <i>Item that may be reclassified to profit or loss:</i>  |      |                  |                 |
| Exchange difference arising on translation of foreign operations                               |      | <b>(4,790)</b>   | 2,664           |
| Net fair value gain on receivables at fair value through other comprehensive income ("FVTOCI") |      | <b>246</b>       | 1,999           |
| Share of other comprehensive income of associates  | 20   | <b>12,637</b>    | 17,228          |
|  |      | <b>8,093</b>     | 21,891          |
| <i>Item that will not be reclassified to profit or loss:</i>                                   |      |                  |                 |
| Share of other comprehensive income of associates  | 20   | <b>(28,080)</b>  | 1,021           |
| <b>Total comprehensive income attributable to owners of the Company</b>                        |      | <b>(7,828)</b>   | (34,812)        |
| <b>Earnings/(loss) per share (expressed in RMB per share)</b>                                  | 12   |                  |                 |
| – Basic  |      | <b>0.03</b>      | (0.14)          |
| – Diluted  |      | <b>N/A</b>       | N/A             |
| Dividends  | 13   | <b>–</b>         | 44,352          |

# Consolidated Statement of Financial Position

|   | NOTE | 2019<br>RMB'000  | 2018<br>RMB'000 |
|---|------|------------------|-----------------|
| <b>Non-current assets</b>   |      |                  |                 |
| Property, plant and equipment   | 15   | 218,344          | 204,710         |
| Right-of-use assets   | 16   | 124,371          | –               |
| Prepaid lease payments  | 14   | –                | 120,147         |
| Intangible assets   | 17   | 1,407            | 2,215           |
| Investments in joint ventures   | 19   | 21,646           | 20,505          |
| Investments in associates   | 20   | 392,326          | 331,323         |
| Deferred tax assets   | 32   | 27,991           | 27,520          |
|   |      | <b>786,085</b>   | 706,420         |
| <b>Current assets</b>   |      |                  |                 |
| Inventories   | 24   | 493,053          | 524,752         |
| Trade and other receivables and prepayments                                     | 21A  | 227,096          | 345,810         |
| Contract assets   | 21B  | 44,399           | 46,727          |
| Loans receivable  | 22   | 48,394           | 35,627          |
| Receivables at FVTOCI   | 23   | 101,945          | 106,400         |
| Prepaid lease payments  | 14   | –                | 2,905           |
| Amounts due from fellow subsidiaries and associates of ultimate holding company | 40   | 6,248            | 23              |
| Amounts due from joint ventures   | 40   | 512              | 461             |
| Amounts due from associates and subsidiaries of an associate                    | 40   | 235,155          | 151,059         |
| Restricted bank balances  | 25   | 106,333          | 69,987          |
| Financial assets at fair value through profit or loss (“FVTPL”)                 |      | –                | 108,020         |
| Bank and cash balances  | 26   | 74,860           | 112,673         |
|   |      | <b>1,337,995</b> | 1,504,444       |

## Consolidated Statement of Financial Position

|   | NOTE | 2019<br>RMB'000  | 2018<br>RMB'000 |
|---|------|------------------|-----------------|
| <b>Current liabilities</b>  |      |                  |                 |
| Trade and other payables and accrued expenses                                 | 28   | 389,300          | 242,969         |
| Contract liabilities  | 29   | 300,336          | 358,751         |
| Deferred income   | 33   | 1,410            | –               |
| Amount due to ultimate holding company  | 40   | 157              | 638             |
| Amount due to immediate holding company                                       | 40   | 815              | 2,832           |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | 40   | 2,457            | 3,637           |
| Amounts due to joint ventures   | 40   | 380              | 362             |
| Amounts due to an associate and subsidiaries of an associate                  | 40   | 23,481           | 28,435          |
| Lease liabilities   | 34   | 2,486            | –               |
| Provision for litigation claim  | 36   | 60,117           | 60,117          |
| Refund liabilities  | 36   | 100,903          | 100,903         |
| Current tax liabilities   |      | 17,445           | 21,979          |
| Bank and other borrowings   | 31   | 400,071          | 563,239         |
| Warranty provision  | 30   | 4,019            | 5,311           |
|   |      | <b>1,303,377</b> | 1,389,173       |
| <b>Net current assets</b>   |      | <b>34,618</b>    | 115,271         |
| <b>Total assets less current liabilities</b>                                  |      | <b>820,703</b>   | 821,691         |
| <b>Non-current liabilities</b>  |      |                  |                 |
| Bank and other borrowings   | 31   | 36,760           | 35,093          |
| Deferred income   | 33   | 73,680           | 70,192          |
| Lease liabilities   | 34   | 1,784            | –               |
|   |      | <b>112,224</b>   | 105,285         |
| <b>Net Assets</b>   |      | <b>708,479</b>   | 716,406         |
| <b>Capital and reserves</b>   |      |                  |                 |
| Share capital   | 27   | 4,021            | 4,022           |
| Share premium   |      | 82,183           | 82,281          |
| Capital reserves  |      | 77,338           | 77,338          |
| Other reserves  |      | 66,454           | 58,361          |
| Retained earnings   |      | 478,483          | 494,404         |
| <b>Total Equity</b>   |      | <b>708,479</b>   | 716,406         |

Approved by the Board of Directors on 12 May 2020 and are signed on its behalf by:

**CHU Chih-Yaung**  
DIRECTOR

**WEN Chi-Tang**  
DIRECTOR

# Consolidated Statement of Changes in Equity

|  | Share<br>capital<br>RMB'000 | Share<br>premium<br>RMB'000<br>(note a) | Capital<br>reserves<br>RMB'000<br>(note b) | Other<br>reserves<br>RMB'000<br>(note c) | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------------------|---|--|--|---------------------------------|------------------|
| At 1 January 2018                              | 4,022                       | 82,281                                  | 77,338                                     | 36,470                                   | 595,459                         | 795,570          |
| <b>Total comprehensive income for the year</b> | –                           | –                                       | –  | 21,891                                   | (56,703)                        | (34,812)         |
| Dividends recognised as distribution (note 13) | –                           | –                                       | –  | –  | (44,352)                        | (44,352)         |
| At 31 December 2018 and 1 January 2019         | 4,022                       | 82,281                                  | 77,338                                     | 58,361                                   | 494,404                         | 716,406          |
| <b>Total comprehensive income for the year</b> | –                           | –                                       | –  | 8,093                                    | (15,921)                        | (7,828)          |
| Share repurchased and cancelled (note 27)      | (1)                         | (98)                                    | –  | –  | –                               | (99)             |
| At 31 December 2019                            | 4,021                       | 82,183                                  | 77,338                                     | 66,454                                   | 478,483                         | 708,479          |

Notes:

## a. Share premium

Under the Companies Law of the Cayman Islands, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on their shares shall be transferred to share premium account. The application of the share premium account is governed by the Companies Law of the Cayman Islands. Share premium of the Company is distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution the Company is able to pay its debts as they fall due in the ordinary course of business.

## b. Capital reserves

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

## c. Other reserves

In addition to currency translation reserve and receivables at FVTOCI reserve, other reserves include general reserve and statutory reserve which are set up in accordance with statutory requirements in the People's Republic of China ("PRC").

Statutory reserves include statutory surplus reserve and discretionary surplus reserve.

According to the relevant rules and regulations in the PRC, subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Statutory surplus reserve can be used to set off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

Moreover, upon approval by the equity owner, a subsidiary of the Company can transfer 10% of its profit after tax, as determined in accordance with the PRC accounting and regulations, to the discretionary surplus reserve.

# Consolidated Statement of Cash Flows

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                 |                 |
| Profit/(loss) before tax   | <b>34,228</b>   | (42,730)        |
| Adjustments for:   |                 |                 |
| Amortisation of prepaid lease payments   | –               | 2,905           |
| Amortisation of intangible assets  | <b>824</b>      | 1,186           |
| Depreciation of property, plant and equipment  | <b>9,006</b>    | 9,894           |
| Depreciation of right-of-use assets  | <b>5,602</b>    | –               |
| Impairment of inventories  | <b>667</b>      | 2,087           |
| Interest expense   | <b>24,744</b>   | 14,180          |
| Interest income  | <b>(3,842)</b>  | (4,496)         |
| Loss/(gain) on disposal of property, plant and equipment                             | <b>416</b>      | (118)           |
| Provision for litigation claim   | –               | 60,117          |
| (Reversal of impairment)/impairment loss on trade<br>receivables and contract assets | <b>(3,009)</b>  | 8,875           |
| Share of loss of associates  | <b>57,089</b>   | 45,423          |
| Share of profit of joint ventures  | <b>(1,141)</b>  | (2,118)         |
| Sales return   | –               | 3,037           |
| Unrealised net exchange loss   | <b>5,776</b>    | 25,195          |
| Warranty expenses  | <b>2,985</b>    | 4,983           |
|  | <b>99,117</b>   | 171,150         |

## Consolidated Statement of Cash Flows

|   | 2019<br>RMB'000  | 2018<br>RMB'000 |
|---|------------------|-----------------|
| <b>Operating profit before working capital charges</b>  | <b>133,345</b>   | 128,420         |
| Decrease in inventories   | <b>40,742</b>    | 11,468          |
| Decrease in trade and other<br>receivables and prepayments  | <b>121,712</b>   | 20,400          |
| Decrease/(increase) in contract assets  | <b>2,339</b>     | (254)           |
| Decrease in receivables at FVTOCI   | <b>4,723</b>     | –               |
| Increase in restricted bank balances  | <b>(36,346)</b>  | (37,271)        |
| Decrease in amount due from ultimate holding company  | –                | 1,053           |
| (Increase)/decrease in amounts due from fellow subsidiaries<br>and associates of ultimate holding company | <b>(6,225)</b>   | 1,453           |
| (Increase)/decrease in amounts due from joint ventures  | <b>(51)</b>      | 391             |
| Increase in amounts due from<br>associates and subsidiaries of an associate                               | <b>(84,096)</b>  | (31,976)        |
| Increase/(decrease) in trade and other payables and<br>accrued expenses                                   | <b>146,331</b>   | (7,382)         |
| Decrease in contract liabilities  | <b>(58,415)</b>  | (77,960)        |
| Decrease in amount due to<br>ultimate holding company   | <b>(141,160)</b> | (6,762)         |
| (Decrease)/increase in amount due to<br>immediate holding company   | <b>(2,017)</b>   | 709             |
| Increase/(decrease) in amounts due to joint ventures  | <b>18</b>        | (246)           |
| Decrease in amounts due to an associate and subsidiaries of<br>an associate                               | <b>(4,954)</b>   | (8,892)         |
| Decrease in amounts due to fellow subsidiaries and<br>associates of ultimate holding company              | <b>(1,180)</b>   | (36)            |
| Decrease in warranty provision  | <b>(4,277)</b>   | (5,427)         |
| Decrease in deferred income   | <b>(3,749)</b>   | –               |
| Cash generated from/(used in) operations  | <b>106,740</b>   | (12,312)        |
| Income tax and withholding tax paid   | <b>(27,096)</b>  | (21,905)        |
| Interest on lease liabilities   | <b>(171)</b>     | –               |
| Net cash generated from/(used in) operating activities  | <b>79,473</b>    | (34,217)        |

## Consolidated Statement of Cash Flows

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                 |                 |
| Loan to a non-controlling shareholder of a subsidiary of an associate of the Group | (12,767)        | (35,627)        |
| Acquisition of property, plant and equipment                                       | (31,571)        | (44,922)        |
| Proceeds from disposal of property, plant and equipment                            | 472             | 519             |
| Purchase of intangible assets  | (16)            | (264)           |
| Interest received  | 3,842           | 4,496           |
| Withdrawal of financial assets at FVTPL  | 217,655         | 507,800         |
| Purchases of financial assets at FVTPL   | (109,635)       | (539,680)       |
| Net cash generated from/(used in) investing activities                             | 67,980          | (107,678)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                 |                 |
| Proceeds from bank and other borrowings  | 3,708,993       | 3,390,069       |
| Repayments of bank borrowings  | (3,877,937)     | (3,184,943)     |
| Government grant received  | 8,647           | 9,012           |
| Principal elements of lease payments   | (2,651)         | –               |
| Dividends paid   | –               | (44,352)        |
| Repurchase of shares   | (99)            | –               |
| Interest paid  | (24,573)        | (14,180)        |
| Net cash (used in)/generated from financing activities                             | (187,620)       | 155,606         |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>                        |                 |                 |
| Effect of foreign exchange rate changes  | 2,354           | 891             |
| <b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>                                      | <b>112,673</b>  | <b>98,071</b>   |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>                                    | <b>74,860</b>   | <b>112,673</b>  |
| <b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>                                       |                 |                 |
| Bank and cash balances   | 74,860          | 112,673         |

# Notes to the Consolidated Financial Statements

## 1. GENERAL INFORMATION

Good Friend International Holdings Inc. (the “Company”) was incorporated in the Cayman Islands with limited liabilities. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Room 2003, 20th Floor, Kai Tak Commercial Building, 317-319 Des Vouex Road Central, Hong Kong. The Company’s shares are listed on the Main Board of the Stock Exchange. 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. In the opinion of the directors of the Company, Good Friend (H.K.) Corporation Limited (“Hong Kong GF”), a company incorporated in Hong Kong, and Fair Friend Enterprise Company Limited (“Fair Friend”), a company incorporated in Taiwan, are the immediate holding company and the ultimate holding company, respectively.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the consolidated financial statements.

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

#### (a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 *Leases* ("HKFRS 16"), and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### *HKFRS 16 Leases*

HKFRS 16 supersedes HKAS 17 *Leases* ("HKAS 17"), and the related interpretations, HK(IFRIC) 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) 15 *Operating Leases-Incentives* and HK(SIC) 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

#### (a) Application of new and revised HKFRSs *(Continued)*

##### *HKFRS 16 Leases (Continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### (a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

#### (b) *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.35% per annum.

## Notes to the Consolidated Financial Statements

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

#### (a) Application of new and revised HKFRSs *(Continued)*

##### *HKFRS 16 Leases (Continued)*

#### (b) Lessee accounting and transitional impact *(Continued)*

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold lands and properties was determined on a portfolio basis;
- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;
- (iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

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* ("HKAS 12") 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.

## Notes to the Consolidated Financial Statements

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

#### (a) Application of new and revised HKFRSs *(Continued)*

##### *HKFRS 16 Leases (Continued)*

#### (b) Lessee accounting and transitional impact *(Continued)*

The following table reconciles the operating lease commitments as disclosed in note 37(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

|  | RMB'000 |
|--|---------|
| Operating lease commitments disclosed as at 31 December 2018   | 6,245   |
| Less: commitments relating to lease exempt from capitalisation:  |         |
| – short-term leases and other leases with remaining lease term ending on or before 31 December 2019  | (2,683) |
|  | 3,562   |
| Less: total future interest expenses   | (240)   |
| Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognised as at 1 January 2019 | 3,322   |
| Of which are:  |         |
| Current lease liabilities  | 1,975   |
| Non-current lease liabilities  | 1,347   |
|  | 3,322   |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

## Notes to the Consolidated Financial Statements

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

#### (a) Application of new and revised HKFRSs (Continued)

##### HKFRS 16 Leases (Continued)

#### (b) Lessee accounting and transitional impact (Continued)

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance leases payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16 | Note | Carrying amount as at 31 December 2018<br>RMB'000 | Effects of adoption of HKFRS 16 |                                  | Carrying amount as at 1 January 2019<br>RMB'000 |
|---|------|---|---------------------------------|----------------------------------|---|
|   |      |   | Reclassification<br>RMB'000     | Recognition of leases<br>RMB'000 |   |
| <b>Assets</b>   |      |   |                                 |                                  |   |
| Right-of-use assets   |      | –   | 123,052                         | 3,322                            | 126,374   |
| Prepaid land lease payments<br>(note 14)  | (i)  | 123,052   | (123,052)                       | –                                | –   |
| <b>Liabilities</b>  |      |   |                                 |                                  |   |
| Lease liabilities   |      | –   | –                               | (3,322)                          | (3,322)   |

Note:

- (i) Upfront payments for leasehold lands in the PRC own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to RMB2,905,000 and RMB120,147,000 respectively were classified to right-of-use assets.

## Notes to the Consolidated Financial Statements

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

#### (a) Application of new and revised HKFRSs *(Continued)*

##### *HKFRS 16 Leases (Continued)*

#### (c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (note 35(a)). These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (note 35(b)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

|   | 2019                                    |  |   | 2018  |   |
|---|---|--|---|---|---|
|   | Amounts reported under HKFRS 16 RMB'000 | Add back: HKFRS 16 depreciation and interest expense RMB'000 | Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1) RMB'000 | Hypothetical amounts for 2019 as if under HKAS 17 RMB'000 | Compared to amounts reported for 2018 under HKAS 17 RMB'000 |
| <b>Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:</b> |   |  |   |   |   |
| Profit/(loss) before finance costs and tax  | 58,972                                  | 5,602  | (5,727)   | 58,847  | (28,550)  |
| Finance costs   | (24,744)                                | 171  | –   | (24,573)  | (14,180)  |
| <b>Profit/(loss) before tax</b>   | <b>34,228</b>                           | <b>5,773</b>   | <b>(5,727)</b>  | <b>34,274</b>   | <b>(42,730)</b>   |
| <b>Profit/(loss) for the year</b>   | <b>12,159</b>                           | <b>5,773</b>   | <b>(5,727)</b>  | <b>12,205</b>   | <b>(57,724)</b>   |

## Notes to the Consolidated Financial Statements

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(a) Application of new and revised HKFRSs *(Continued)*

*HKFRS 16 Leases (Continued)*

(c) *Impact of the financial results and cash flows of the Group (Continued)*

|   | 2019                                    |  |   | 2018  |
|---|---|--|---|---|
|   | Amounts reported under HKFRS 16 RMB'000 | Estimated amounts related to operating leases as if under HKAS 17 (note 2) RMB'000 | Hypothetical amounts for 2019 as if under HKAS 17 RMB'000 | Compared to amounts reported for 2018 under HKAS 17 RMB'000 |
| <b>Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:</b> |   |  |   |   |
| Cash generated generate from/ (used in) operations  | 106,740                                 | (2,822)  | 103,918   | (12,312)  |
| Interest element of lease rentals paid  | (171)                                   | 171  | –   | –   |
| <b>Net cash generated from/ (used in) operating activities</b>  | <b>79,473</b>                           | <b>(2,651)</b>   | <b>76,822</b>   | <b>(34,217)</b>   |
| Capital element of lease rentals paid   | (2,651)                                 | 2,651  | –   | –   |
| <b>Net cash (used in)/generated from financing activities</b>   | <b>(187,620)</b>                        | <b>2,651</b>   | <b>(184,969)</b>  | <b>155,606</b>  |

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

## Notes to the Consolidated Financial Statements

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

#### (b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

|   | <b>Effective for<br/>accounting<br/>periods<br/>beginning<br/>on or after</b> |
|---|---|
| Amendments to HKFRS 3 Definition of a Business                            | 1 January 2020  |
| Amendments to HKAS 1 and HKAS 8 Definition of Material                    | 1 January 2020  |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform | 1 January 2020  |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

### 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

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

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (c) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of each of its joint arrangements and determined them to all be joint ventures.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (c) Joint arrangements *(Continued)*

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

In the Company's statement of financial position, investments in joint ventures are stated at cost less impairment losses.

#### (d) Foreign currency translation

##### *(i) Functional and presentation currency*

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

##### *(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (d) Foreign currency translation *(Continued)*

##### *(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### (e) Property, plant and equipment and right-of-use assets

Property, plant and equipment, including buildings and leasehold land (upon application of HKFRS 16 at 1 January 2019, the interest in leasehold land was reclassified to right-of-use assets, see note 3), held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (e) Property, plant and equipment and right-of-use assets *(Continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

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

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

#### (f) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

##### (i) *The Group as a lessee*

*Policy applicable from 1 January 2019*

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily office. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (f) Leases *(Continued)*

##### (i) *The Group as a lessee (Continued)*

###### *Policy applicable from 1 January 2019 (Continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the right-of-use assets that meet the definition of investment property are carried at fair value.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (f) Leases *(Continued)*

##### (i) *The Group as a lessee (Continued)*

###### *Policy applicable from 1 January 2019 (Continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

###### *Policy prior to 1 January 2019*

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, except for the property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (f) Leases *(Continued)*

##### *(ii) The Group as a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

#### (g) Intangible assets

##### *(i) Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

##### *(ii) Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

#### (h) Impairment on non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (h) Impairment on non-financial assets *(Continued)*

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

#### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (j) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 4(y) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### (l) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### *Debt investments*

Debt investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represents solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (l) Financial assets *(Continued)*

##### *Debt investments (Continued)*

- FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

#### (m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

#### (n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL.

#### (o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (p) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

##### *Equity instruments*

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### *Financial liabilities*

Financial liabilities including trade and other payables, amount due to ultimate holding company, amount due to immediate holding company, amounts due to fellow subsidiaries and associates of ultimate holding company, amounts due to an associate and subsidiaries of an associate, amounts due to joint ventures and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

#### (q) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the ECL model under HKFRS 9 and;
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 *Revenue from contracts with Customers* ("HKFRS 15").

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

#### (r) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (s) Warranties

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (t) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

For revenue from machine tools and forklift trucks, the management of the Group has assessed that the control of the goods underlying the sales contracts have been transferred to the customers upon delivery, title has been passed, and goods inspected and accepted by the customer.

For revenue from parking garage structures, the management of the Group has assessed the contract terms and the regulatory environment in the PRC, and concludes that the related performance obligations do not satisfy the over time recognition criteria and thus the Group's revenue from parking garage structures is recognised at a point in time when the customer obtains control of the distinct goods.

For machine tools, parking garage structures and forklift trucks, customers are generally required to make an advance payment of 30% of the total contract sum before the Group commences any work, this will give rise to contract liabilities at the start of a contract. During the course of production of parking garage structures, customers will generally be required to make progress payment. In general, customers will be required to pay not less than 80% of the total contract sum before the Group installs the parking garage structures to customer's designated site. For machine tools, customers will be required to pay not less than 90% of the total contract sum before the Group send the machine tools to customer's designated site. For forklift trucks, customers generally are required to pay all the total contract sum before the Group send the forklift trucks to customer's designated site. If customers are satisfied with the parking garage structures installed and sign for receipt of machine tools and forklift trucks, they will issue an acceptance certificate to the Group. The Group normally provides a warranty period of 1 to 2 years after the installation of parking garage structures and the issuance of the final acceptance certificate. The Group generally allows a credit period of 30 to 180 days to its customers.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (u) Employee benefits

##### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

##### *(ii) Retirement benefits schemes*

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

##### *(iii) Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

#### (w) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (x) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (x) Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### (y) Impairment of financial assets and contracts assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (y) Impairment of financial assets and contracts assets *(Continued)*

##### *Significant increase in credit risk (Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) the financial instrument has a low risk of default,
- (ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (y) Impairment of financial assets and contracts assets *(Continued)*

##### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

##### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

## Notes to the Consolidated Financial Statements

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (y) Impairment of financial assets and contracts assets *(Continued)*

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

#### (z) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (aa) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

### 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

#### Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the management of the Group has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### (a) *Revenue recognition*

The recognition of each of the Group's revenue streams requires judgement by the management of the Group in determining the timing of satisfaction of performance obligations.

In making their judgement, the management of the Group considers the detailed criteria for recognition of revenue set out in HKFRS 15, and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

For revenue from machine tools and forklift trucks, the management of the Group has assessed that the control of the goods underlying the sales contracts have been transferred to the customers upon the delivery and acceptance of the goods delivered. Therefore, the management of the Group has justified that the performance obligation in respect of the sales income is satisfied at a point in time and recognises revenue at a point in time.

For revenue from parking garage structures, the management of the Group has assessed the contract terms and the regulatory environment in the PRC and concludes that the related performance obligations do not satisfy the over time recognition criteria. Therefore, the management of the Group has justified that the performance obligation in respect of the parking garage structures is satisfied at a point in time and recognises revenue at a point in time.

### 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

#### *(b) Significant increase in credit risk*

As explained in note 4(y), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

#### *(c) Significant influence assessment*

Although the Group owns more than 50% of the equity interest in FFG European and American Holdings GmbH ("FFG EA"), FFG EA is treated as an associate because according to the shareholders' agreement, each of the three shareholders are entitled to one member vote of the shareholders' committee. The directors have determined that the Group is only able to exercise significant influence over FFG EA (note 20).

#### *(d) Joint control assessment*

In relation to the Group's investments in joint ventures, the directors have determined that the Group has joint control over the arrangement as under the contractual agreement, it appears that unanimous consent is required from all parties to the agreement for all relevant activities (note 19).

#### Key sources of estimation uncertainty

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

#### *(a) Provision for litigation claim*

As at 31 December 2019, the expected loss on settlement of the litigation amounted to RMB60,117,000, which is provided for under "provision for litigation claim" in the consolidated statement of financial position. Details of the provision for litigation claim as at 31 December 2019 are set out in note 36.

Due to the fact that the outcome of the second-instance judgement from the Province Higher People's Court in Anhui cannot be determined at this stage, an overprovision or underprovision for litigation claim may arise when the outcome is reached.

### 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

#### *(b) Impairment of property, plant and equipment and right-of-use assets*

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amount of property, plant and equipment and right-of-use assets amounted to RMB218,344,000 (2018: RMB204,710,000) and RMB124,371,000 (2018: Nil) respectively. No impairment loss is recognised for the years ended 31 December 2019 and 2018.

#### *(c) Impairment of inventories*

The Group reviews the carrying values of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, the management estimates the provision for impairment of inventories by identifying inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market prices for similar items.

As at 31 December 2019, the carrying amount of the Group's inventories amounted to RMB493,053,000 (net of impairment of inventories of RMB23,135,000) (2018: RMB524,752,000 (net of impairment of inventories of RMB23,629,000)).

#### *(d) Warranty provision*

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

As at 31 December 2019, the carrying amount of the Group's warranty provision amounted to RMB4,019,000 (2018: RMB5,311,000).

## Notes to the Consolidated Financial Statements

### 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

*(e) Impairment of financial assets and contract assets*

The Group reviews its financial assets and contract assets to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The management of the Group estimates the amount of loss allowance for ECL on trade and other receivables, contract assets, loans receivable, restricted bank balances, amounts due from joint ventures, fellow subsidiaries, associates of the ultimate holding company, associates and subsidiaries of an associate and bank balances based on the credit risk of the financial assets. The estimation of the credit risk of the financial assets and contract assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

*(f) Impairment of investments in associates and joint ventures*

The Group reviews its investments in associates and joint ventures to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 6A. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major product lines for the year is as follows:

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Revenue from contracts with customers within the scope of HKFRS 15 |                 |                 |
| Disaggregated by major products                                    |                 |                 |
| – Machine tools  | 739,056         | 928,341         |
| – Parking garage structures  | 107,345         | 89,814          |
| – Forklift trucks  | 64,294          | 72,538          |
|  | <b>910,695</b>  | 1,090,693       |

The Group derives revenue from the transfer of goods and services at a point in time in the above major product lines and mainly sells in the PRC.

## Notes to the Consolidated Financial Statements

### 6B. 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 operating and reportable segments: (1) machine tools; (2) parking garage structures; and (3) forklift trucks. No operating segments have been aggregated in arriving at the reportable segments of the Group.

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

The Group does not allocate distribution and selling expenses, administrative expenses, other operating expenses or segment assets and liabilities 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 segment assets and liabilities for each operating and reportable segment.

|  | Machine<br>tools<br>RMB'000 | Parking<br>garage<br>structures<br>RMB'000 | Forklift<br>trucks<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------------------|--|-------------------------------|------------------|
| <b>For the year ended 31 December 2019</b>                         |                             |  |                               |                  |
| Revenue (from external customers)                                  | 739,056                     | 107,345                                    | 64,294                        | 910,695          |
| Cost of revenue  | (549,878)                   | (88,079)                                   | (63,640)                      | (701,597)        |
| Segment profit   | <b>189,178</b>              | <b>19,266</b>                              | <b>654</b>                    | <b>209,098</b>   |
| Share of profit of joint ventures                                  |                             |  |                               | 1,141            |
| Share of loss of associates  |                             |  |                               | (57,089)         |
| Unallocated amounts:   |                             |  |                               |                  |
| Other income   |                             |  |                               | 157,038          |
| Distribution and selling expenses                                  |                             |  |                               | (121,928)        |
| Administrative expenses  |                             |  |                               | (71,562)         |
| Research and development costs                                     |                             |  |                               | (29,086)         |
| Reversal of impairment on trade<br>receivables and contract assets |                             |  |                               | 3,009            |
| Other gains and losses   |                             |  |                               | (7,547)          |
| Other expenses   |                             |  |                               | (22,805)         |
| Other operating expenses   |                             |  |                               | (1,297)          |
| Finance costs  |                             |  |                               | (24,744)         |
| Profit before tax  |                             |  |                               | <b>34,228</b>    |

## Notes to the Consolidated Financial Statements

### 6B. SEGMENT INFORMATION (Continued)

|   | Machine<br>tools<br>RMB'000 | Parking<br>garage<br>structures<br>RMB'000 | Forklift<br>trucks<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------------------|--|-------------------------------|------------------|
| <b>For the year ended 31 December 2018</b>                  |                             |  |                               |                  |
| Revenue (from external customers)                           | 928,341                     | 89,814                                     | 72,538                        | 1,090,693        |
| Cost of revenue   | (665,102)                   | (70,291)                                   | (64,573)                      | (799,966)        |
| Segment profit  | 263,239                     | 19,523                                     | 7,965                         | 290,727          |
| Share of profit of joint ventures                           |                             |  |                               | 2,118            |
| Share of loss of associates                                 |                             |  |                               | (45,423)         |
| Unallocated amounts:  |                             |  |                               |                  |
| Other income  |                             |  |                               | 84,483           |
| Distribution and selling expenses                           |                             |  |                               | (132,609)        |
| Administrative expenses                                     |                             |  |                               | (64,137)         |
| Research and development costs                              |                             |  |                               | (37,087)         |
| Impairment loss on trade receivables<br>and contract assets |                             |  |                               | (8,875)          |
| Other gains and losses                                      |                             |  |                               | (28,321)         |
| Other expenses  |                             |  |                               | (87,968)         |
| Other operating expenses                                    |                             |  |                               | (1,458)          |
| Finance costs   |                             |  |                               | (14,180)         |
| Loss before tax   |                             |  |                               | (42,730)         |

For the years ended 31 December 2018 and 2019, majority of the Group's operations and identifiable non-current assets are located in the PRC and the Group mainly sells to the PRC market. No customers contributed over 10% of total revenue of the Group for each of the years.

## Notes to the Consolidated Financial Statements

### 7A. OTHER INCOME

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Compensation income from an associate, FFG Werke GmbH<br>("FFG Werke") (note a) | 72,667          | –               |
| Sale of scrap materials   | 31,118          | 38,055          |
| Consultancy income  | 4,301           | 2,629           |
| Government grants and subsidies related to income (note b)                      | 19,890          | 22,787          |
| Repair income   | 16,265          | 13,780          |
| Rental income   | 1,261           | 460             |
| Interest income   | 3,842           | 4,496           |
| Others  | 7,694           | 2,276           |
|   | <b>157,038</b>  | <b>84,483</b>   |

Note:

- a. Compensation income represents the compensation from FFG Werke, an associate of the Group and the supplier of the corresponding CNC machine tools products, to the Group in respect of the litigation claim raised by a customer to the Group's subsidiaries as disclosed in note 36.
- b. Government grants and subsidies mainly represent the refund of value-added tax in relation to software embedded in the sales of machine tools. These grants and subsidies are accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.

### 7B. OTHER GAINS AND LOSSES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| (Loss)/gain on disposal of property, plant and equipment | (416)           | 118             |
| Net foreign exchange loss                                | (7,131)         | (28,439)        |
|  | <b>(7,547)</b>  | <b>(28,321)</b> |

### 7C. OTHER EXPENSES

|                                | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------------------|-----------------|-----------------|
| Provision for litigation claim | –               | 60,117          |
| Cost of scrap materials sold   | 22,805          | 27,851          |
|                                | <b>22,805</b>   | <b>87,968</b>   |

## Notes to the Consolidated Financial Statements

### 8. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Directors and chief executives' remuneration                                      | 1,721           | 1,690           |
| Other staff costs   | 146,751         | 145,906         |
| Other staff's retirement benefits scheme contributions                            | 5,543           | 4,910           |
| <b>Total staff costs</b>  | <b>154,015</b>  | 152,506         |
| Capitalised in inventories  | (52,685)        | (55,746)        |
|   | <b>101,330</b>  | 96,760          |
| Depreciation of property, plant and equipment                                     | 18,716          | 20,795          |
| Depreciation on right-of-use assets   | 5,602           | –               |
| Amortisation of prepaid lease payments  | –               | 2,905           |
| Amortisation of intangible assets   | 824             | 1,252           |
| <b>Total depreciation and amortisation</b>  | <b>25,142</b>   | 24,952          |
| Capitalised in inventories  | (9,710)         | (10,967)        |
|   | <b>15,432</b>   | 13,985          |
| Auditor's remuneration  | 1,893           | 1,808           |
| Cost of inventories sold  | 695,986         | 765,594         |
| Impairment of inventories   | 667             | 2,087           |
| (Loss)/gain on disposals of property, plant and equipment                         | (416)           | 118             |
| Reversal of impairment/(impairment loss) on trade receivables and contract assets | 3,009           | (8,875)         |
| Provision for warranty  | 2,985           | 4,983           |
| Direct operating expenses incurred for rental income                              | 469             | 330             |

## Notes to the Consolidated Financial Statements

### 9. BENEFITS AND INTERESTS OF DIRECTORS

#### (a) Directors' and chief executive' emoluments

The remuneration of each director and chief executive officer, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

#### (i) Executive directors

|  | Chu Chih<br>Yang <sup>#</sup><br>RMB'000 | Chen<br>Hsiang-Jung <sup>*</sup><br>RMB'000 | Chen<br>Min-Ho<br>RMB'000 | Wen<br>Chi-Tang<br>RMB'000 | Chiu<br>Rung-Hsien<br>RMB'000 | Total<br>RMB'000 |
|--|--|---|---------------------------|----------------------------|-------------------------------|------------------|
| <b>Year ended</b>                          |  |   |                           |                            |                               |                  |
| <b>31 December 2019</b>                    |  |   |                           |                            |                               |                  |
| Fees                                       | -  | -   | -                         | 144                        | 144                           | 288              |
| Salaries and other benefits                | -  | -   | -                         | -                          | -                             | -                |
| Retirement benefit<br>scheme contribution  | -  | -   | -                         | -                          | -                             | -                |
| Discretionary performance<br>related bonus | 1,075                                    | -   | -                         | -                          | -                             | 1,075            |
| <b>Total</b>                               | <b>1,075</b>                             | <b>-</b>                                    | <b>-</b>                  | <b>144</b>                 | <b>144</b>                    | <b>1,363</b>     |
| <b>Year ended</b>                          |  |   |                           |                            |                               |                  |
| <b>31 December 2018</b>                    |  |   |                           |                            |                               |                  |
| Fees                                       | -  | -   | -                         | 144                        | 144                           | 288              |
| Salaries and other benefits                | -  | -   | -                         | -                          | -                             | -                |
| Retirement benefit<br>scheme contribution  | -  | -   | -                         | -                          | -                             | -                |
| Discretionary performance<br>related bonus | 1,051                                    | -   | -                         | -                          | -                             | 1,051            |
| <b>Total</b>                               | <b>1,051</b>                             | <b>-</b>                                    | <b>-</b>                  | <b>144</b>                 | <b>144</b>                    | <b>1,339</b>     |

<sup>#</sup> Chairman and also appointed as chief executive officer on 7 December 2018

<sup>\*</sup> Chief executive officer, passed away on 8 November 2018

## Notes to the Consolidated Financial Statements

### 9. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

#### (a) Directors' and chief executive' emoluments *(Continued)*

##### *(ii) Independent non-executive directors*

|  | Koo<br>Fook Sun,<br>Louis<br>RMB'000 | Chiang<br>Chun-Te*<br>RMB'000 | Yu<br>Yu-Tang<br>RMB'000 | Total<br>RMB'000 |
|--|--------------------------------------|-------------------------------|--------------------------|------------------|
| <b>Year ended<br/>31 December 2019</b> |                                      |                               |                          |                  |
| Fees                                   | 178                                  | 90                            | 90                       | 358              |
| Year ended 31 December 2018            |                                      |                               |                          |                  |
| Fees                                   | 175                                  | 88                            | 88                       | 351              |

\* Resigned on 10 January 2020

The executive directors' and chief executive officer's emoluments shown above were mainly for their services as directors and chief executive officer and in connection with the management of the affairs of the Group. The independent non-executive directors' emoluments shown above were mainly for their services as directors.

The remuneration of the directors and chief executive officer is determined by factors including their time commitment, responsibilities, performance, experiences, and the overall performance of the Group.

*(iii)* Save as these set out in note 40, no significant transactions arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2018: one) was the director of the Company. The emoluments of the remaining four (2018: four) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries and allowances                 | 5,204           | 1,987           |
| Discretionary performance related bonus | 4,045           | 1,992           |
| Retirement benefit scheme contribution  | 93              | 165             |
|   | <b>9,342</b>    | <b>4,144</b>    |

## Notes to the Consolidated Financial Statements

### 9. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

#### (b) Five highest paid individuals *(Continued)*

The emoluments of the five highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follow:

|                              | Number of individuals |      |
|------------------------------|-----------------------|------|
|                              | 2019                  | 2018 |
| Nil to RMB2,000,000          | 2                     | 4    |
| RMB2,000,001 to RMB5,000,000 | 2                     | –    |

During the year, no emoluments were paid by the Group to any of the directors and chief executive officer of the Company or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or chief executive officer of the Company waived any emoluments during the year (2018: Nil).

### 10. FINANCE COSTS

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Interest expenses on:                                      |                 |                 |
| – Bank borrowings  | 24,573          | 14,180          |
| – Other borrowings   | 1,667           | 583             |
| – Lease liabilities (note 16)                              | 171             | –               |
| Total borrowing costs                                      | 26,411          | 14,763          |
| Less: amounts capitalised in the cost of qualifying assets | (1,667)         | (583)           |
|  | 24,744          | 14,180          |

Borrowing costs on other borrowings capitalised during the year are calculated by applying a capitalisation rate of 4.75% per annum (2018: 4.75%).

## Notes to the Consolidated Financial Statements

### 11. INCOME TAX EXPENSE

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Current Tax – PRC Enterprise Income Tax (“EIT”) |                 |                 |
| – Provision for the year                        | 26,748          | 16,403          |
| – Over provision in prior years                 | (4,208)         | (610)           |
|   | 22,540          | 15,793          |
| Deferred tax (note 32)                          | (471)           | (799)           |
|   | 22,069          | 14,994          |

No provision for Hong Kong Profits Tax has been made since the Group did not have any assessable profit subject to Hong Kong Profits Tax for both years.

EIT is provided at 25% (2018: 25%) for subsidiaries in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. (“Hangzhou Good Friend”). Hangzhou Good Friend has been approved by the relevant government authorities and recognised as a new and high-tech enterprise. As such Hangzhou Good Friend is entitled to a reduced tax rate of 15% for a three-years period commencing from 2018. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2019 is 15% (2018: 15%).

According to Detailed Implementation Regulations for implementation of the EIT law of the 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%. During the year, dividend of RMB281,653,000 was declared and paid by Hangzhou Good Friend.

For the year ended 31 December 2019, 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 foreseeable future.

## Notes to the Consolidated Financial Statements

### 11. INCOME TAX EXPENSE (Continued)

Income tax expense for the year can be reconciled to profit/(loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Profit/(loss) before tax  | 34,228          | (42,730)        |
| Add: Share of loss of joint ventures and associates   | 55,948          | 43,305          |
|   | <b>90,176</b>   | 575             |
| Tax calculated at tax rates applicable to the principal operating entity of the Group (15%) | 13,526          | 86              |
| Tax effect of:  |                 |                 |
| Income not taxable for tax purpose  | (12,682)        | (545)           |
| Expenses not deductible for tax purpose   | 7,586           | 8,563           |
| Utilisation of previously unrecognised tax losses   | –               | (1,467)         |
| Tax losses for which no deferred income tax asset was recognised                            | 11,628          | 12,048          |
| Deductible temporary differences not recognised   | (4,404)         | 1,043           |
| Different tax rates of subsidiaries   | 766             | (62)            |
| Tax concession granted to Hangzhou Good Friend  | (4,226)         | (4,062)         |
| PRC dividend withholding tax  | 14,083          | –               |
| Over provision in prior years   | (4,208)         | (610)           |
| Income tax expense  | <b>22,069</b>   | 14,994          |

### 12. EARNINGS/(LOSS) PER SHARE

#### Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit attributable to owners of the Company amounted to RMB12,159,000 (2018: loss attributable to owners of the Company: RMB57,724,000) by the weighted average number of ordinary shares of 403,145,000 (2018: 403,200,000) shares in issue during the year.

|   | 2019        | 2018   |
|---|-------------|--------|
| Basic earnings/(loss) per share (RMB per share) | <b>0.03</b> | (0.14) |

#### Diluted earnings/(loss) per share

No diluted earnings/(loss) per share was presented as there were no potential dilutive ordinary shares in issue for both years.

## Notes to the Consolidated Financial Statements

### 13. DIVIDENDS

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Dividends for ordinary shareholders of the Company recognised as distribution during the year:<br>2018: 2018 interim dividend of RMB0.05 per share and 2017 final dividend of RMB0.06 per share | –               | 44,352          |

No dividends was proposed for ordinary shareholders of the Company for the year ended 31 December 2019.

### 14. PREPAID LEASE PAYMENTS

|   | RMB'000         |
|---|-----------------|
| At 1 January 2018                                     | 125,957         |
| Amortised to profit or loss                           | (2,905)         |
| At 31 December 2018 and 1 January 2019                | 123,052         |
| Reclassification due to adoption of HKFRS 16 (note 3) | (123,052)       |
| Restated balance at 1 January 2019                    | –               |
|   | 2018<br>RMB'000 |
| Current portion                                       | 2,905           |
| Non-current portion                                   | 120,147         |
|   | 123,052         |

The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB87,600,000 as at 31 December 2018 to secure the general banking facilities and other borrowings granted to the Group as disclosed in note 42.

## Notes to the Consolidated Financial Statements

### 15. PROPERTY, PLANT AND EQUIPMENT

|  | Buildings<br>RMB'000 | Machinery<br>and<br>equipment<br>RMB'000 | Office and<br>computer<br>equipment<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000 |
|--|----------------------|--|--|------------------------------|--|------------------|
| <b>Cost</b>  |                      |  |  |                              |  |                  |
| At 1 January 2018                                  | 205,222              | 168,822                                  | 31,550   | 20,571                       | 6,692                                  | 432,857          |
| Additions  | 272                  | 1,863                                    | 667  | 2,317                        | 40,386                                 | 45,505           |
| Transfers  | –                    | 172                                      | 57   | –                            | (229)                                  | –                |
| Disposals  | –                    | (840)                                    | (427)  | (2,769)                      | –                                      | (4,036)          |
| At 31 December 2018 and<br>1 January 2019          | 205,494              | 170,017                                  | 31,847   | 20,119                       | 46,849                                 | 474,326          |
| Additions  | 720                  | 810                                      | 687  | 2,247                        | 28,774                                 | 33,238           |
| Transfers  | 5,277                | –  | –  | –                            | (5,277)                                | –                |
| Disposals  | –                    | (1,056)                                  | (2,030)  | (3,032)                      | (2)                                    | (6,120)          |
| At 31 December 2019                                | 211,491              | 169,771                                  | 30,504   | 19,334                       | 70,344                                 | 501,444          |
| <b>Accumulated depreciation<br/>and impairment</b> |                      |  |  |                              |  |                  |
| At 1 January 2018                                  | 86,143               | 123,269                                  | 24,443   | 18,601                       | –                                      | 252,456          |
| Provided for the year                              | 9,157                | 9,524                                    | 992  | 1,122                        | –                                      | 20,795           |
| Disposals  | –                    | (751)                                    | (392)  | (2,492)                      | –                                      | (3,635)          |
| At 31 December 2018 and<br>1 January 2019          | 95,300               | 132,042                                  | 25,043   | 17,231                       | –                                      | 269,616          |
| Provided for the year                              | 8,794                | 8,129                                    | 677  | 1,116                        | –                                      | 18,716           |
| Disposals  | –                    | (918)                                    | (1,806)  | (2,508)                      | –                                      | (5,232)          |
| At 31 December 2019                                | 104,094              | 139,253                                  | 23,914   | 15,839                       | –                                      | 283,100          |
| <b>Carrying values</b>                             |                      |  |  |                              |  |                  |
| At 31 December 2019                                | 107,397              | 30,518                                   | 6,590  | 3,495                        | 70,344                                 | 218,344          |
| At 31 December 2018                                | 110,194              | 37,975                                   | 6,804  | 2,888                        | 46,849                                 | 204,710          |

As at 31 December 2018, buildings with carrying amounts of approximately RMB7,763,000 were pledged to secure the general banking facilities granted to the Group as disclosed in note 42. Such pledge has been released during the year ended 31 December 2019.

## Notes to the Consolidated Financial Statements

### 16. RIGHT-OF-USE ASSETS

|                            | <b>Leasehold<br/>lands</b> | <b>Leased<br/>properties</b> | <b>Total</b> |
|----------------------------|----------------------------|------------------------------|--------------|
|                            | RMB'000                    | RMB'000                      | RMB'000      |
| At 1 January 2019 (note 3) | 123,052                    | 3,322                        | 126,374      |
| Additions                  | –                          | 3,599                        | 3,599        |
| Depreciation               | (2,905)                    | (2,697)                      | (5,602)      |
| At 31 December 2019        | 120,147                    | 4,224                        | 124,371      |

The Group has pledged its leasehold lands with carrying amounts of approximately RMB82,484,000 as at 31 December 2019 to secure the other borrowings to the Group as disclosed in note 42.

Lease liabilities of RMB4,270,000 are recognised with related right-of-use assets of RMB4,224,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

|   | <b>2019<br/>RMB'000</b> |
|---|-------------------------|
| Depreciation expenses on right-of-use assets  | <b>5,602</b>            |
| Interest expense on lease liabilities (included in finance costs)                                     | <b>171</b>              |
| Expenses relating to short-term lease<br>(included in cost of goods sold and administrative expenses) | <b>4,135</b>            |

Details of total cash outflow for leases is set out in note 35.

For both years, the Group leases various offices, residence and warehouses for its operations. Lease contracts are entered into for fixed term of 1 year to 5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and certain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

## Notes to the Consolidated Financial Statements

### 16. RIGHT-OF-USE ASSETS (Continued)

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

|   | <b>Lease liabilities<br/>recognised as at<br/>31 December<br/>2019<br/>(discounted)<br/>RMB'000</b> | <b>Potential future<br/>lease payments<br/>under extension<br/>options not<br/>included in<br/>lease liabilities<br/>(undiscounted)<br/>RMB'000</b> |
|---|---|---|
| Offices, residence and warehouse located in PRC | 4,270   | 4,537   |

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there has been no such triggering event.

### 17. INTANGIBLE ASSETS

|  | <b>Softwares<br/>RMB'000</b> |
|--|------------------------------|
| <b>Cost</b>                            |                              |
| At 1 January 2018                      | 15,657                       |
| Additions                              | 264                          |
| At 31 December 2018 and 1 January 2019 | 15,921                       |
| Additions                              | 16                           |
| At 31 December 2019                    | 15,937                       |
| <b>Accumulated amortisation</b>        |                              |
| At 1 January 2018                      | 12,454                       |
| Charge for the year                    | 1,252                        |
| At 31 December 2018 and 1 January 2019 | 13,706                       |
| Charge for the year                    | 824                          |
| At 31 December 2019                    | 14,530                       |
| <b>Carrying values</b>                 |                              |
| At 31 December 2019                    | 1,407                        |
| At 31 December 2018                    | 2,215                        |

## Notes to the Consolidated Financial Statements

### 18. DETAILS OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2019 and 2018:

| Name   | Place of incorporation/<br>registration and<br>operation | Principal activities           | Issued and fully<br>paid-up share capital/<br>registered capital | Interest held |      |
|--|--|--------------------------------|--|---------------|------|
|  |  |                                |  | 2019          | 2018 |
| <b>Directly held subsidiaries</b>                    |  |                                |  |               |      |
| Winning Steps Ltd.                                   | British Virgin<br>Island (BVI)                           | Investment holding             | Ordinary shares<br>United States dollars<br>(USD)110             | 100%          | 100% |
| Yu Hwa Holdings Ltd.                                 | BVI  | Investment holding             | Ordinary shares<br>USD1,500,000                                  | 100%          | 100% |
| Hai Sheng International Holdings Inc.                | BVI  | Investment holding             | Ordinary shares<br>USD200,000                                    | 100%          | 100% |
| Sky Thrive Investment Ltd.                           | BVI  | Investment holding             | Ordinary shares<br>USD5,000,000                                  | 100%          | 100% |
| Kai Win Group Ltd.                                   | BVI  | Investment holding             | Ordinary shares USD1   | 100%          | 100% |
| Winnings Steps Hong Kong<br>Development Ltd.         | Hong Kong  | Trading and Investment holding | Ordinary shares<br>Hong Kong dollars<br>(HKD) 1,000              | 100%          | 100% |
| Full Moral Industrial Ltd.                           | Hong Kong  | Inactive                       | Ordinary shares<br>HKD2  | 100%          | 100% |
| Yu Hwa Hong Kong Enterprise Ltd.                     | Hong Kong  | Investment holding             | Ordinary shares<br>HKD1,000                                      | 100%          | 100% |
| Hai Sheng International<br>Hong Kong Ltd.            | Hong Kong  | Investment holding             | Ordinary shares<br>HKD1,000                                      | 100%          | 100% |
| Sky Thrive Hong Kong Enterprise Ltd.<br>(Sky Thrive) | Hong Kong  | Investment holding             | Ordinary shares<br>HKD1,000                                      | 100%          | 100% |

## Notes to the Consolidated Financial Statements

### 18. DETAILS OF SUBSIDIARIES (Continued)

| Name  | Place of incorporation/<br>registration and<br>operation | Principal activities   | Issued and fully<br>paid-up share capital/<br>registered capital | Interest held |      |
|---|--|--|--|---------------|------|
|   |  |  |  | 2019          | 2018 |
| <b>Indirectly held subsidiaries</b>                                   |  |  |  |               |      |
| Hangzhou Good Friend  | PRC*   | Design and production of computer numerical control, design machine tools and construction of three dimensional car parking garage structure | Registered Capital<br>USD11,000,000                              | 100%          | 100% |
| Hangzhou Global Friend Precision Machinery Co., Ltd.                  | PRC*   | Design and assembling of forklift trucks   | Registered Capital<br>USD10,000,000                              | 100%          | 100% |
| Hangzhou Ever Friend Precision Machinery Co., Ltd.                    | PRC*   | Design and production of computer numerical control machine tools  | Registered Capital<br>USD30,000,000                              | 100%          | 100% |
| Hangzhou Glory Friend Machinery Technology Co., Ltd.                  | PRC*   | Processing of computer numerical control machine tools   | Registered Capital<br>USD15,000,000                              | 100%          | 100% |
| Rich Friend (Shanghai) Precision Machinery Co., Ltd.                  | PRC*   | Trading of computer numerical control machine tools  | Registered Capital<br>USD200,000                                 | 100%          | 100% |
| Huller Hille (Shanghai) Machinery Co., Ltd. (Huller Hille)            | PRC*   | Trading of high-end machine tools  | Registered Capital<br>USD1,000,000                               | 100%          | 100% |
| Fair Friend (Henan) Precision Machinery Co., Ltd. (Fair Friend Henan) | PRC*   | Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structure | Registered Capital<br>USD30,000,000                              | 100%          | 100% |

The above list contains the particulars of subsidiaries which principally affected the result, assets or liabilities to the Group.

\* These subsidiaries are PRC limited liability companies.

## Notes to the Consolidated Financial Statements

### 19. INVESTMENTS IN JOINT VENTURES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Cost of unlisted investments in joint ventures | 27,666          | 27,666          |
| Share of post-acquisition losses               | (6,020)         | (7,161)         |
|  | <b>21,646</b>   | 20,505          |

Details of the Group's joint ventures at 31 December 2019 and 2018 are as follows:

| Name   | Place of incorporation/<br>registration | Registered capital                 | Proportion of ownership interest/<br>voting power held<br>by the Group | Principal activities  |
|--|---|------------------------------------|--|---|
| Anest Iwata Feeler Corporation (AIF)                           | PRC                                     | Registered Capital<br>USD9,000,000 | 35%  | Manufacture and sales of air compressor and parts           |
| Hangzhou Nippon Cable Feeler Corporation (Nippon Cable Feeler) | PRC                                     | Registered Capital<br>USD100,000   | 50%  | Wholesale and export of parking garage structures           |
| Hangzhou Feeler Mectron Machinery Co., Ltd. (Feeler Mectron)   | PRC                                     | Registered Capital<br>USD1,110,000 | 45%  | Manufacture and sales of machine tools and related products |
| Hangzhou Union Friend Machinery Co., Ltd. (UFM)                | PRC                                     | Registered Capital<br>USD1,000,000 | 55%  | Manufacture and sales of machine tools and related products |

The directors of the Group has determined that the Group has joint control over the arrangement as under the respective contractual agreements, it appears that unanimous consent is required from all parties to the agreements for all relevant activities.

## Notes to the Consolidated Financial Statements

### 19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint venture

Summarised financial information in respect of each of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

#### AIF

| At 31 December:  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Current assets   | 50,180          | 48,455          |
| Non-current assets   | 26,220          | 28,681          |
| Current liabilities  | (21,905)        | (23,764)        |
| Non-current liabilities  | (7,016)         | (7,065)         |
| The above amounts of assets and liabilities include the following:                   |                 |                 |
| Cash and cash equivalents  | 7,497           | 8,990           |
| Current financial liabilities<br>(excluding trade and other payables and provisions) | (7,220)         | (8,403)         |
| Year ended 31 December:  | 2019<br>RMB'000 | 2018<br>RMB'000 |
| Revenue  | 89,674          | 102,765         |
| Profit and total comprehensive income for the year                                   | 1,172           | 3,349           |

## Notes to the Consolidated Financial Statements

### 19. INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information of material joint venture (Continued)

The above profit and total comprehensive income for the year includes the following:

| Year ended 31 December:       | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Depreciation and amortisation | 3,226           | 2,971           |
| Interest income               | (15)            | (10)            |
| Interest expense              | –               | 405             |
| Income tax expense            | –               | –               |

Reconciliation of the above summarised financial information to the carrying amount of the interest in AIF recognised in the consolidated financial statements:

| At 31 December:                                     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Net assets of AIF                                   | 47,479          | 46,307          |
| Proportion of the Group's ownership interest in AIF | 35%             | 35%             |
| Carrying amount of the Group's interest in AIF      | 16,618          | 16,207          |

#### Aggregate information of joint ventures that are not individually material

| Year ended 31 December:  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| The Group's share of profit and total comprehensive income for the year    | 731             | 946             |
| At 31 December:  | 2019<br>RMB'000 | 2018<br>RMB'000 |
| Aggregate carrying amount of the Group's interests of these joint ventures | 5,028           | 4,298           |

## Notes to the Consolidated Financial Statements

### 20. INVESTMENTS IN ASSOCIATES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Cost of unlisted investment in associates                        | 556,380         | 415,701         |
| Share of post-acquisition losses and other comprehensive income  | (191,849)       | (119,317)       |
| Exchange difference arising on translation of foreign operations | 27,795          | 34,939          |
|  | <b>392,326</b>  | 331,323         |

Details of the Group's associates at 31 December 2019 and 2018 are as follows:

| Name of entity                 | Place of<br>incorporation/<br>registration | Paid up capital | Proportion of<br>ownership interest/<br>voting power held<br>by the Group | Principal activities  |
|--------------------------------|--|-----------------|---|---|
| FFG Europe S.p.A. (FFG Europe) | Italy                                      | EUR3,379,429    | 30.16%/30.16%   | Manufacture and sales of machine tools and related products   |
| FFG Werke                      | Germany                                    | EUR195,000      | 39.00%/39.00%   | Manufacture and distribution of machine tools, spare parts and accessories; providing training and maintenance service for machine tools and products |
| FFG EA                         | Germany                                    | EUR20,343       | 81.37%/33.33%   | Investment holding company  |

## Notes to the Consolidated Financial Statements

### 20. INVESTMENTS IN ASSOCIATES *(Continued)*

#### FFG Europe

The Group holds approximately 30.16% ownership interests in FFG Europe through Sky Thrive, a wholly owned subsidiary of the Company.

According to the Article of Association of FFG Europe, shareholder resolutions are to be adopted by a simple majority of all shareholders authorised to vote, and each share confers one vote. In the opinion of the directors of the Company, the Group has significant influence in FFG Europe. Accordingly, the Group accounted for such investment as investment in an associate in the consolidated financial statements.

#### FFG Werke

The Group holds approximately 39% ownership interests in FFG Werke through Sky Thrive, a wholly-owned subsidiary of the Company.

According to the Article of Association of FFG Werke, shareholder resolutions are to be adopted by a simple majority of all shareholders authorised to vote, and each share confers one vote. In the opinion of the directors of the Company, the Group has significant influence in FFG Werke. Accordingly, the Group accounted for such investment as investment in an associate in the consolidated financial statements.

#### FFG EA

The Group holds approximately 81.37% ownership interests in FFG EA through Sky Thrive, a wholly-owned subsidiary of the Company.

The shareholders of FFG EA have agreed to establish a shareholder committee, under which each of three shareholders shall be entitled to designate one member vote of the shareholders' committee. The entire control over FFG EA shall be governed by the shareholder committee, and any resolution passed with the shareholder committee will be based on simple majority. In the opinion of the directors of the Company, the Group is able to exercise significant influence over FFG EA. Accordingly, the Group accounted for such investment as investment in an associate in the consolidated financial statements.

The principal investment of FFG EA is a 55.3% equity interest in FFG European Holding GmbH, an investment company incorporated in Germany, which in turn effectively owns 100% equity interest in MAG Global Holding GmbH (MAG) and its subsidiaries (collectively referred to as MAG Group). The principal activities of MAG Group are production of machine tools and production systems in Germany and USA.

## Notes to the Consolidated Financial Statements

### 20. INVESTMENTS IN ASSOCIATES (Continued)

Summarised statement of financial position of material associate

Summarised financial information on the associates that are material to the Group is shown below. The results of the associates are accounted for in the consolidated financial statements using equity method. The summarised financial information presented is based on HKFRSs financial statements of the associate.

At 31 December:

|   | FFG EA             |                 |
|---|--------------------|-----------------|
|   | 2019<br>RMB'000    | 2018<br>RMB'000 |
| Cash  | 147,374            | 188,920         |
| Other current assets  | 1,872,112          | 2,057,476       |
| <b>Total current assets</b>                                 | <b>2,019,486</b>   | 2,246,396       |
| Short term bank borrowings                                  | (172,776)          | (207,568)       |
| Other financial liabilities                                 | (1,459,488)        | (1,835,053)     |
| <b>Total current liabilities</b>                            | <b>(1,632,264)</b> | (2,042,621)     |
| Non-current assets  | 1,737,392          | 1,743,790       |
| Non-current liabilities                                     | (1,178,404)        | (1,205,208)     |
| <b>Net assets</b>   | <b>946,210</b>     | 742,357         |
| Less: non-controlling interests                             | 464,060            | 335,177         |
| <b>Net assets attributed to the owners of the associate</b> | <b>482,150</b>     | 407,180         |
| <b>Group's share of net assets</b>                          | <b>392,326</b>     | 331,323         |

## Notes to the Consolidated Financial Statements

### 20. INVESTMENTS IN ASSOCIATES (Continued)

Summarised statement of profit or loss and other comprehensive income of material associate

| Year ended 31 December:   | FFG EA          |                 |
|---|-----------------|-----------------|
|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
| Revenue   | 3,349,477       | 3,572,255       |
| Cost of revenue   | (2,882,198)     | (3,077,960)     |
| Other expenses  | (553,955)       | (535,239)       |
| <b>Loss before tax</b>  | <b>(86,676)</b> | (40,944)        |
| Income tax credit/(expense)   | 12,825          | (42,263)        |
| <b>Loss for the year</b>  | <b>(73,851)</b> | (83,207)        |
| Less: non-controlling interests   | (3,691)         | (27,384)        |
| Loss for the year attributed to owners of the associate                       | (70,160)        | (55,823)        |
| Other comprehensive income for the year attributed to owners of the associate | (18,979)        | 22,427          |
| Group's share of loss of associates   | (57,089)        | (45,423)        |
| Group's share of other comprehensive income of associates                     | (15,443)        | 18,249          |

The Group has not recognised loss for the year of FFG Europe and FFG Werke in aggregate amounting to RMB19,064,000 (2018: 66,926,000). The aggregate accumulated losses not recognised were RMB110,525,000 (2018: RMB91,983,000).

## Notes to the Consolidated Financial Statements

### 21A. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Trade receivables                                  | 225,452         | 323,790         |
| Less: impairment of trade receivables (note 38(d)) | (39,596)        | (46,931)        |
|  | <b>185,856</b>  | 276,859         |
| Prepayments  | 14,749          | 44,713          |
| Other receivables                                  | 26,491          | 24,238          |
|  | <b>227,096</b>  | 345,810         |

The Group generally allows a credit period of 30 to 180 days to its customers. The Group also allows its customers to retain certain percentage of the outstanding balances as retention money amounted to RMB22,696,000 (2018: RMB22,699,000) of which the conditions to entitlement of consideration had been reached and became unconditional.

At 31 December 2019 and 2018, the aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

|                   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------|-----------------|-----------------|
| Current – 30 days | 21,541          | 32,087          |
| 31 – 60 days      | 18,300          | 9,694           |
| 61 – 90 days      | 14,376          | 27,194          |
| 91 – 180 days     | 23,947          | 29,461          |
| Over 180 days     | 107,692         | 178,423         |
|                   | <b>185,856</b>  | 276,859         |

## Notes to the Consolidated Financial Statements

### 21A. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

The Group's trade receivables that are denominated in currency other than the functional currency of the relevant group entities is set out below:

|     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----|-----------------|-----------------|
| USD | 4,766           | 9,100           |
| EUR | 9,248           | 16,708          |

### 21B. CONTRACT ASSETS

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Arising from revenue from                        |                 |                 |
| – Machine tools                                  | 34,041          | 30,692          |
| – Parking garage structures                      | 10,577          | 16,265          |
|  | 44,618          | 46,957          |
| Less: impairment on contract assets (note 38(d)) | (219)           | (230)           |
|  | 44,399          | 46,727          |

The contract assets primarily relate to the Group's right to billing for work completed and not billed because the rights are conditional upon specified payment milestones at the end of each reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the Group achieved the specific milestones of payments in the corresponding contracts.

The Group classifies these contract assets as current asset because the Group expects to realise them in its normal operating cycle and within one year.

## Notes to the Consolidated Financial Statements

### 22. LOANS RECEIVABLE

As at 31 December 2019, the Group's loans receivable to a non-controlling shareholder of an associate is unsecured, interest free, repayable on demand. The repayment of the loans receivable is guaranteed by the ultimate holding company.

The Group's loans receivable that are denominated in currency other than the functional currency of the relevant group entities is set out below:

|     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----|-----------------|-----------------|
| EUR | 48,394          | 35,627          |

### 23. RECEIVABLES AT FVTOCI

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Bills receivable aged within 1 year presented based on the issue dates of bills receivable | 101,945         | 106,400         |

Bills receivable are denominated in RMB.

### 24. INVENTORIES

|                  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|------------------|-----------------|-----------------|
| Raw materials    | 49,401          | 62,425          |
| Work in progress | 234,622         | 234,030         |
| Finished goods   | 209,030         | 228,297         |
|                  | 493,053         | 524,752         |

Impairment of inventories of RMB667,000 (2018: RMB2,087,000) has been recognised and included in cost of sales during the year.

## Notes to the Consolidated Financial Statements

### 25. RESTRICTED BANK BALANCES

|                                       | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Restricted bank balances arising from |                 |                 |
| – trade finance facilities            | 43,728          | 15,900          |
| – litigation claim (note 36)          | 62,605          | 54,087          |
|                                       | <b>106,333</b>  | 69,987          |

Restricted bank balances from trade finance facilities represent the amounts placed in banks as guarantees issued for trade finance facilities granted to the Group as set out in note 42 to the consolidated financial statements. The deposits have maturity period within one year which carry fixed interest rate at 0.3% (2018: 0.3%) per annum.

Breaches in meeting the financial covenants would permit the bank to immediate call for repayment. There have been no breaches in the financial covenants of any borrowings for the years ended 31 December 2018 and 2019.

### 26. BANK AND CASH BALANCES

Bank balances carry interest at market rates which range from 0.01% to 1% (31 December 2018: 0.35% to 1.5%) per annum.

The Group's bank and cash balances (including restricted bank balances) that are denominated in currency other than the functional currency of the relevant group entities is set out below:

|        | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------|-----------------|-----------------|
| USD    | 11,969          | 6,114           |
| EUR    | 13,070          | 31,418          |
| Others | 6,051           | 7,247           |

As at 31 December 2019, the bank and cash balances and restricted bank balances of the Group denominated in RMB amounted to RMB150,103,000 (2018: RMB137,881,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

## Notes to the Consolidated Financial Statements

### 27. SHARE CAPITAL

|   | Number<br>of shares<br>'000 | Amount<br>HKD'000 | Amount<br>RMB'000 |
|---|-----------------------------|-------------------|-------------------|
| <b>Ordinary share of HKD0.01 each</b>                                       |                             |                   |                   |
| <b>Authorised:</b>  |                             |                   |                   |
| At 1 January 2018, 31 December 2018,<br>1 January 2019 and 31 December 2019 | <b>1,000,000</b>            | 10,000            | 10,211            |
| <b>Issued and fully paid:</b>   |                             |                   |                   |
| At 1 January 2018, 31 December 2018 and<br>1 January 2019                   | <b>403,200</b>              | 4,032             | 4,022             |
| Share repurchased and cancelled (note a)                                    | <b>(126)</b>                | (1)               | (1)               |
| At 31 December 2019   | <b>403,074</b>              | 4,031             | 4,021             |

Note:

- (a) The Company repurchased 126,000 of its own shares through purchases on the Stock Exchange in July 2019. The total amount paid of approximately RMB99,000, net of related transaction costs has been deducted from share premium.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the bank borrowings.

The Group receives a report from the share registrars on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2019, over 25% (2018: over 25%) of the shares were in public hands.

## Notes to the Consolidated Financial Statements

### 28. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

|                  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|------------------|-----------------|-----------------|
| Trade payables   | 162,885         | 163,957         |
| Bills payable    | 150,144         | –               |
| Other payables   | 32,152          | 32,474          |
| Accrued expenses | 44,119          | 46,538          |
|                  | <b>389,300</b>  | 242,969         |

The following is an aging analysis of trade and bills payables presented based on the invoice date:

|                   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------|-----------------|-----------------|
| Current – 30 days | 54,647          | 54,794          |
| 31 – 60 days      | 47,414          | 41,850          |
| 61 – 90 days      | 45,400          | 9,928           |
| 91 – 180 days     | 73,700          | 24,325          |
| Over 180 days     | 91,868          | 33,060          |
|                   | <b>313,029</b>  | 163,957         |

The Group normally receives credit terms of 30 to 90 days from its suppliers (2018: 30 to 60 days).

The Group's trade payables denominated in currencies other than the functional currency of the relevant group entities is set out below:

|     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----|-----------------|-----------------|
| USD | 10,582          | 3,224           |
| EUR | –               | 13,436          |

## Notes to the Consolidated Financial Statements

### 29. CONTRACT LIABILITIES

|                                     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Billing in advance of revenue from: |                 |                 |
| – Machine tools                     | 87,904          | 145,501         |
| – Parking garage structures         | 206,512         | 205,920         |
| – Forklift trucks                   | 5,920           | 7,330           |
|                                     | <b>300,336</b>  | 358,751         |

Contract liabilities relating to billing in advance of revenue from machine tools, parking garage structures and forklift trucks are balances due to customers under sales contracts. These arise if billing is made in advance of the Group's performance obligation of the sales contracts.

Contract liabilities that are expected to be settled within the Group's normal operating cycle are classified as current liabilities. There were no significant changes in the contract liabilities balances during the respecting period.

Movements in contract liabilities:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Balance at 1 January  | 358,751         | 436,711         |
| Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period | (169,415)       | (245,805)       |
| Increase in contract liabilities as a result of billing in advance of revenue from:   |                 |                 |
| – Machine tools   | 53,936          | 104,518         |
| – Parking garage structures   | 53,318          | 102,371         |
| – Forklift trucks   | 3,746           | 4,820           |
| Amount reallocated to refund liabilities for litigation claim   | –               | (43,864)        |
| Balance at 31 December  | <b>300,336</b>  | 358,751         |

## Notes to the Consolidated Financial Statements

### 30. WARRANTY PROVISION

|                                      | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------------------------|-----------------|-----------------|
| At 1 January                         | 5,311           | 5,755           |
| Additional provision during the year | 2,985           | 4,983           |
| Utilisation of provision             | (4,277)         | (5,427)         |
| At 31 December                       | <b>4,019</b>    | 5,311           |

The warranty provision represents the Group's best estimate of the Group's liability under 1 to 2 years warranty granted to the Group's sale of machine tools, parking garage structures and forklift trucks based on prior experience and industry average level for defective products.

### 31. BANK AND OTHER BORROWINGS

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Bank borrowings – variable interest rates                           | 400,071         | 563,239         |
| Other borrowings – interest free                                    | 36,760          | 35,093          |
|   | <b>436,831</b>  | 598,332         |
| Secured   | 36,760          | 35,093          |
| Unsecured   | 400,071         | 563,239         |
|   | <b>436,831</b>  | 598,332         |
| Carrying amount repayable*  |                 |                 |
| Within one year   | 400,071         | 563,239         |
| Within a period of more than two years but not exceeding five years | 36,760          | 35,093          |
|   | <b>436,831</b>  | 598,332         |

\* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's bank borrowings carry interest with reference to Hong Kong Interbank Offered Rate/London Interbank Offered Rate/Taipei Interbank Offered Rate/European Interbank Offered Rate.

## Notes to the Consolidated Financial Statements

### 31. BANK AND OTHER BORROWINGS (Continued)

The Group's other borrowings are interest-free loan of RMB43,522,000 received from the PRC government. The loan is repayable in full in 2023. Using prevailing market interest rate for an equivalent loan of 4.75%, the fair value of the loan at inception is estimated at RMB34,510,000. The difference of RMB9,012,000 between the gross proceeds and the fair value of the other borrowings represents the benefit derived from the interest-free loan and is recognised as deferred income (note 33) and will be recognised in profit or loss on the same basis as depreciation for the related property, plant and equipment.

The range of effective interest rates of the Group's bank and other borrowings are as follows:

|                         | 2019                              | 2018                       |
|-------------------------|-----------------------------------|----------------------------|
| Effective interest rate | <b>0.9% to 5.87%</b><br>per annum | 0.9% to 4.75%<br>per annum |

The Group's bank and other borrowings that are denominated in currencies other than the functional currency of the relevant group entities is set out below:

|     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----|-----------------|-----------------|
| USD | <b>87,367</b>   | 106,268         |
| EUR | <b>42,790</b>   | 139,172         |
| HKD | <b>179,777</b>  | 305,014         |

Notes:

- (a) As at 31 December 2018, the Group's prepaid lease payments with carrying amounts of approximately RMB3,262,000 and buildings with carrying amounts of approximately RMB7,763,000 were pledged to secure the general banking facilities granted to the Group. Such pledge has been released during the year ended 31 December 2019.
- (b) As at 31 December 2019, personal guarantees were provided by a director of the Company and a related party of the Group in respect of the Group's bank facilities of RMB90,691,000 (2018: RMB96,085,000).
- (c) As at 31 December 2019, the Group's other borrowings of RMB36,760,000 (2018: RMB35,093,000) were secured by right-of-use assets (2018: prepaid lease payments) with carrying amounts of approximately RMB82,484,000 (2018: RMB84,338,000).

## Notes to the Consolidated Financial Statements

### 32. DEFERRED TAX ASSETS

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

|  | Impairment<br>on trade<br>receivables<br>and contract<br>assets<br>RMB'000 | Impairment<br>of inventories<br>RMB'000 | Warranty<br>provision<br>RMB'000 | Deferred<br>income<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|--|--|---|----------------------------------|-------------------------------|-------------------|------------------|
| At 1 January 2018                      | 4,864  | 1,066                                   | 819                              | 15,295                        | 5,030             | 27,074           |
| Charge to other comprehensive income   | (353)  | –                                       | –                                | –                             | –                 | (353)            |
| Credit/(charge) to profit or loss      | 233  | 129                                     | (53)                             | –                             | 490               | 799              |
| At 31 December 2018 and 1 January 2019 | 4,744  | 1,195                                   | 766                              | 15,295                        | 5,520             | 27,520           |
| Credit/(charge) to profit or loss      | (478)  | 460                                     | –                                | 1,225                         | (736)             | 471              |
| At 31 December 2019                    | 4,266  | 1,655                                   | 766                              | 16,520                        | 4,784             | 27,991           |

At the end of the reporting period, the Group has unused tax losses of approximately RMB87,031,000 (2018: RMB130,086,000) available for offsetting against future profits that will expire in five years. Other tax losses may be carried forward indefinitely. No deferred tax asset had been recognised due to the unpredictability of future profit streams.

Apart from unutilised tax losses as mentioned above, the Group had other deductible temporary differences of RMB164,944,000 (2018: RMB166,345,000) available to offset against future profits as at 31 December 2019. Deductible temporary differences of RMB141,677,000 (2018: RMB115,652,000) had been recognised in deferred tax assets as at 31 December 2019, while RMB23,267,000 (2018: RMB50,693,000) had not been recognised as it is not probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

## Notes to the Consolidated Financial Statements

### 33. DEFERRED INCOME

|                                  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|----------------------------------|-----------------|-----------------|
| Assets related government grants | 75,090          | 70,192          |
| Analysed as:                     |                 |                 |
| Current liabilities              | 1,410           | –               |
| Non-current liabilities          | 73,680          | 70,192          |
|                                  | 75,090          | 70,192          |

In November 2016 and July 2019, a wholly owned subsidiary of the Company, Fair Friend Henan received certain government subsidies and grants amounting to RMB61,180,000 and RMB8,647,000 respectively for its specified purpose of the usage of land. These grants will be recognised as other income in profit or loss over the lease term of the land.

Furthermore, in April 2018, Fair Friend Henan received an interest-free loan government grant with the benefit amounted to RMB9,012,000 (see note 31 for details). Up to the date of approval of these consolidated financial statements, the related construction of the plant and equipment are still under construction and thus the deferred income is not yet recognised in profit or loss.

### 34. LEASE LIABILITIES

|  | Minimum<br>lease payments |                 | Present value of minimum<br>lease payments |                 |
|--|---------------------------|-----------------|--|-----------------|
|  | 2019<br>RMB'000           | 2018<br>RMB'000 | 2019<br>RMB'000                            | 2018<br>RMB'000 |
| Within one year  | 2,646                     | –               | 2,486                                      | –               |
| In the second to fifth years, inclusive  | 1,876                     | –               | 1,784                                      | –               |
|  | 4,522                     | –               | 4,270                                      | –               |
| Less: Future finance charges   | (252)                     | –               | N/A  | N/A             |
| Present value of lease obligations   | 4,270                     | –               | 4,270                                      | –               |
| Less: Amount due for settlement<br>within 12 months<br>(shown under current liabilities) |                           |                 | 2,486                                      | –               |
| Amount due for settlement after<br>12 months   |                           |                 | 1,784                                      | –               |

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

## Notes to the Consolidated Financial Statements

### 35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both the cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

|                                     | 1 January<br>2019<br>RMB'000 | Impact on<br>initial<br>application of<br>HKFRS 16<br>(note 3)<br>RMB'000 | Restated<br>balance at<br>1 January<br>2019<br>RMB'000 | Cash flows<br>RMB'000 | Foreign<br>exchange<br>translation<br>RMB'000 | Interest<br>expenses<br>RMB'000 | Amortisation<br>RMB'000 | Change in<br>lease<br>liabilities<br>RMB'000 | 31 December<br>2019<br>RMB'000 |
|-------------------------------------|------------------------------|---|--|-----------------------|---|---------------------------------|-------------------------|--|--------------------------------|
| Bank and other borrowings (note 31) | 598,332                      | -   | 598,332  | (193,517)             | 5,776   | 26,240                          | -                       | -  | 436,831                        |
| Deferred income (note 33)           | 70,192                       | -   | 70,192   | 8,647                 | -   | -                               | (3,749)                 | -  | 75,090                         |
| Lease liabilities (note 34)         | -                            | 3,322   | 3,322  | (2,822)               | -   | 171                             | -                       | 3,599  | 4,270                          |
|                                     | <b>668,524</b>               | <b>3,322</b>  | <b>671,846</b>   | <b>(187,692)</b>      | <b>5,776</b>                                  | <b>26,411</b>                   | <b>(3,749)</b>          | <b>3,599</b>                                 | <b>516,191</b>                 |

|  | 1 January<br>2018<br>RMB'000 | Cash flows<br>RMB'000 | Foreign<br>exchange<br>translation<br>RMB'000 | Interest<br>expenses<br>RMB'000 | Dividends<br>recognised as<br>distributions<br>RMB'000 | 31 December<br>2018<br>RMB'000 |
|--|------------------------------|-----------------------|---|---------------------------------|--|--------------------------------|
| Dividends payable (note 13)            | -                            | (44,352)              | -   | -                               | 44,352   | -                              |
| Bank and other borrowings<br>(note 31) | 367,428                      | 190,946               | 25,195  | 14,763                          | -  | 598,332                        |
| Deferred income (note 33)              | 61,180                       | 9,012                 | -   | -                               | -  | 70,192                         |
|  | <b>428,608</b>               | <b>155,606</b>        | <b>25,195</b>                                 | <b>14,763</b>                   | <b>44,352</b>  | <b>668,524</b>                 |

Note:

The financing cash flow of bank and other borrowings represents the proceeds from and repayments of bank and other borrowings and interest paid in the consolidated statement of cash flows.

## Notes to the Consolidated Financial Statements

### 35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

|                             | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----------------------------|-----------------|-----------------|
| Within operating cash flows | <b>6,957</b>    | 8,232           |

These amounts relate to the following:

|                                  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|----------------------------------|-----------------|-----------------|
| Lease rental paid                | <b>4,135</b>    | 8,232           |
| Payments for right-of-use assets | <b>2,822</b>    | –               |
|                                  | <b>6,957</b>    | 8,232           |

### 36. PROVISION FOR LITIGATION CLAIM

- (a) In September 2015, the Group's subsidiary, Huller Hille, entered into a sales contract with an independent third party (the Customer) to sell 7 sets of high-end CNC machine tools (the Machine Tools) to the Customer, which were originally procured from FFG Werke. In October 2015, Huller Hille, Hangzhou Good Friend and the Customer entered into a supplementary agreement that Hangzhou Good Friend shall, collectively with Huller Hille, share the rights and obligations as the seller set out in the contract entered into in September 2015. The delivery of the 7 sets of Machine tools were completed by Huller Hille in 2017.

Subsequent to the delivery, the Customer raised to Huller Hille that some of the Machine Tools did not meet the product quality requirement as set out in the contract. After a few round of amendments and negotiations with the Customer, the Customer and Huller Hille still could not reach consensus on the product quality of the Machine Tools. Finally the Customer raised a litigation to the Province Higher People's Court in Anhui. On 31 August 2018, the Province Higher People's Court in Anhui issued the first-instance judgement in favour to the Customer for which the Customer shall return the 7 sets of Machine Tools to the Group and the Group shall refund and compensate the Customer in an aggregate amount of RMB161,020,000.

### 36. PROVISION FOR LITIGATION CLAIM *(Continued)*

(a) *(Continued)*

In October 2018, the Group then filed an appeal to the Supreme People's Court and obtained approval for second-instance. In December 2019, the court of second instance has commenced its hearing and as at the date of the approval of these consolidated financial statements, the second-instance hearing have yet been completed by the Province Higher People's Court in Anhui.

As at 31 December 2019, an aggregate bank balance of RMB62,578,000 (2018: RMB54,087,000) in Hangzhou Good Friend were being frozen by banks as the respective banks had received notice from court with regard to the litigation claim. Such bank balances was included in restricted bank balances in the consolidated financial statements.

After taking into account of the legal opinion of an independent PRC legal counsel and the current status of the litigation, the directors of the Company made their best estimation on the amount of refund to the Customer amounted to RMB100,903,000 which has been recognised as refund liabilities in the consolidated statement of financial position and the expected loss on settlement of the litigation amounted to RMB60,117,000 has been provided for under provision for litigation claim in the consolidated statement of financial position.

Furthermore, in March 2019, FFG Werke, an associate of the Group and the Group's supplier of the Machine Tools, has agreed to compensate the Group amounted to RMB72,667,000 in respect of the litigation cost and claim raised by the Customer (note 7A). Such compensation income is guaranteed for repayment by the ultimate holding company and recorded as other income in the consolidated statement of profit or loss and other comprehensive income.

- (b) In August 2019, a construction contractor (the Contractor), an independent third party, raised to Fair Friend Henan, a wholly owned subsidiary of the Group, that the payment of outstanding balance of a construction project located in Henan should be borne collectively by Fair Friend Henan and two other contracted parties. The Contractor raised a litigation to the Intermediate People's Court in Zhengzhou (the "First-instance"). On 27 August 2019, the Intermediate People's Court in Zhengzhou issued an order to freeze certain bank accounts of Fair Friend Henan and the two contracted parties up to an amount of RMB57,832,000. As at 31 December 2019, a bank balance of RMB27,000 in Fair Friend Henan was being frozen by a bank with regard to litigation claim and such balance was included as restricted bank balances in the consolidated statement of financial position.

After taking into account of the legal opinion of an independent PRC legal counsel and the current status of the litigation, the directors of the Company made their best estimation on the litigation and considered the probability of outflow of economic benefits will be required is uncertain as Fair Friend Henan is neither a contracted party nor a guarantor of the said construction project. Thus, no provision is made as at 31 December 2019. As at the date of approval of these consolidated financial statements, the First-instance is still in progress.

## Notes to the Consolidated Financial Statements

### 37. COMMITMENTS

#### (a) Capital commitments

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: |                 |                 |
| – Construction of plant   | 24,246          | 53,134          |

#### (b) Operating lease commitments

At the reporting date, the Group had commitments for future minimum lease payments relating to office rental under non-cancellable operating leases as follows:

|   | 2018<br>RMB'000 |
|---|-----------------|
| No later than 1 year                        | 4,764           |
| Later than 1 year and no later than 5 years | 1,481           |
|   | 6,245           |

### 38. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, other price risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (a) Foreign currency risk

The Group is mainly exposed to foreign currency risk arising from HKD, USD and EUR against RMB. This foreign currency risk arises from business transactions, assets and liabilities denominated in a currency that is not the Group functional currency of RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

The Group currently does not have a foreign currency hedging policy as the management of the Group considers that the foreign currency risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

## Notes to the Consolidated Financial Statements

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Foreign currency risk (Continued)

##### *Sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase in the functional currency of the relevant group entities against the foreign currency. 5% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates.

A positive/(negative) number below indicates an increase/(decrease) in post-tax profit and a decrease/(increase) in post-tax loss for the year where the functional currency of relevant group entities strengthening against the relevant foreign currency at 31 December 2019, for a 5% weakening of the functional currency of relevant group entities, there would be an equal and opposite impact on the post-tax (loss)/profit for the year.

|     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----|-----------------|-----------------|
| USD | 3,412           | 3,127           |
| EUR | 1,146           | 2,461           |
| HKD | 7,253           | 12,510          |

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

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed interest rate restricted bank balances and interest free other borrowings. The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group's exposure on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to variable interest rate bank borrowings, restricted bank balances and bank balances.

#### *Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates for variable interest rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year. 50 basis points (2018: 50 basis points) increase or decrease for variable interest rate bank borrowings represents management's assessment of the reasonably possible change in interest rates. Restricted bank balances and bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable interest rate restricted bank balances and bank balances is insignificant.

If interest rates had been increased/decreased by 50 basis points (2018: 50 basis points) in respect of variable interest rate bank borrowings and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would increase/decrease by RMB1,677,000 (2018: post-tax loss for the year would decrease/increase by RMB2,394,000).

#### (c) Other price risk

The Group is exposed to other price risk through its receivables at FVTOCI. In the opinion of the directors of the Company, no sensitivity analysis is prepared for the other price risk since the impact to the Group's post-tax profit/(loss) for the year is insignificant as these receivables have short maturities.

#### (d) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables and contract assets) from its investing activities (primarily loans receivable) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Except for the financial guarantee issued by the Group as set out in note 41, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 41.

### 38. FINANCIAL RISK MANAGEMENT *(Continued)*

#### (d) Credit risk *(Continued)*

##### *Trade receivables and contract assets*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group assesses individually for debtors with significant balances or credit impaired and/or collectively using a provision matrix with appropriate grouping. For collective assessment, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. ECL is estimated based on historical credit loss experience based on the past default experience of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off trade receivables and contract assets when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The credit rating information supplied by independent rating agencies will be referenced when required. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

## Notes to the Consolidated Financial Statements

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Credit risk (Continued)

##### Trade receivables and contract assets (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets excluding specific loss allowance for trade receivables as at 31 December 2019:

#### As at 31 December 2019

|                             | Current to<br>30 days<br>RMB'000 | 31 to<br>60 days<br>RMB'000 | 61 to<br>90 days<br>RMB'000 | 91 to<br>180 days<br>RMB'000 | Over<br>180 days<br>RMB'000 | Total<br>RMB'000 |
|-----------------------------|----------------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|------------------|
| ECL rate                    | -                                | -                           | -                           | 1.71%                        | 42.43%                      | 10.10%           |
| Total gross carrying amount | 68,400                           | 2,927                       | 19                          | 783                          | 22,508                      | 94,637           |
| Loss allowance              | -                                | -                           | -                           | (13)                         | (9,550)                     | (9,563)          |
|                             | 68,400                           | 2,927                       | 19                          | 770                          | 12,958                      | 85,074           |

#### As at 31 December 2018

|                             | Current to<br>30 days<br>RMB'000 | 31 to<br>60 days<br>RMB'000 | 61 to<br>90 days<br>RMB'000 | 91 to<br>180 days<br>RMB'000 | Over<br>180 days<br>RMB'000 | Total<br>RMB'000 |
|-----------------------------|----------------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|------------------|
| ECL rate                    | 0.23%                            | 1.49%                       | 1.89%                       | 1.64%                        | 47.24%                      | 10.13%           |
| Total gross carrying amount | 111,960                          | 537                         | 1,375                       | 4,752                        | 31,371                      | 149,995          |
| Loss allowance              | (262)                            | (8)                         | (26)                        | (78)                         | (14,821)                    | (15,195)         |
|                             | 111,698                          | 529                         | 1,349                       | 4,674                        | 16,550                      | 134,800          |

The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

Movements of impairment of trade receivables of the Group in 2019 and 2018 are as follows:

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| At 1 January                             | 46,931          | 43,151          |
| (Reversal of impairment)/impairment loss | (2,998)         | 9,131           |
| Amount written off                       | (4,337)         | (5,351)         |
| At 31 December                           | 39,596          | 46,931          |

## Notes to the Consolidated Financial Statements

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Credit risk (Continued)

##### Trade receivables and contract assets (Continued)

Movements of impairment of contract assets for the year ended 31 December 2019 and 2018:

|                             | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----------------------------|-----------------|-----------------|
| At 1 January                | 230             | 486             |
| Reversal of impairment loss | (11)            | (256)           |
| At 31 December              | 219             | 230             |

The following table shows the Group's credit risk grading framework in respect of financial assets other than trade receivables and contract assets:

| Category   | Description   | Basis for recognising ECL          |
|------------|---|------------------------------------|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12-month ECL                       |
| Doubtful   | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)                                | Lifetime ECL – not credit impaired |
| Default    | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)    | Lifetime ECL – credit Impaired     |
| Write-off  | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery  | Amount is written off              |

## Notes to the Consolidated Financial Statements

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Credit risk (Continued)

##### *Other receivables and loans receivable*

For other receivables and loans receivable, the Group has applied the general approach in HKFRS 9 to measure the loss allowance approximate to such at 12-month ECL, since the directors of the Company did not expect any significant increase in credit risk. Thus, no loss allowance provision is recognised.

##### *Bank balances, restricted bank balances and receivables at FVTOCI*

The bank balances, restricted bank balances and receivables at FVTOCI are determined to have low risk at the end of the reporting period. The credit risk on bank balances, restricted bank balances, and receivables at FVTOCI are limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

##### *Amounts due from related parties*

With reference to the liquidity position and the historical settlement patterns from the Group's fellow subsidiaries, associates of ultimate holding company, joint ventures, associates and subsidiaries of an associate, the Group has assessed that the ECL for amounts due from these related parties is insignificant. Thus, no loss allowance provision is recognised.

#### (e) Liquidity risk

In order to manage the liquidity risk, the Group monitors and maintains cash and cash equivalents and unused credit facilities at a level which is deemed to be adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period between the reporting date to the contractual maturity dates.

|  | Repayable<br>on demand or<br>less than 1 year<br>RMB'000 | 2-5 years<br>RMB'000 | Total<br>undiscounted<br>cash flows<br>RMB'000 | Total<br>carrying<br>amount<br>RMB'000 |
|--|--|----------------------|--|--|
| <b>At 31 December 2019</b>   |  |                      |  |  |
| Trade and other payables   | 389,300  | -                    | 389,300  | 389,300                                |
| Bank borrowings – variable interest rate   | 415,721  | -                    | 415,721  | 400,071                                |
| Other borrowings   | -  | 43,522               | 43,522   | 36,760                                 |
| Amount due to ultimate holding company   | 157  | -                    | 157  | 157                                    |
| Amount due to immediate holding company  | 815  | -                    | 815  | 815                                    |
| Amounts due to fellow subsidiaries and<br>associates of ultimate holding company | 2,457  | -                    | 2,457  | 2,457                                  |
| Amounts due to joint ventures  | 380  | -                    | 380  | 380                                    |
| Amounts due to an associate and<br>subsidiaries of an associate                  | 23,481   | -                    | 23,481   | 23,481                                 |
| Financial guarantee (note)   | 13,091   | -                    | 13,091   | -                                      |

Note:

The amount is categorised based on contractual term of repayment of the relevant underlying financial guarantee contracts guaranteed by the Group.

## Notes to the Consolidated Financial Statements

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (e) Liquidity risk (Continued)

|  | Repayable<br>on demand or<br>less than 1 year<br>RMB'000 | 2-5 years<br>RMB'000 | Total<br>undiscounted<br>cash flows<br>RMB'000 | Total<br>carrying<br>amount<br>RMB'000 |
|--|--|----------------------|--|--|
| At 31 December 2018  |  |                      |  |  |
| Trade and other payables   | 196,431  | –                    | 196,431  | 196,431                                |
| Bank borrowings – variable interest rate   | 579,246  | –                    | 579,246  | 563,239                                |
| Other borrowings   | –  | 43,522               | 43,522   | 35,093                                 |
| Amount due to ultimate holding company   | 638  | –                    | 638  | 638                                    |
| Amount due to immediate holding company  | 2,832  | –                    | 2,832  | 2,832                                  |
| Amounts due to joint ventures  | 362  | –                    | 362  | 362                                    |
| Amounts due to fellow subsidiaries and<br>associates of ultimate holding company | 3,637  | –                    | 3,637  | 3,637                                  |
| Amounts due to an associate and subsidiaries<br>of an associate                  | 28,435   | –                    | 28,435   | 28,435                                 |

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

#### (f) Categories of financial instruments at 31 December 2019

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <i>Financial assets:</i>                     |                 |                 |
| Receivables at FVTOCI – Debt instruments     | 101,945         | 106,400         |
| Financial assets at FVTPL – Held for trading | –               | 108,020         |
| Financial assets measured at amortised cost  | 683,849         | 670,927         |
|  | <b>785,794</b>  | 885,347         |
| <i>Financial liabilities:</i>                |                 |                 |
| Financial liabilities at amortised cost      | 853,421         | 830,667         |

### 38. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

(h) Transfers of financial assets

As at 31 December 2019, the Group had transferred to its suppliers by endorsing bills amounted to RMB52,986,000 (2018: RMB75,770,000).

As those bills are issued by banks with high credit rating, the management of the Group had assessed and satisfied that the Group had transferred substantially all of the risks and rewards relating to those bills. The Group had derecognised the full carrying amount of the abovementioned bills and the corresponding amount of trade payables.

### 39. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

## Notes to the Consolidated Financial Statements

### 39. FAIR VALUE MEASUREMENTS (Continued)

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2019:

*Recurring fair value measurements:*

| Financial assets          | Fair value as at                                |  | Fair value hierarchy | Valuation technique(s) and key input(s)   | Significant unobservable input(s)  |
|---------------------------|---|--|----------------------|---|------------------------------------|
|                           | 31 December 2019                                | 31 December 2018                               |                      |   |                                    |
| Receivables at FVTOCI     | <b>Receivables at FVTOCI<br/>RMB101,945,000</b> | Receivables at FVTOCI<br>RMB106,400,000        | 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                                |
| Financial assets at FVTPL | <b>Nil</b>                                      | Unlisted financial products:<br>RMB108,020,000 | Level 3              | 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. | Forecast yield from the investment |

(b) Reconciliation of assets measurement at fair value based on level 3:

The Group's financial assets at FVTPL are under level 3 fair value hierarchy. Their fair values were determined by discounted cash flows method at which the estimated future cash flows are discounted at discount interest rate that reflects the time value to the dates of settlement.

|  | Financial assets<br>at FVTPL<br>RMB'000 |
|--|---|
| At 1 January 2018                      | 76,140                                  |
| Purchases                              | 539,680                                 |
| Settlements                            | (507,800)                               |
| At 31 December 2018 and 1 January 2019 | 108,020                                 |
| Purchases                              | 109,635                                 |
| Settlements                            | (217,655)                               |
| At 31 December 2019                    | –                                       |

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group also had the following transactions with its related parties during the year:

(a) Transactions

| Name of company  | Relationship                          | Nature of transactions | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|---------------------------------------|------------------------|-----------------|-----------------|
| <b><i>Ultimate holding company</i></b>   |                                       |                        |                 |                 |
| Fair Friend  | Ultimate holding company              | Sales of goods         | –               | 711             |
|  |                                       | Purchases of goods     | <b>7,996</b>    | 19,764          |
|  |                                       | Purchases of services  | <b>4,054</b>    | –               |
| <b><i>Immediate holding company</i></b>  |                                       |                        |                 |                 |
| Hong Kong GF   | Immediate holding company             | Purchases of goods     | <b>37,182</b>   | 57,811          |
| <b><i>Fellow subsidiaries and associates and of ultimate holding company</i></b> |                                       |                        |                 |                 |
| Ikegai (Shanghai) Machinery & Equipment Co., Ltd                                 | Fellow subsidiary                     | Purchases of goods     | <b>433</b>      | 1,463           |
| Hangzhou Best Friend Technology Co., Ltd. (Best Friend)                          | Associate of ultimate holding company | Sales of goods         | <b>4</b>        | 2               |
|  |                                       | Interest income        | <b>70</b>       | –               |
| Hangzhou Feeler Takamatsu Machinery Co., Ltd. (Feeler Takamatsu)                 | Associate of ultimate holding company | Purchases of goods     | –               | 113             |
|  |                                       | Rendering of services  | <b>1,568</b>    | 1,322           |
|  |                                       | Rental income          | <b>82</b>       | 68              |
| FFG DMC Co.,Ltd. (FFG DMC)   | Fellow subsidiary                     | Sales of goods         | <b>739</b>      | –               |
|  |                                       | Purchases of goods     | <b>3,683</b>    | –               |
| SMS Holding Co., Inc (SMS Holding)   | Fellow subsidiary                     | Sales of goods         | <b>80</b>       | 6               |

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS (Continued)

#### (a) Transactions (Continued)

| Name of company   | Relationship               | Nature of transactions | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|----------------------------|------------------------|-----------------|-----------------|
| <b>Joint ventures</b>   |                            |                        |                 |                 |
| AIF   | Joint venture              | Sales of goods         | 27              | 43              |
|   |                            | Purchases of goods     | –               | 132             |
|   |                            | Purchases of services  | –               | 11              |
|   |                            | Rendering of services  | 1,213           | 1,213           |
|   |                            | Rental income          | 46              | 55              |
| Feeler Mectron  | Joint venture              | Purchases of goods     | –               | 2,802           |
|   |                            | Rendering of services  | 362             | 198             |
|   |                            | Rental income          | 53              | 53              |
| Nippon Cable Feeler   | Joint venture              | Purchases of services  | 83              | 68              |
|   |                            | Rendering of services  | 21              | 20              |
|   |                            | Rental income          | 8               | 8               |
| UFM   | Joint venture              | Sales of goods         | 3               | 10              |
|   |                            | Purchases of goods     | 1,684           | 2,298           |
|   |                            | Rendering of services  | 86              | 62              |
|   |                            | Interest income        | 15              | 20              |
| <b>Associate and subsidiary of associates</b>                   |                            |                        |                 |                 |
| FFG Werke   | Associate                  | Purchases of goods     | –               | 3,511           |
|   |                            | Compensation income    | 72,667          | –               |
| Jobs Automazione S.p.A. (Jobs)                                  | Subsidiary of an associate | Purchases of goods     | 3,696           | –               |
| FFG Europe & Americas (Shanghai) IAS Co., Ltd. (FFG (Shanghai)) | Subsidiary of an associate | Interest income        | 397             | –               |

#### Notes:

- The terms of the above sale and purchase transactions are governed based on framework agreements entered into between the Company and the respective related parties.
- Rental income was charged at terms mutually agreed between the parties.

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances

| Name of company   | Relationship                          | Nature of transactions        | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---------------------------------------|-------------------------------|-----------------|-----------------|
| <b>Ultimate holding company</b>                                       |                                       |                               |                 |                 |
| Fair Friend   | Ultimate holding company              | Trade payables (note (ii))    | (157)           | (510)           |
|   |                                       | Advance from (note (ii))      | –               | (128)           |
| Represented by:   |                                       |                               |                 |                 |
| Amount due to ultimate holding company                                |                                       |                               | (157)           | (638)           |
| <b>Immediate holding company</b>                                      |                                       |                               |                 |                 |
| Hong Kong GF  | Immediate holding company             | Trade payables (note (ii))    | (815)           | (2,832)         |
| <b>Fellow subsidiaries and associates of ultimate holding company</b> |                                       |                               |                 |                 |
| EQUIPTOP HITECH CORP.   | Fellow subsidiary                     | Trade payables (note (ii))    | –               | (144)           |
|   |                                       | Advance from (note (ii))      | –               | (124)           |
| SANCO   | Fellow subsidiary                     | Trade payables (note (ii))    | (2,144)         | (3,253)         |
| Best Friend   | Associate of ultimate holding company | Trade receivables (note (i))  | –               | 1               |
|   |                                       | Other receivables (note (ii)) | 2,950           | –               |
| Feeler Takamatsu  | Associate of ultimate holding company | Trade receivables (note (i))  | 151             | –               |
|   |                                       | Other receivables (note (ii)) | 39              | 22              |

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances (Continued)

| Name of company   | Relationship      | Nature of transactions        | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-------------------|-------------------------------|-----------------|-----------------|
| FFG DMC   | Fellow subsidiary | Trade receivables (note (i))  | 160             | –               |
|   |                   | Other receivables (note (ii)) | 2,931           | –               |
|   |                   | Trade payables (note (ii))    | (303)           | –               |
|   |                   | Advance from (note (ii))      | (10)            | (116)           |
| SMS Holding   | Fellow subsidiary | Trade receivables (note (i))  | 17              | –               |
| Represented by:   |                   |                               |                 |                 |
| Amounts due from fellow subsidiaries and associates of ultimate holding company |                   |                               | 6,248           | 23              |
| Amounts due to fellow subsidiaries and associates of ultimate holding company   |                   |                               | (2,457)         | (3,637)         |
| <b>Joint ventures</b>   |                   |                               |                 |                 |
| AIF   | Joint venture     | Other receivables (note (ii)) | 116             | 127             |
|   |                   | Trade payables (note (ii))    | –               | (42)            |
| Feeler Mectron  | Joint venture     | Trade receivables (note (i))  | 52              | –               |
|   |                   | Other receivables (note (ii)) | 19              | –               |
|   |                   | Trade payables (note (ii))    | –               | (33)            |

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances (Continued)

| Name of company   | Relationship  | Nature of transactions                      | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---------------|---|-----------------|-----------------|
| UFM   | Joint venture | Trade payables<br>(note (ii))               | <b>(379)</b>    | (287)           |
|   |               | Other receivables<br>(note (ii))            | <b>316</b>      | 319             |
|   |               | Trade receivables<br>(note (i))             | –               | 6               |
| Nippon Cable Feeler                                       | Joint venture | Other receivables<br>(note (ii))            | <b>9</b>        | 9               |
|   |               | Other payables<br>(note (ii))               | <b>(1)</b>      | –               |
| Represented by:   |               |   |                 |                 |
| Amounts due from joint ventures                           |               |   | <b>512</b>      | 461             |
| Amounts due to joint ventures                             |               |   | <b>(380)</b>    | (362)           |
| <b><i>Associates and subsidiaries of an associate</i></b> |               |   |                 |                 |
| FFG Werke   | Associate     | Advance to<br>(note (iii))                  | –               | 1,357           |
|   |               | Trade payables<br>(note (ii))               | <b>(23,481)</b> | (24,679)        |
|   |               | Other receivables<br>(note (ii))            | <b>1,724</b>    | 386             |
|   |               | Shareholder loan<br>(note (ii))             | <b>38,893</b>   | 20,978          |
|   |               | Compensation<br>receivables<br>(note (iii)) | <b>72,667</b>   | –               |

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances (Continued)

| Name of company           | Relationship                  | Nature of transactions            | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---------------------------|-------------------------------|-----------------------------------|-----------------|-----------------|
| FFG Europe                | Associate                     | Other receivables<br>(note (iii)) | <b>766</b>      | 766             |
|                           |                               | Shareholder loan<br>(note (iii))  | <b>38,073</b>   | 36,089          |
| FFG EA                    | Associate                     | Other receivables<br>(note (ii))  | <b>7,683</b>    | 54,791          |
| Grinding technology S.r.l | Subsidiary of an<br>associate | Other receivables<br>(note (ii))  | <b>9,531</b>    | 9,463           |
| Jobs                      | Subsidiary of an<br>associate | Other receivables<br>(note (iii)) | <b>23,365</b>   | 17,333          |
|                           |                               | Trade payables<br>(note (ii))     | –               | (2,844)         |
|                           |                               | Other payables<br>(note (ii))     | –               | (912)           |
| MAG                       | Subsidiary of an<br>associate | Other receivables<br>(note (ii))  | –               | 575             |
| MAG IAS GmbH              | Subsidiary of an<br>associate | Other receivables<br>(note (ii))  | <b>18,772</b>   | –               |
| FFG (Shanghai)            | Subsidiary of an<br>associate | Other receivables<br>(note (ii))  | <b>14,397</b>   | –               |

## Notes to the Consolidated Financial Statements

### 40. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances (Continued)

| Name of company  | Relationship               | Nature of transactions         | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|----------------------------|--------------------------------|-----------------|-----------------|
| Sky Thrive Rambaudi S.r.l                                    | Subsidiary of an associate | Other receivables (note (iii)) | 3,227           | 3,239           |
|  |                            | Shareholder loan (note (iii))  | 6,057           | 6,082           |
| Represented by:  |                            |                                |                 |                 |
| Amounts due from associates and subsidiaries of an associate |                            |                                | 235,155         | 151,059         |
| Amounts due to an associate and subsidiaries of an associate |                            |                                | (23,481)        | (28,435)        |

#### Notes:

- (i) The Group allowed a normal credit period of 30 to 180 days for sales made to the above parties. Balances are unsecured and interest free.
- (ii) Balances are unsecured, interest free and repayable on demand.
- (iii) Balances are unsecured, interest free and repayable on demand. The ultimate holding company has issued letter of guarantee to undertake for repayment of the outstanding balances to the Group should these related parties fail to meet the obligation as they fall due.

#### (c) Key management compensation

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

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries and allowances                 | 2,265           | 2,090           |
| Discretionary performance related bonus | 1,252           | 1,427           |
| Retirement benefit scheme contributions | 68              | 57              |
|   | <b>3,585</b>    | <b>3,574</b>    |

## Notes to the Consolidated Financial Statements

### 41. FINANCIAL GUARANTEE CONTRACTS

In June 2019, the Company issued a guarantee to an independent third party for each of the payment obligations of certain associates of the Group, MAG IAS GmbH and FFG Werke under their respective purchase contracts with the independent third party with a maximum amount of EUR11,000,000 (equivalent to RMB85,971,000) and EUR2,000,000 (equivalent to RMB15,631,000) respectively. As at 31 December 2019, MAG IAS GmbH and FFG Werke have payment obligation to the independent third party with a total amount of EUR764,000 (equivalent to RMB5,971,000) and EUR911,000 (equivalent to RMB7,120,000) respectively.

The management of the Group estimates that the default risk of the abovementioned entities is low, thus the exposure to credit losses arising from these financial guarantees and their fair value is immaterial.

### 42. PLEDGE OF ASSETS

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Right-of-use assets/prepaid lease payments            | 82,484          | 87,600          |
| Property, plant and equipment                         | –               | 7,763           |
| Restricted bank balances for trade finance facilities | 43,728          | 15,900          |
|   | <b>126,212</b>  | 111,263         |

The Group has pledged its right-of-use assets/prepaid lease payments and buildings in order to secure other borrowings of the Group. The Group also has restricted bank balances which mainly represent deposits placed in banks for guarantees issued to secure bills payable and finance facilities of the Group.

### 43. EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

## Notes to the Consolidated Financial Statements

### 44. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|  | 2019<br>RMB'000  | 2018<br>RMB'000 |
|--|------------------|-----------------|
| <b>Non-current assets</b>                                    |                  |                 |
| Investments in subsidiaries                                  | 52,840           | 52,837          |
| Investments in joint ventures                                | 27,666           | 27,666          |
| Amounts due from subsidiaries                                | 290,890          | 551,628         |
|  | <b>371,396</b>   | 632,131         |
| <b>Current assets</b>  |                  |                 |
| Trade and other receivables and prepayment                   | 6,683            | 17,859          |
| Amounts due from associates and subsidiaries of an associate | 196,319          | 147,430         |
| Bank balances and cash                                       | 27,453           | 39,615          |
|  | <b>230,455</b>   | 204,904         |
| <b>Current liabilities</b>                                   |                  |                 |
| Other payables and accrued charges                           | 8,317            | 15,546          |
| Amounts due to subsidiaries                                  | 309,575          | 3,543           |
| Amounts due to an associate and subsidiaries of an associate | –                | 2,513           |
| Amounts due to ultimate holding company                      | –                | –               |
| Bank borrowings  | 309,769          | 550,454         |
|  | <b>627,661</b>   | 572,056         |
| <b>Net current liabilities</b>                               | <b>(397,206)</b> | (367,152)       |
| <b>Total assets less current liabilities</b>                 | <b>(25,810)</b>  | 264,979         |

Approved by the Board of Directors on 12 May 2020 and are signed on its behalf by:

\_\_\_\_\_  
CHU Chih-Yaung

Director

\_\_\_\_\_  
WEN Chi-Tang

Director

## Notes to the Consolidated Financial Statements

### 44. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Capital and reserves</b>            |                 |                 |
| Share capital                          | 4,021           | 4,022           |
| Share premium                          | 82,183          | 82,281          |
| Other reserves                         | 59,647          | 7,973           |
| (Accumulated losses)/retained earnings | (171,661)       | 170,703         |
| <b>Total equity</b>                    | <b>(25,180)</b> | 264,979         |

The movement of the Company's reserves for the year ended 31 December 2019 and 2018 are as follows:

|  | Share<br>premium<br>RMB'000 | Other<br>reserves<br>RMB'000 | Retained<br>earnings/<br>(accumulated<br>losses)<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------------------|------------------------------|---|------------------|
| At 1 January 2018                      | 82,281                      | 7,973                        | 299,305   | 389,559          |
| Loss and total comprehensive expense   | –                           | –                            | (84,250)  | (84,250)         |
| Dividends recognised as distribution   | –                           | –                            | (44,352)  | (44,352)         |
| At 31 December 2018 and 1 January 2019 | 82,281                      | 7,973                        | 170,703   | 260,957          |
| Loss and total comprehensive expense   | –                           | 51,674                       | (342,364)   | (290,690)        |
| Share repurchased and cancelled        | (98)                        | –                            | –   | (98)             |
| <b>At 31 December 2019</b>             | <b>82,183</b>               | <b>59,647</b>                | <b>(171,661)</b>  | <b>(29,831)</b>  |

# Five-Year Financial Summary

## OPERATING RESULTS

For the year ended 31 December

|  | 2015    | 2016      | 2017      | 2018      | 2019           |
|--|---------|-----------|-----------|-----------|----------------|
|  | RMB'000 | RMB'000   | RMB'000   | RMB'000   | RMB'000        |
| Revenue  | 990,239 | 1,082,336 | 1,294,801 | 1,090,693 | <b>910,695</b> |
| Gross profit   | 267,925 | 295,151   | 312,515   | 290,727   | <b>209,098</b> |
| Profit/(loss) before income tax                                | 55,952  | 87,650    | 85,066    | (42,730)  | <b>34,228</b>  |
| <b>Profit/(loss) attributable to owners<br/>of the Company</b> | 46,097  | 60,749    | 65,690    | (57,724)  | <b>12,159</b>  |
| <b>Earnings/(loss) per share – basic (RMB)</b>                 | 0.11    | 0.15      | 0.16      | (0.14)    | <b>0.03</b>    |

## ASSETS AND LIABILITIES

As at 31 December

|                             | 2015    | 2016     | 2017     | 2018      | 2019             |
|-----------------------------|---------|----------|----------|-----------|------------------|
|                             | RMB'000 | RMB'000  | RMB'000  | RMB'000   | RMB'000          |
| Non-current assets          | 589,531 | 743,761  | 703,361  | 706,420   | <b>786,085</b>   |
| Net current assets          | 154,908 | 121,487  | 185,223  | 115,271   | <b>34,618</b>    |
| Non-current liabilities     | –       | (61,180) | (61,180) | (105,285) | <b>(112,224)</b> |
| <b>Net assets</b>           | 744,439 | 804,068  | 827,404  | 716,406   | <b>708,479</b>   |
| Share capital               | 4,022   | 4,022    | 4,022    | 4,022     | <b>4,021</b>     |
| Reserves                    | 740,417 | 800,046  | 823,382  | 712,384   | <b>704,458</b>   |
| <b>Shareholders' equity</b> | 744,439 | 804,068  | 827,404  | 716,406   | <b>708,479</b>   |