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 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

CHU Chih-Yaung
(Chairman and Chief Executive Officer)
CHEN Min-Ho
WEN Chi-Tang
CHIU Rung-Hsien

Independent Non-Executive Directors

KOO Fook Sun, Louis
CHIANG Chun-Te
YU Yu-Tang

COMPANY SECRETARY

LO Tai On

AUTHORISED REPRESENTATIVES

CHU Chih-Yaung
CHIU Rung-Hsien

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDIT COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*
CHIANG Chun-Te
YU Yu-Tang

REMUNERATION COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*
CHIANG Chun-Te
YU Yu-Tang

NOMINATION COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*
CHIANG Chun-Te
YU Yu-Tang

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
KGI Bank
Mega International Commercial Bank
Taiwan Shin Kong Commercial Bank
Bank SinoPac
Bangkok Bank
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

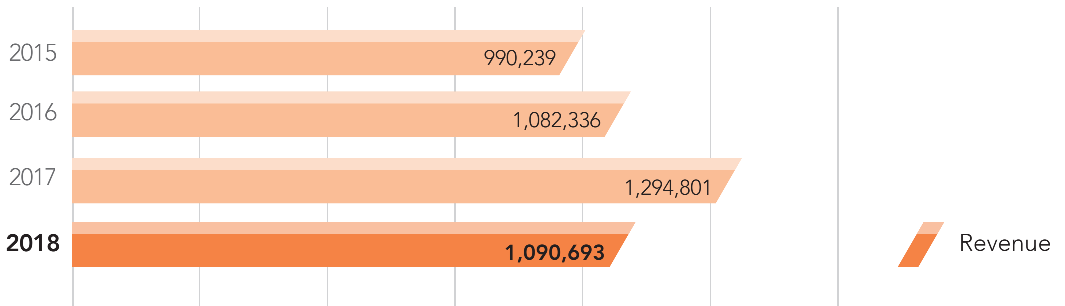
2398

WEBSITE

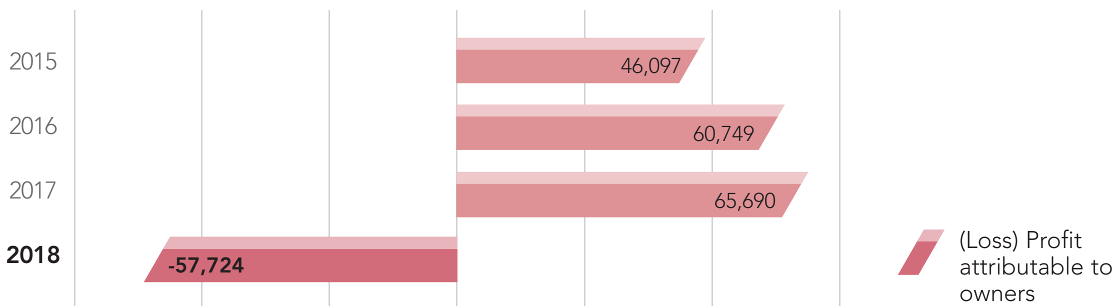
http://www.goodfriend.hk

Financial Highlights

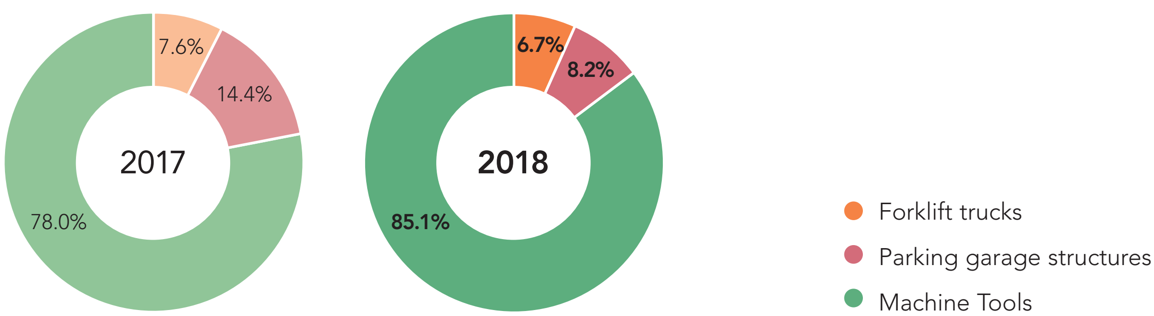
REVENUE (RMB'000)



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



BUSINESS SEGMENTS (In terms of revenue)



Financial Highlights

TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2018 RMB'000	2017 RMB'000	Change (%)
Revenue	**1,090,693**	1,294,801	(15.8)%
Gross profit	**290,727**	312,515	(7.0)%
(Loss) Profit attributable to owners	**(57,724)**	65,690	(187.9)%
Shareholders' equity	**716,406**	827,404	(13.4)%
Total assets	**2,210,864**	1,973,494	12.0%
(Loss) Earnings per share – basic (RMB)	**(0.14)**	0.16	(187.5)%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2018	2017	Change (%)
Gross profit margin [Note 1]	**26.7%**	24.1%	10.8%
Net (loss) profit margin [Note 2]	**(5.3)%**	5.1%	(203.9)%
Inventory turnover days [Note 3]	**239.4**	128.4	86.4%
Debtors' turnover days [Note 4]	**92.7**	134.6	(31.1)%
Creditors' turnover days [Note 5]	**74.8**	73	2.5%
Current ratio (Times) [Note 6]	**1.1**	1.2	(8.3)%
Quick ratio (Times) [Note 7]	**0.7**	0.9	(22.2)%
Gearing ratio (%) [Note 8]	**25.5%**	18.6%	37.1%
Return on equity (%) [Note 9]	**(8.1)%**	7.9%	(202.5)%

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

Note 2: Net (loss) profit margin is calculated as (loss) profit 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 (loss) profit 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 2018 (the "year").

FINANCIAL PERFORMANCE

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB1,090.69 million, representing a decrease of approximately 15.8% compared to 2017. Loss attributable to owners amounted to approximately RMB57.72 million was recorded in the current year; whilst in 2017 profit attributable to owners amounted to approximately RMB65.69 million.

FINAL DIVIDEND

The Board resolved not to recommend a final dividend for the year ended 31 December 2018 (2017: RMB0.06 per ordinary share).

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 6.6% in 2018, representing a generally stable economic development in China. For the year ended 31 December 2018, the Group's major products CNC machine tools recorded satisfactory results. Sales volume and sales revenue amounted to 2,028 units and RMB928.34 million respectively.

PROSPECTS

China's economy continued to sail on against the wind. China remains as the growth engine to the world economy, China is the largest machine tools consuming country. It is anticipated that the demand of machine tools from the industries of high-speed railway, transit rails, aerospace, and energy in China, especially demand of those high-end CNC machine tools, would still be great. This in turn will benefit the Group's CNC machine tools business. The Group will continue to explore and sell those high-end CNC machine tools products (production of such primarily from Italy and Germany) to the customers. The management believes that with its extensive sales network and comprehensive after-sales service, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continue to strengthen its market position.

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.

Harbin
Changchun
Shenyang
Beijing
Tianjin
Dalian
Yantai
Taiyuan
Shijiazhuang
Jinan
Qingdao
Linyi
Lanzhou
Zhengzhou
Xi'an
Nanjing
Yancheng
Luoyang
Wuxi
Changzhou
Xiangyang
Suzhou
Shanghai
Chengdu
Wuhan
Hefei
Hangzhou
Ningbo
Kunshan
Wenzhou
Chongqing
Nanchang
Changsha
Guiyang
Huizhou
Xiamen
Guangzhou
Liuzhou
Dongguan
Head Office
Liaison Office

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, 29 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB1,090.69 million, representing a decrease of approximately 15.8% as compared to 2017. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,028 units, 10,902 units and 999 units respectively (2017 comparative figures: 2,067 units, 13,727 units and 1,679 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 RMB928.34 million, representing a decrease of approximately 8.0% as compared to 2017. Revenue of CNC machine tools accounted for approximately 85.1% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB89.81 million during the year, representing a decrease of approximately 51.8% as compared to 2017 and accounted for approximately 8.2% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 26.9%, as compared to 2017, to approximately RMB72.54 million and approximately 6.7% of the Group's total revenue.

Gross profit and margin

For the year ended 31 December 2018, gross profit of the Group amounted to approximately RMB290.73 million. Overall gross profit margin was approximately 26.7%, compared to 24.1% for 2017. The gross profit margin of CNC machine tools (the Group's major product) during the year increased to approximately 28.4%. As a result, the overall gross profit margin for the year increased compared to 2017.

Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB132.61 million for the year ended 31 December 2018, decreased by approximately 5.2% as compared to last year. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 12.2%, compared to approximately 10.8% for 2017.

Administrative expenses

Administrative expenses for the year ended 31 December 2018 decreased by approximately 9.7% as compared to 2017. This was mainly attributable to the strengthen of the cost control measures by the management.

Other gains and losses

Other gains and losses represented mainly foreign exchange loss.

Other expenses

For the year ended 31 December 2018, other expenses comprised mainly of approximately RMB60.12 million representing expected loss on settlement of the litigation raised by a customer to the Group's subsidiaries.

Moreover, the supplier (a connected party) of the corresponding products has undertaken in March 2019 that it will make reimbursement to the Group for the final loss on settlement of the litigation. This compensation income will be accounted for by the Group during the year ended 31 December 2019.

Finance costs

During the year, finance costs increased to approximately RMB14.18 million. The increase was primarily due to the increase of average bank borrowings of the Group during 2018.

Share of loss of associates

For the year ended 31 December 2018, share of loss of associates amounted to approximately RMB45.42 million. The amount represented the Group's share of operating results of "FFG European and American" (located in Germany) during the year.

Loss attributable to owners of the Company

For the year ended 31 December 2018, loss attributable to owners of the Company amounted to approximately RMB57.72 million. For the year ended 31 December 2017, profit attributable to owners of the Company amounted to approximately RMB65.69 million.

Liquidity and financial resources

As at 31 December 2018, the Group had net current assets of approximately RMB115.27 million (2017: RMB185.22 million), shareholders' fund of approximately RMB716.41 million (2017: RMB827.40 million) and short-term bank borrowings of approximately RMB563.24 million (2017: RMB367.43 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 2018 amounted to approximately RMB112.67 million (2017: RMB98.07 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.1 times (2017: 1.2 times). The gearing ratio (ratio of total debts to total assets) was approximately 25.5% (2017: 18.6%), 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 2018 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2017: 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 2018, the total outstanding short-term borrowings stood at approximately RMB563.24 million (2017: RMB367.43 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 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2018.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2018 are set out in note 5B to the consolidated financial statements.

Staff and remuneration policies

As at 31 December 2018, the Group employed a total of 1,160 (2017: 1,240) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB152.51 million (2017: RMB157.88 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 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 2018, the Group contributed approximately RMB4.91 million (2017: RMB5.04 million) to the said schemes.

Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB53.13 million (2017: RMB2.62 million) which are contracted but not provided in the consolidated financial statements for the year ended 31 December 2018. The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

Charges on the Group's assets

As at 31 December 2018, restricted bank deposits and bank balances with an amount of approximately RMB69.99 million (2017: RMB32.72 million) represented mainly bank balances of approximately RMB54.09 million being frozen by banks in relation to a litigation claim raised by a customer.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB95.36 million (2017: RMB11.78 million) to secure general banking facilities granted to them. As at 31 December 2018, the subsidiary has utilized such secured bank facilities of approximately RMB35.09 million (2017: Nil).

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 2018. 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 2018, 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 72, was appointed as an executive Director in September 2005. 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. He was appointed as the Chief Executive Officer of the Company on 7 December 2018. 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 68, 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 54, 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 33 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 61, 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 34 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 62, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He is the founder and managing director of Hercules Capital Limited, a corporate finance advisory firm. He has more than 20 years of experience in investment banking and professional accounting. Mr. Koo currently act as an independent non-executive director of Li Ning Company Limited, 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. Chiang Chun-Te (江俊德先生),aged 58, was appointed as an independent non-executive Director in December 2005. He is also a member of the audit committee, the remuneration and the nomination committee of the Company. He is the director of Istra Corporation. He is the director of Long Chen Paper Co., Ltd. He is also a director of Chinatrust Commercial Bank.

From 2003 to February 2010, Mr. Chiang served as the director of Premier Capital Management Corp. and Premier Venture Capital Corp. From 2006 to June 2009, he served as the independent director of Yin King Industrial Co., Ltd., which is a listed company at over-the-counter market on the Taiwan Stock Exchange Corporation. From 2009 to March 2012, he served as the independent director of Feng Sheng Technology Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). From 2011 to June 2013, he served as the independent director of Swancor Ind. Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). From 2001 to December 2014, he served as the president and general manager of PK Investment Corp. From 2000 to 18 June 2015, he served as the director of the Importers and Exporters Association of Taipei. From 1995 to January 2018, he served as the president of Istra Corporation.

Mr. Yu Yu-Tang（余玉堂先生）, aged 82, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee. He was appointed as member of the remuneration committee and the nomination committee of the Company on 7 December 2018. He was a consultant of the Taiwan Hsin Chu County Government（台灣新竹縣政府）and the Provincial Government.

SENIOR MANAGEMENT

Mr. Chiang Chia-Shin（強家鑫先生）, aged 60, 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 on 1 July 2000 and has over 33 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 57, 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 2015. He joined the Group in October 2000 and has over 34 years of experience in the machine tools industry.

Mr. Lee Chung-Yi（李仲益先生）, aged 58, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Lee graduated from National Chengchi University in 1982 with a degree in Business Administration. Before he joined the Group in November 2017, he worked in Xander International Corp. from 1992 to 2015 and has over 34 years of experience in the fields of auditing, accounting and finance.

Mr. Yip Sai Keung, Esmond（葉世強先生）, aged 53, 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 is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 9 and pages 10to 13 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 9 of this annual report. The financial risk management objectives and policies of the Group are set out in note 39 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 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 ENDING OF THE FINANCIAL YEAR

There was no important event that has occurred since the ending of the financial year 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 2018 is set out in note 5B to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 80 to 189.

The Directors declared an interim dividend of RMB0.05 (equivalent to approximately HK$0.0576) per share to those shareholders whose names appeared on the register of members on 5 October 2018, amounting to approximately RMB20.16 million (equivalent to approximately HK$23.22 million) which was paid on 25 October 2018.

The Directors resolved not to recommend a final dividend for the year ended 31 December 2018.

RESERVES

Movements in the reserves of the Company during the year are set out in note 43 to the consolidated financial statements.

ANNUAL GENERAL MEETING

The 2019 annual general meeting will be held on Wednesday, 5 June 2019. Details of the 2019 annual general meeting, notice of annual general meeting and proxy form are set out in the circular of the Company dated 29 April 2019 which will be despatched to shareholders of the Company (the "Shareholders") together with the 2018 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 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2018 are set out in note 27 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2018 are set out in note 31 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Chu Chih-Yaung
(Chairman and Chief Executive Officer)
Mr. Chen Min-Ho
Mr. Wen Chi-Tang
Mr. Chiu Rung-Hsien
Mr. Chen Hsiang-Jung
(pass away on 8 November 2018)

Independent Non-Executive Directors

Mr. Koo Fook Sun, Louis
Mr. Chiang Chun-Te
Mr. Yu Yu-Tang

In accordance with article 87(1) of the articles of association of the Company (the "Articles"), Messrs. Wen Chi-Tang, Chiu Rung-Hsien and Koo Fook Sun, Louis will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (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 2018, and may be terminated by not less than three months' notice in writing served by either party to the other.

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

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 2018, 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 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 2017.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2018, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

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

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

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

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

Name of Director	Name of associated 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, 572,255 ordinary shares	15.20%
	Taiwan FF	Spouse interest *(Note 1)*	2,585,926 ordinary shares	2.52%
	Fair Fine (Hangzhou) Industrial Co., Ltd. *(Note 2)*	Beneficial owner	750 ordinary shares	0.03%

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung, held 2.52% 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.

2. Fair Fine (Hangzhou) Industrial Co., Ltd. is a non-wholly-owned subsidiary of Taiwan FF and is therefore an associated corporation of the Company for the purpose of the SFO.

Save as disclosed above, as at 31 December 2018, 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 2018, 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

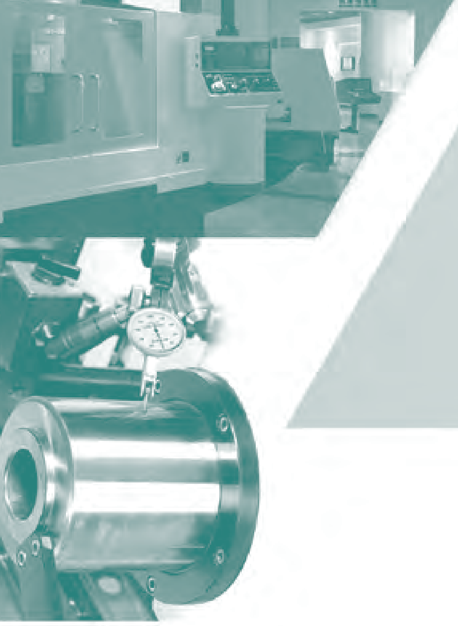
As at 31 December 2018, the interests or short positions of every person, other than Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are set out below:

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 *(Note)*	57.54%
Taiwan FF	Interest of controlled corporation	232,208,000 shares *(Note)*	57.59%

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 2018.



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 2018, 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 8 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 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 continuing connected transaction(s)

1. 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 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 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 2018 to 31 December 2018 under the CKD Components Agreement were RMB3.36 million and RMB98.21 million respectively and the actual supply amount and purchase amount of the period were RMB0.72 million and RMB60.79 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 2018 to 31 December 2018 under the CNC Machine Tools Agreement was RMB596.85 million and the actual purchase amount of the period was RMB20.3 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 auditors 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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 13.75% of the Group's total turnover for the year and the largest customer accounted for approximately 6.34% of the Group's total turnover. The five largest suppliers accounted for approximately 32.97% of the Group's total purchases for the year and the largest supplier accounted for approximately 18.58% 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 of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

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 a director of the Company 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 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 2018.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 31 to 47.

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 190.

AUDITOR

The financial statements for the year ended 31 December 2018 have been audited by the auditor of the Company, Deloitte Touche Tohmatsu who shall retire and, being eligible, offer themselves for re-appointment at the 2019 annual general meeting.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

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

Hong Kong, 29 March 2019

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 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 7 June 2018 due to his business trip and Mr. Chen Hsiang-Jung, the then executive 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 2018, 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. CHIANG Chun-Te
Mr. YU Yu-Tang

Such balanced board composition is formed to ensure a strong independent objectivity exists across the Board and has adhered to the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors is set out on pages 14 to 16 under the section headed "Biographical Details of Directors and Senior Management".

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

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 2018:

Directors	Type of trainings
Executive Directors	
CHU Chih-Yaung	A, B
CHEN Hsiang-Jung*	A, B
CHEN Min-Ho	A, B
WEN Chi-Tang	A, B
CHIU Rung-Hsien	A, B
Independent Non-Executive Directors	
KOO Fook Sun, Louis	A, B
CHIANG Chun-Te	A, B
YU Yu-Tang	A, B

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

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

* Pass away on 8 November 2018

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 2018, 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 Hsiang-Jung*	2/2
Mr. CHEN Min-Ho	2/4
Mr. WEN Chi-Tang	3/4
Mr. CHIU Rung-Hsien	2/4
Mr. KOO Fook Sun, Louis	4/4
Mr. CHIANG Chun-Te	2/4
Mr. YU Yu-Tang	3/4

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

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

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

* Pass away on 8 November 2018

AUDIT COMMITTEE

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

The role of the Audit Committee is to monitor the establishment and maintenance of an adequate 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 2018. The audited financial statements of the Company for the year ended 31 December 2018 has also been reviewed by the Audit Committee.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, Certified Public Accountants, be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

Frequency of Meetings and Attendance

During the year 2018, the Audit Committee met three times, during which the management of the Company and the external auditor were also in attendance, if appropriate. Details of the attendance by members of the Audit Committee of such meetings are as follows:

Name of members	Number of attendance
Mr. KOO Fook Sun, Louis	3/3
Mr. CHIANG Chun-Te	1/3
Mr. YU Yu-Tang	3/3

NOMINATION OF DIRECTORS

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

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

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

Mr. CHEN Hsiang-Jung, the then Chief Executive Officer and executive Director, was pass away on 8 November 2018. The Nomination Committee had considered and recommended the appointment of Mr. CHU Chih-Yaung as the Chief Executive Officer of the Company on 7 December 2018. 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. In accordance with the Article 87(1) of the Articles, Mr. Wen Chi-Tang, Mr. Chiu Rung-Hsien and Mr. Koo Fook Sun, Louis will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Frequency of Meetings and Attendance

The Nomination Committee has convened two meetings during the year ended 31 December 2018 and details of the attendance of its meeting are as follows:

Name of members	Number of attendance
Mr. KOO Fook Sun, Louis	2/2
Mr. CHIANG Chun-Te	1/2
Mr. YU Yu-Tang	1/2

Board Diversity Policy

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

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

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

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

At present, the Nomination Committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable 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 Memorandum and Articles of Association of the Company, 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 of the Company 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. CHIANG Chun-Te and Mr. YU Yu-Tang.

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

Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2018 to review the existing remuneration packages of each of the Directors and senior management of the Company and details of the attendance of its meeting are as follows:

Name of members	Number of attendance
Mr. KOO Fook Sun, Louis	1/1
Mr. CHIANG Chun-Te	0/1
Mr. YU Yu-Tang	1/1

Emolument policy

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

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. Each of the executive Directors is entitled to the respective basic salary which is reviewed annually. Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements.

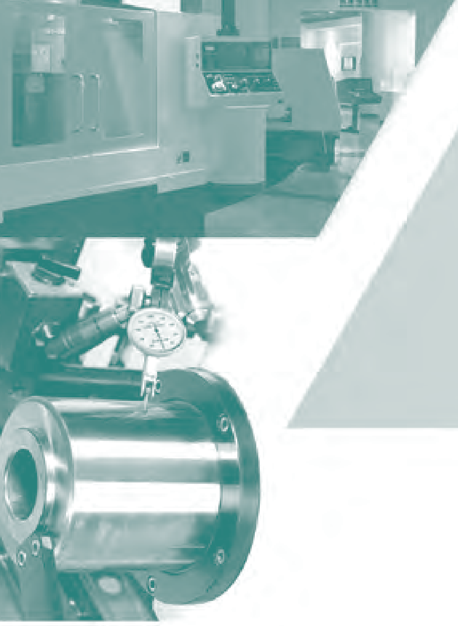
The Company had adopted a share option scheme on 2 June 2016 which was effective for a period of 10 years until 1 June 2026. The purpose of the share option scheme was to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimize their future 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".

Remuneration of Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands (HK$)	Number of persons
Less than $1,000,000	2
$1,000,001 to $1,500,000	3

Further particulars regarding Director's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8(a) and 8(b) to the 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

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

Services rendered to the Group	Fee paid/payable
	HK$'000
Audit services	2,180
Non-audit services	526

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.

In 2018, 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

In 2018, 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 in 2018 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

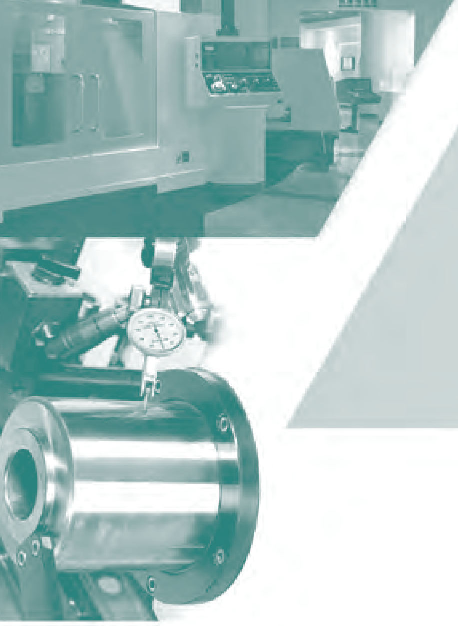
The Board has established the Inside Information Policy for the handling and dissemination of inside information. The Inside Information Policy stipulated the obligations of the Group, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemptions and 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 2018, 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 7 June 2018 (the "2018 AGM"). A notice convening the 2018 AGM contained in the circular dated 27 April 2018 was dispatched to the Shareholders together with the 2017 Annual Report. The chairman of the Board was unable to attend the 2018 AGM due to his business trip. Mr. Chen Hsiang-Jung, the Executive Director, attended and chaired the 2018 AGM. Other directors were unable to attend the 2018 AGM due to their other business commitment.

The Chairman of the 2018 AGM explained detailed procedures for conduction a poll. All the resolutions proposed at the 2018 AGM were passed separately by the Shareholders by way of poll. The results of the poll were published on the websites of the Stock Exchange and the Company after the meetings.

The forthcoming annual general meeting of the Company will be held on 5 June 2019 (the "2019 AGM"). A notice convening 2019 AGM will be published on the websites of the Stock Exchange and the Company and dispatched together with the 2018 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, where updates on the Company's business developments and operations, financial information and news can always be found.

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

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

SHAREHOLDERS' RIGHTS

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

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.

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 2018.

Hong Kong, 29 March 2019

Environmental, Social and Governance Report

ABOUT THE REPORT

Good Friend International Holdings Inc. (the "Company" or "we") hereby presents the annual Environmental, Social and Governance ("ESG") Report from 1 January 2018 to 31 December 2018 ("FY2018") in accordance with the regulations in the *Guidance on the Environmental, Social and Governance Report* promulgated by the Stock Exchange of Hong Kong Limited in December 2015. It is to be read in conjunction with the Corporate Governance Report on page 31 of this document.

The report takes the activities of Good Friend International Holdings Inc. as the main line. After comprehensive consideration of a series of indicators such as sales, business type, profit amount and asset amount, the following entities are included in the scope of this Report: 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.

The scope of environmental aspect ESG data has changed: the environmental aspect ESG data range covered Hangzhou Good Friend Precision Machinery Precision Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. in the 2017 ESG Report. In the 2018 ESG Report, Hangzhou Global Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co., Ltd. have been added. Meanwhile, we adjusted the 2017 environmental aspect ESG data and included Hangzhou Global Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co., Ltd into the 2017 environmental aspect ESG data range to ensure comparability over time.

The Board of 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. In accordance with the general disclosure regulations in the Guidance on the ESG Report, the identified significant matters have been contained in this Report with the aim of disclosing the Company's performance on these matters during its operation.

SELECTION OF MAJOR ISSUES

Communication with stakeholders

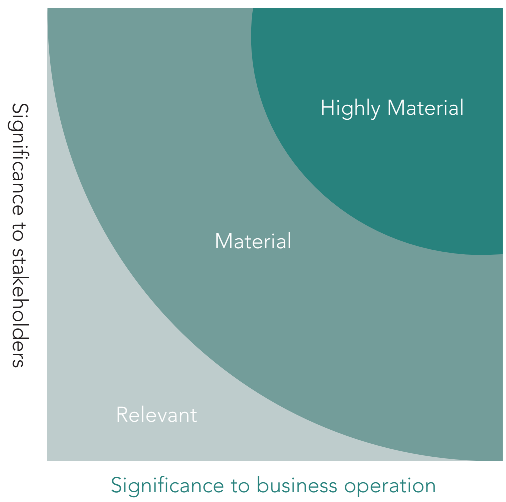
Judging from the characteristics of the business and operation, we categorize major stakeholders as investors, governments and regulators, employees, non-governmental organizations, clients, suppliers and communities.

Stakeholders	Expectation & requirement	Communication & responses
Investors	• Protection of shareholders' rights and interests • Maintenance and appreciation of assets value • Enterprise governance mechanism • Authentic, accurate, prompt and complete disclosure of information	• Shareholders' meeting • Press releases and announcements • Company reports • Information on the company website • Investors' meetings
Governments and regulators	• Compliance with laws and regulations • Pay taxes in accordance with law • Protect the environment • Industry development • Give back to the community	• Meeting • Compliance report • Onsite check • Special investigation • Proper submission of documents
Employees	• Equal employment • Competitive salary system • Employee training • Career development • Humanity care • Health and safety protection	• Labour contracts • After-work activities • Manager mail box • Voluntary activities • Daily communication
Non-governmental organizations	• Investment for local development • Participate in local community projects • Take on environmental responsibility • Human rights • Fair share of benefits	• Annual ESG report • Direct communication • Factory visit
Clients	• Client satisfaction management • Client complaint management • Product responsibility	• Daily communication • Regular interviews and visits • Client service center and hotline
Suppliers	• Suppliers' code of conduct • Supplier assessment • Supplier cooperation	• High-level meetings • Workshop • Suppliers' summits • Supplier entry and assessment • Field work • Daily communication
Communities	• Noise management • Support economic development • Enthusiasm towards public welfare	• Charitable activities • Community services • Environmental protection activities

Assessment of major issues

After interviewing the internal and external stakeholders this year, we received serval suggestions. We score and rank social responsibility issues of the Company according to two standards, namely their impact on business as well as 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 major issues are as below:

Matrix for material issues



Highly Material
Quality assurance
Business ethics
Client service

Material
Noise management
Employment and labour standard
Career development
Resources management
Safety and health
Employee care
Economic development
Supplier management

Relevant
Community welfare
Waste management
Water resource management

MARKET

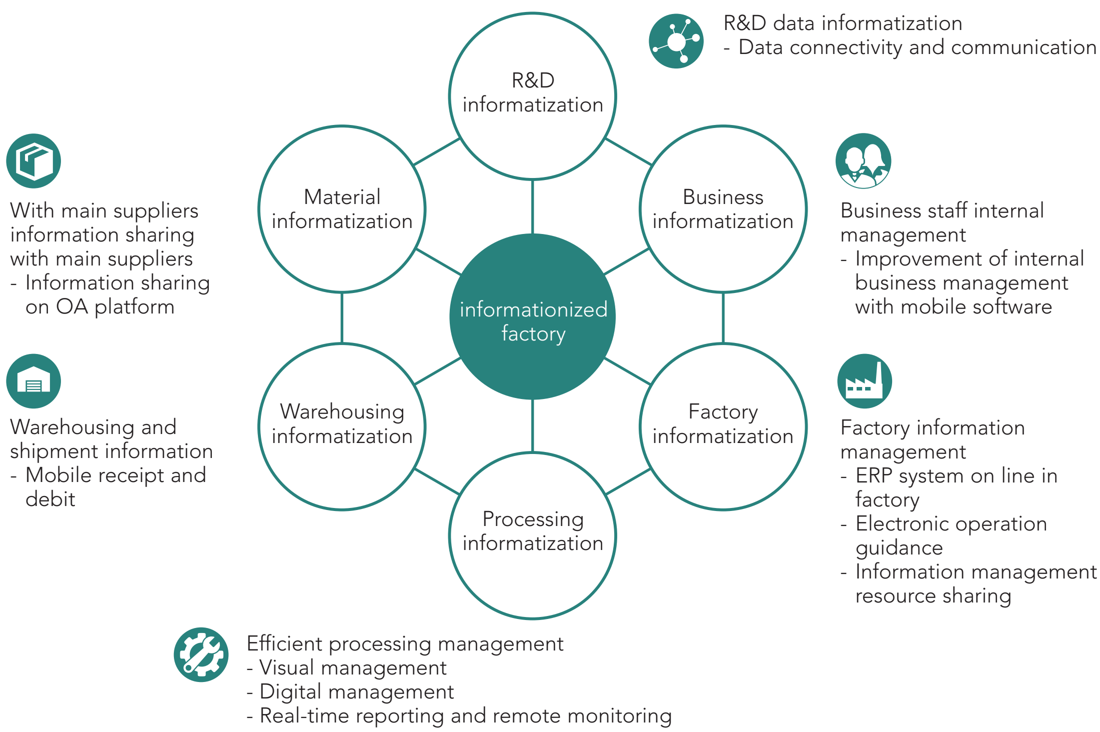
Without the high standard which we set for ourselves, we cannot become the largest CNC machine tools manufacturer in China. Since the Company was founded, we have adhered to the business philosophy of sincerity and integrity. Therefore, in order to develop better and faster, we not only select our partners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

In FY2018, we did not find any products were returned due to safety or health problems.

Quality assurance

The Company is specialized 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 clients from worries. As for product quality, the Company has obtained the ISO 90001 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 enables each product to have uniform data accuracy, traceability, and high standards of quality. In order to improve the quality of products, we are building a factory that integrates information, visualization and information networks. In FY2018, we successfully applied six "information management" to the daily operation of the machine tool division based on clients demand, covering the whole process of CNC machine tool 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.



In addition, we also contribute to improving the quality control of the industry. In order to improve the quality and technical requirements of Chinese industry, in FY2018, SAC/TC227 led the drafting of "Design Code for Mechanical Parking Equipment". As a participant, we were actively involved in the preparation of standard content.

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 35 valid patents, among which are 6 software copyrights. The Company also formulate the Patent Management System, to regulate the patent development and protection processes.

Client Service

During the life of an enterprise, quality is an essential factor for survival while the clients are the driving force for improvement. With a solid and stable client base, we can actively promote various activities to enable the enterprise to flourish.

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

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

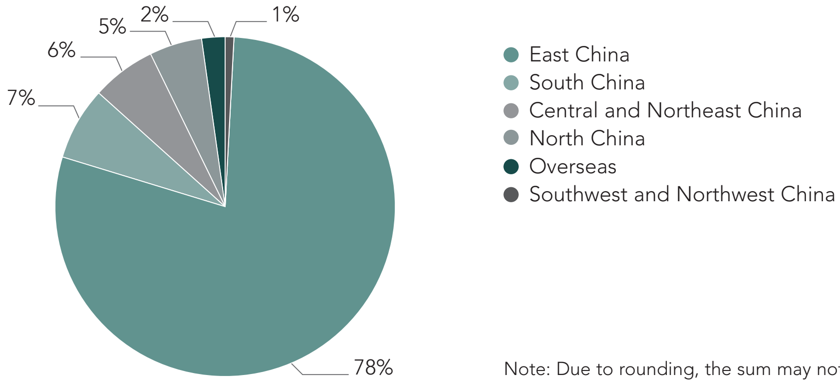
Supplier Management

The high-quality environmental-friendly products we provide to clients are inseparable from our excellent supplier management. We make strict demands on suppliers at source. We implement *the Supplier Management Procedures*, the *Supplier Management Process Flow Chart* and *Supplier Monthly Assessment Form*, and carry out strict and fair supplier access procedures and evaluation mechanism,. When choosing a new supplier, we will conduct a series of evaluation procedures based on these systems, including the on-site investigation, sampling, quality assurance, etc.

At the same time, the Company continues enhancing environmental and social risk management of suppliers, requiring supplier qualifications to comply with relevant environmental protection requirements and supervising our suppliers to obtain accreditation under the ISO 14000 environmental management standard. When evaluating the suppliers, we take into consideration the environmental and social impacts, and select the suppliers with excellent quality and strong environmental awareness for cooperation.

We give priority to local suppliers in order to promote the development of the local economy. Currently, we are cooperating with 769 suppliers, which are mainly from Jiangsu, Zhejiang and Shanghai. The distribution is as follows.

Suppliers by region



Note: Due to rounding, the sum may not be 100%.

For qualified suppliers, we conduct monthly and annual review, and eliminate the suppliers who do not pass the review. For excellent suppliers, we issue the "excellent supplier award" at the end of the year.

Business Ethics

In order to build a positive and healthy operation environment and guarantee the sound development of the Company, we establish the *Anti-Corruption Management Methods* 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* to ensure the transparency of the whole transaction process. In addition, we provide various anonymous channels for reporting immoral matters.

In FY2018, we have not been involved in any lawsuits relating to corruption, bribery, blackmail, fraud, or money laundering.

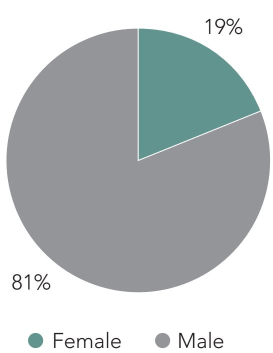
EMPLOYEE

The Company 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 collected a total of 40 applicable laws, rules and standards, and established systems for *Labour Contract Management, Employment Management, Occupational Physical Examination, Work-related Accident Handling, Dismissal Management*, etc.

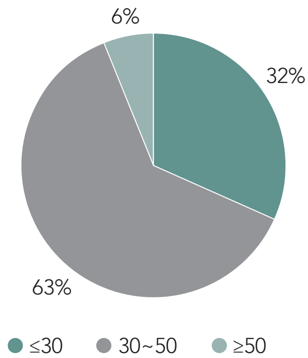
We are committed to creating an innovative, win-win and equitable working environment for our employees. While ensuring employees' occupational safety and health, we focus on taking care of our employees, and organize diverse activities to promote employees' physical and mental health. In order to realize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

In FY2018, the total number of employees reached 1,147, among which 216 were female and they accounted for 19% of the total employees. The employee turnover ratio was 22%.

Percentage of employee by gender

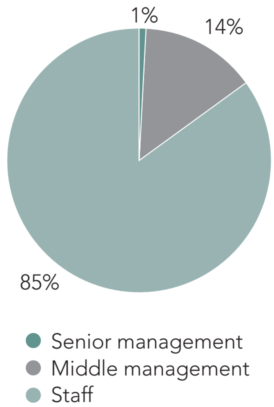


Percentage of employee by age



Note: Due to rounding, the sum may not be 100%.

Percentage of employee by category



Employment and Labour Standards

Labour standards

The Company persists in the equal employment, and prohibits employee discrimination in any form. We sign labour contracts with employees and ensure they will not suffer discrimination due to the race, nationality, complexion, religion, physical disability, gender, sexual orientation, club member or marital status.

The Company protects the entitlement of female employees to vocational development. 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 in the further education, business study, job training and overseas exchange on a field practice.

We strictly prohibited child labour and any form of coercion, harassment, physical punishment, psychological oppression, language assault. We respect the rights of all employees to freely join in associations or labour unions.

We did not involve in any child labour, forced labour and discrimination cases in FY2018.

Salary and welfare

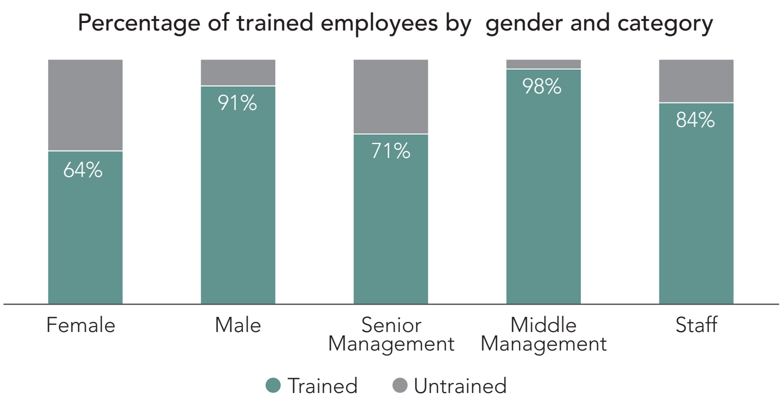
We comply with the *Labour Contract Law*. In China, according to the national social security policies, we timely pay social insurances including endowment insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, as well as housing fund for employees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

We established *Staff Management Policy*, which states that policies related to salary, insurance and welfare are timely adjustment based on the overall strength of employees' capability, performance and achievement. For example, in the first half of 2018, we awarded extra bonus to CNC machine tools division for staff who have no absenteeism or low absenteeism as well as supervisors with excellent performance on duty.

Training and Development

The development of the enterprise is closely connected with the growth of the employees. The development of the technical level and ability of the employees represent 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 all kinds of training and skills related competition activities, so that employees can learn from each other, identify improvement areas and enhance themselves in competition.

In FY2018, the average training hours of each employee were 22 hours.



In addition, we cooperated with the Hangzhou Vocational & Technical College to establish the Fair Friend Institute of Electromechanical, which cultivates talents for us. 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 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.

Safety and Health

Occupational safety and health of the employees is the foundation of the sustainable development of the Company. Although there is no significant occupational safety and health threat in our production and operation processes, we always focus on preventing disease from happening and ensuring occupational safety and health for our employees. In strict compliance with *the Labour Law, the Law on Prevention and Control of Occupational Disease* and local laws and regulations on prevention and treatment of occupational diseases, we also continuously perfects the health management of employees and formulates *the Occupational Safety and Health Education System*.

We have obtained accreditation under the OHSAS18000 international safety and health management system. We constantly enhance the level of occupational health and safety management, forming a complete mechanism of self-monitoring, self-discovery and self-improvement. Every year, we carry out a complete and comprehensive test on the environment of all the plants to ensure the safety of the staff's working environment. In FY2018, we were not involved in death due to production accidents or any serious production accidents.

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

- **Decontamination of dust**

  During the production of parking equipment, the dust produced by welding threatens the health of the employees. Therefore, we install 8 smoke 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 employees' working environment but also protects the natural environment.

- **Noise management**

  The noise also affects the production line staffs' health therefore in order to reduce noise, our Processing Department invests RMB150,000 to build a vibration workshop, which can reduce the internal noise to 98 dB and the noise outside the closed room to 78 dB. We also require that our employee should wait outside the room during vibration process and should not go inside to install work pieces until the vibration is over. In that case, the possibility that the employees are physically injured during work is reduced.

- **Disease prevention**

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

Care for Employees

We often organize vivid recreational activities to help employees relieve the pressure of work so that they can better balance their lives and work. For example, the activity named "Walk with joy and perseverance" is held every year to enhance employees' awareness of preserving nature and to relieve their work stress. We have successfully held parents and children activities for four years in order to create opportunities for strengthening family bonding. We regularly hold staff sporting events to strengthen the spirit of cooperation and solidarity among the employees. We also provide RMB16,000 for our amateur badminton teams and basketball teams to promote the development of sporting activities.

In addition, we help employees in difficulty to ease their economic pressures. For instance, we provide housing subsidy of RMB500 per month for employees with housing difficulties, which is intended to relieve the pressure of high rent. We encourage employees to help each other by sending consolation money in time to employees who have suffered from economic pressure due to special circumstances to help them get through the difficult times.

ENVIRONMENT

The Company focuses on the sustainable development management and improving the utilization ratio of resources. We try to protect the environment in all of our operational processes. We have passed the ISO14001 Environment Management System Certification, and organized internal and external review of the corporate environment on a yearly basis, to ensure that the environment management system is manageable and long-term effectiveness.

The Company has continuously optimized the environment and energy management system, and formulated *the Quality and Environment Manual, Hazard Specification, Operation Instructions and Air Pollution Control and Management System*, in order to enhance the standard and systematic management of the environmental protection, energy conservation and emission reduction.

There were no environmental pollution accidents, illegal events or complaints from the surrounding residents in FY2018.

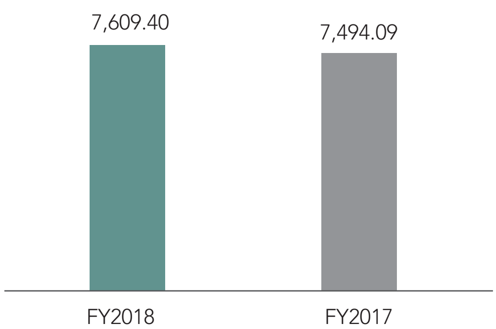
Resources Management

We consume electricity, gasoline, diesel, steel and package wood in our operations and we take various actions to reduce our energy consumption.

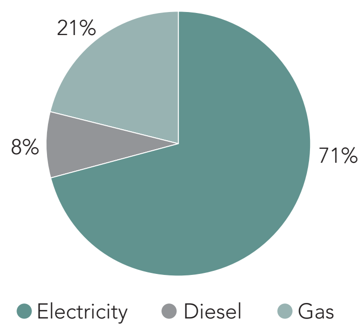
Low-carbon production

The main source of energy consumption in our operation are electricity, gasoline, and diesel. In FY2018, we consumed 7,609.40 MWh of energy in total and the purchased electricity accounted for 71% of the total. In FY2018, we have 567.70 tons of direct greenhouse gas emissions (Scope 1) and 3,816.71 tons of indirect greenhouse gas emissions (Scope 2）.

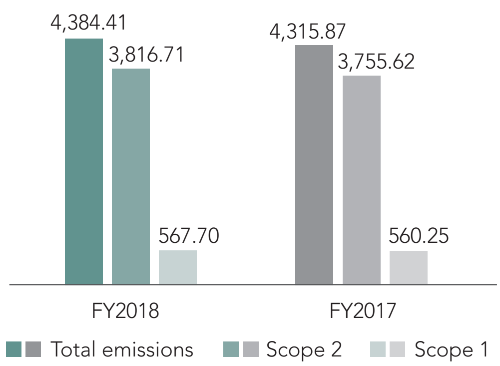
Total energy consumed (MWh)



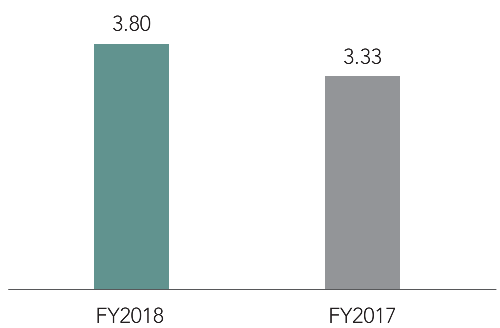
Energy consumed by category



Greenhouse gas emissions (tons)



Intensity of greenhouse emissions (tons/million yuan)



Note: Intensity of greenhouse gas emissions is the amount of greenhouse gas emissions per million yuan of revenue.

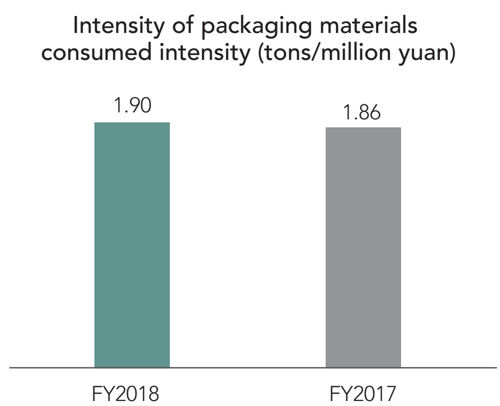
In order to reduce greenhouse gas emissions, we have taken a number of measures. In FY2018, We replaced the power-consuming lamps used in phase 1-4 of the CNC machine tools division with energy-saving LEDs, which has effectively reduced the use of electricity. Meanwhile, we carry out measures of transformer outage every year to reduce energy consumption.

In the Parking Department, all the motors we use comply with the European Energy Standard. Although the purchase of the European standard motors will increase the cost, we uphold the concept of environmental friendliness and implement environmental protection measures at all costs.

Raw materials and packaging materials

The Parking Department has a large demand for steel. In the past, we cut the standard steel on our own, which caused a lot of waste. So we signed an agreement with the steel suppliers who will customize the steel for us which can reduce unnecessary losses.

In the CNC Machine Tools Department, we try to reduce the use of packaging materials. Products shipped to clients are in wooden boxes and we signed an agreement with wood packaging enterprises for recycling of packaging materials, so as to reduce the consumption of timber and mitigate the impact on the environment. In FY2018, we consumed 2,196.80 tons of packaging materials, of which 2,066.30 tons are wood.



Note: Intensity of packaging materials is the amount of packaging materials per million yuan of revenue.

Waste Management

Waste gas

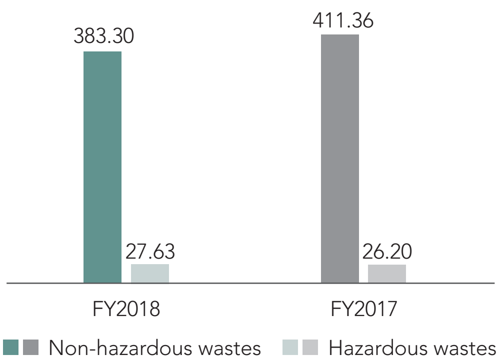
The main waste gas produced during the production include nitrogen oxide (NOx), sulphur oxide (SOx), particulate matter (PM) and VOCs. In order to improve the working environment and reduce the impact on the surrounding environment, we have established the waste gas treatment project with the support of leaders of the Company according to the requirement of the environmental protection project. The waste gas after treatment has reached 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 to the whole atmosphere if the emissions are not treated. So we put into 8 smoke recycling equipment and all the dust gas emissions released into the air again should be processed, which greatly reduce the production activities' impacts on the surrounding environment.

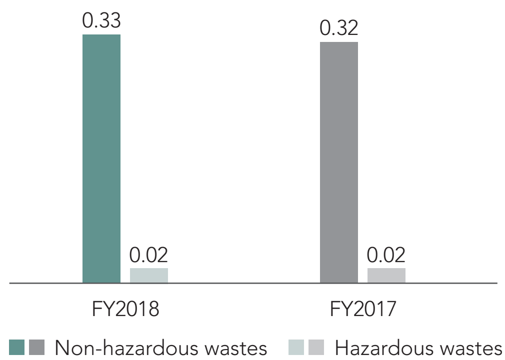
Solid wastes

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 waste produced (tons)



Intensity of waste produced (tons/million yuan)



Note: Waste generation intensity is the amount of waste produced per million yuan of revenue.

We issued the *Regulations of Waste Discharge of Management* 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. Hazard wastes such as waste oil will be disposed by qualified and professional third parties appointed by the Company.

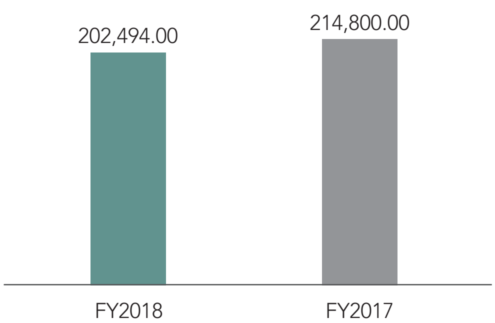
Great deal of heat is produced in production, which cannot be released from the machine, and we use cutting fluid (coolant) for cooling. During the cooling process, the cutting fluid will be mixed with waste oil from production process and other impurities. We introduced the cutting fluid recovery unit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

Water Resource Management

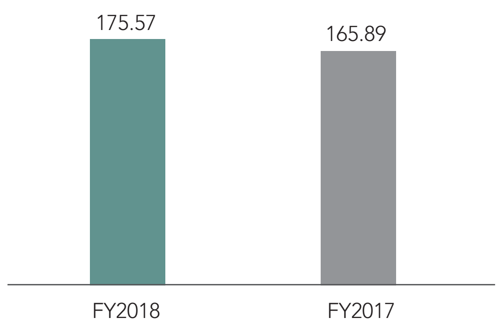
Our water is taken from the urban water supply system. In FY2018, we consumed 202,494.00 m^3 of water.

During production process, we produce small amounts of industrial and domestic wastewater. The domestic wastewater is mainly discharged from office toilets and kitchens without the discharge of poisonous, hazardous and special substance. Industrial wastewater is directly discharged through the municipal sewage pipe network and discharged by the municipal government's sewage treatment plant.

Total water consumed (m^3)



Intensity of water consumed (m^3/million yuan)



Note: Intensity of water consumed is the amount of water consumed per million yuan of revenue.

COMMUNITY

We adhere to the concept of 'What comes from the people should be used for the people'. When running the business, we do not forget to repay the society, which is deeply rooted in the hearts of every staff in the Company. In addition, in the vicinity of the factory area, there are many residential areas. We always pay attention during the production activities to avoid disturbing our neighbour.

Noise Management

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

Boosting Economic Growth

Fair Friend Institute of Electromechanical which we established through the cooperation with Hangzhou Vocational &Technical College not only brings to the Company the talented people who are proficient in both theoretical knowledge and practical operation, but also brings a large number of elites in the field of electro mechanics and provides the employment opportunities to some local students. In 1993, Hangzhou Good Friend Precision Machinery Co., Ltd. was established in Xiaoshan district. It has brought a lot of job opportunities to the local economy, promoted the local economic development, and been honored as one of the top 10 enterprises in the local economic development. Our high-quality CNC machine tools, forklifts and parking garage structures also provide strong support for local industrial upgrading and enterprise transformation.

Community Dedication

We actively participate in various public welfare activities and charitable donations. In December 2018, we participated in the voluntary blood donation activity organized in the Development Area. At the Company's advocacy, a total of 9,620 milliliters of blood were donated. In order to help the poor and the disadvantaged, we donated RMB200, 000 in the "Spring Wind" activity organized by the Hangzhou municipal government.

Education Development

We show great concern and support for the development of education. In 2018, we donated RMB300,000 to the Education Development Foundation of Hangzhou Vocational & Technical College. The funds are used to set up various funds such as student scholarships, teacher reward funds and academic research funds.

ESG DATA OVERVIEW

Indicators	FY2018	FY2017
Emissions		
Greenhouse gas emissions in total (Scope 1&2) (tons)	**4,384.41**	4,315.87
Scope 1	**567.70**	560.25
Scope 2	**3,816.71**	3,755.62
Greenhouse gas emissions per million yuan of revenue (tons/million yuan)	**3.80**	3.33
Waste gas emissions in total (tons)	**14.66**	11.48
NOx	**0.15**	0.14
VOCs	**14.51**	11.34
Hazardous wastes produced in total (tons)	**27.63**	26.20
Grinding mud	**23.75**	24.06
Activated charcoal contaminated with paint	**2.00**	1.45
The paint bucket	**1.26**	0.57
Waste oil	**0.62**	0.12
Hazardous wastes produced per million yuan of revenue (tons/million yuan)	**0.02**	0.02
Non-hazardous wastes produced in total (tons)	**383.30**	411.36
Scrap iron	**208.67**	232.80
Living garbage	**173.00**	177.00
Grinding wheel	**0.52**	1.24
Office consumables	**1.11**	0.32
Non-hazardous wastes produced per million yuan of revenue (tons/million yuan)	**0.33**	0.32

Indicators	FY2018	FY2017
Water		
Water consumed in total (m^3)	**202,494.00**	214,800.00
Water consumed per million yuan of revenue (m_3/million yuan)	**175.57**	165.89
Energy		
Energy consumed in total (MWh)	**7,609.40**	7,494.09
Electricity	**5,425.32**	5,338.48
Gasoline	**1,610.64**	1,546.80
Diesel	**573.44**	608.81
Energy consumed per million yuan of revenue (MWh/million yuan)	**6.60**	5.78
Packaging materials		
Packaging materials consumed in total (tons)	**2,196.80**	2,410.00
Packaging wood	**2,066.30**	2,323.00
Other	**130.50**	87.00
Packaging materials consumed per million yuan of revenue intensity（tons/million yuan）	**1.90**	1.86
Employee		
Total workforce	**1,147**	1,189
By gender		
Female	**216**	226
Male	**931**	963
By age group		
Under 30	**363**	417
From 30 to 50	**717**	699
Over 50	**67**	73
By employee category		
Senior management	**7**	11
Middle management	**160**	180
Staff	**980**	998
Employee turnover ratio	**22%**	23%

Indicators	FY2018	FY2017
Safety		
Number of work-related fatalities.	**0**	0
Rate of work-related fatalities	**0**	0
Number of lost days due to work injury	**450**	2832
Male	**91%**	82%
Development		
The percentage of trained employees	**86%**	78%
By gender		
Female	**64%**	63%
Male	**91%**	82%
By employee type		
Senior management	**71%**	9%
Middle management	**98%**	76%
Staff	**84%**	79%
The average training hours completed per employee	**22**	26
By gender		
Female	**13**	31
Male	**24**	34
By employee type		
Senior management	**3**	7
Middle management	**21**	25
Staff	**22**	34

APPENDIX I – INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Aspect	Description	Location/Remarks
A. Environmental		
Aspect A1: Emissions		
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; Waste management; Water resource management
A1.1	The types of emissions and respective emissions data	Waste 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; Waste management; Water resource management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste management

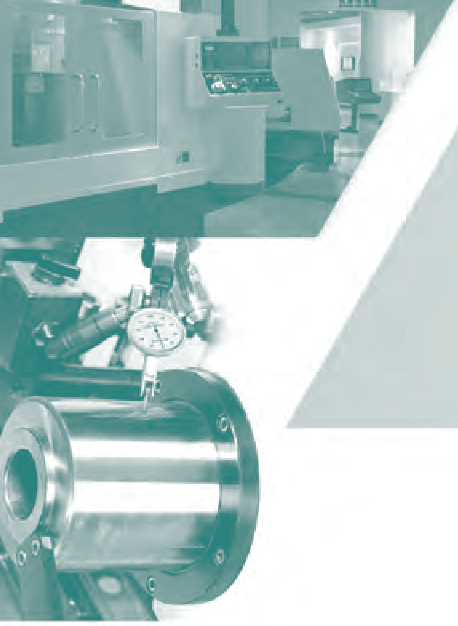
Aspect	Description	Location/Remarks
Aspect A2: Use of resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Resource management; Waste management; Water resource management
A2.1	Direct and/or indirect energy consumption by type (e.g. 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

Aspect	Description	Location/Remarks
Aspect A3: The environment and natural resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Resource management; Waste management; 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; Waste management; Water resource management
B. Social		
Aspect B1: Employment		
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, anti-discrimination, and other benefits and welfare	Employee
B1.1	Total workforce by gender, employment type, age group and geographical region	Employment and labour standards
B1.2	Employee turnover rate by gender, age group and geographical region	Employment and labour standards

Aspect	Description	Location/Remarks
Aspect B2: Health and safety		
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	Safety and health
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
Aspect B3: Development and training		
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)	Training and development
B3.2	The average training hours completed per employee by gender and employee category	ESG data overview

Aspect	Description	Location/Remarks
Aspect B4: Labour standards		
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	Employment and labour standards
B4.1	Description of measures to review employment practices to avoid child and forced labour	Employment and labour standards
B4.2	Description of steps taken to eliminate such practices when discovered	Employment and labour standards
Aspect B5: Supply chain management		
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

Aspect	Description	Location/Remarks
Aspect B6: Product responsibility		
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	Client 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	Client service



Aspect	Description	Location/Remarks
Aspect B7: Anti-corruption		
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 whistle-blowing procedures, how they are implemented and monitored	Business ethics
Aspect B8: Community Investment		
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)	Boosting economic growth; Community dedication; Education development
B8.2	Resources contributed (e.g. money or time) to the focus area	Boosting economic growth; Community dedication; Education development

Independent Auditor's Report

Deloitte. 德勤

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 (collectively referred to as the "Group") set out on pages 80 to 189, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("HKSAs") 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 judgement, 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.

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
Impairment assessment of trade receivables and contract assets	
We identified impairment assessment of trade receivables and contract assets as a key audit matter due to the significance of the Group's trade receivables and contract assets in the context of the Group's consolidated financial statements and the involvement of subjective 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. As disclosed in Notes 19A and 19B to the consolidated financial statements, as at 31 December 2018, the carrying amount of trade receivables and contract assets amounted to approximately RMB323,586,000, which represented approximately 14.64% of the Group's total assets. As disclosed in Note 39 to the consolidated financial statements, 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. As disclosed in Notes 19A and 19B to the consolidated financial statements, the Group recognised an additional amount of RMB8,875,000 of impairment of trade receivables and contract assets for the year and the Group's lifetime ECL on trade receivables and contract assets as at 31 December 2018 amounted to RMB47,161,000.	Our procedures in relation to the loss allowance for ECL on trade receivables and contract assets included: • 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 credit rating of the counterparties; • Testing the trade receivables' ageing report as at 31 December 2018 produced by the Company's financial system, on a sample basis, by comparing individual items in the ageing report with the relevant sales agreements, sales invoices and other supporting documents; • 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 2018, including their identification and evaluation of individually assessed trade receivables and contract assets, the reasonableness of the management of the Group's grouping of remaining 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); and • Evaluating the disclosures regarding the impairment assessment of trade receivables and contract assets in notes 19A, 19B and 39 to the consolidated financial statements.

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
Impairment assessment of inventories	
We identified the impairment assessment of inventories as a key audit matter due to significance of the Group's inventories in the context of the Group's consolidated financial statements, combined with the management judgements involved. 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 steel prices, the inventories are exposed to the risk of being carried in excess of net realisable value. As disclosed in Note 22 to the consolidated financial statements, as at 31 December 2018, the carrying amount of inventories amounted to approximately RMB524,752,000 (net of inventory provision of RMB23,629,000) which represented approximately 23.74% of the Group's total assets. As disclosed in Note 4 to the consolidated financial statements, in assessing the net realisable value and making appropriate allowances to inventories, the management estimates the provision for impairment of inventories by identifying inventories that are slow moving or obsolete, and consider the inventories' physical conditions, age, market conditions and market prices for similar items.	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 ageing report, on a sample basis, with reference to the procurement and/or production records; • Evaluating the reasonableness of impairment provision on inventories with reference to the ageing report and subsequent movement of the inventories; • Comparing the carrying amount of inventories on hand to the latest selling prices on a sample basis; and • Evaluating the adequacy of impairment provision on inventories with reference to the information obtained above.

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

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 of the Company 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSAs 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 HKSAs, 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 of the Company's 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.

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 those charged with governance regarding, 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 those charged with governance 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 those charged with governance, 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 Joseph Wing Ming Chan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5A	**1,090,693**	1,294,801
Cost of revenue	5B	**(799,966)**	(982,286)
Gross profit		**290,727**	312,515
Other income	6A	**84,483**	83,483
Distribution and selling expenses		**(132,609)**	(139,925)
Administrative expenses		**(64,137)**	(71,006)
Research and development costs		**(37,087)**	(43,796)
Impairment loss on trade receivables and contract assets		**(8,875)**	(5,505)
Other gains and losses	6B	**(28,321)**	883
Other expenses	6C	**(87,968)**	(35,517)
Other operating expenses		**(1,458)**	(1,612)
Finance costs	9	**(14,180)**	(8,803)
Share of profit of joint ventures	17	**2,118**	1,893
Share of loss of associates	18	**(45,423)**	(7,544)
(Loss) profit before income tax	7	**(42,730)**	85,066
Income tax expense	10	**(14,994)**	(19,376)
(Loss) profit attributable to owners of the Company		**(57,724)**	65,690
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income (expense) of associates	18	**1,021**	(522)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expense) of associates	18	**17,228**	(47,272)
Exchange difference arising on translation of foreign operations		**2,664**	25,600
Net fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		**1,999**	–
		21,891	(21,672)
Total comprehensive (expense) income attributable to owners of the Company		**(34,812)**	43,496
(Loss) earnings per share (expressed in RMB per share)			
– Basic	11	**(0.14)**	0.16
Dividends	12	**44,352**	20,160

Consolidated Statement of Financial Position

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	**204,710**	180,401
Prepaid lease payments	13	**120,147**	123,052
Intangible assets	15	**2,215**	3,203
Investments in joint ventures	17	**20,505**	18,387
Investments in associates	18	**331,323**	355,917
Deferred income tax assets	32	**27,520**	22,401
		706,420	703,361
Current assets			
Inventories	22	**524,752**	345,626
Trade and other receivables and prepayment	19A	**345,810**	541,941
Contract assets	19B	**46,727**	–
Loan receivable	20	**35,627**	–
Receivables at FVTOCI	21	**106,400**	–
Amounts due from customers for contract work	23	**–**	50,270
Prepaid lease payments	13	**2,905**	2,905
Amount due from ultimate holding company	40	**–**	1,053
Amounts due from fellow subsidiaries and associates of ultimate holding company	40	**23**	1,476
Amounts due from joint ventures	40	**461**	852
Amounts due from associates and subsidiaries of an associate	40	**151,059**	119,083
Restricted bank deposits and bank balances	24	**69,987**	32,716
Structured deposits	25	**–**	76,140
Financial assets at fair value through profit or loss ("FVTPL")	25	**108,020**	–
Bank balances and cash	26	**112,673**	98,071
		1,504,444	1,270,133

	NOTES	2018 RMB'000	2017 RMB'000
Current liabilities			
Trade and other payables and accrued expenses	28	**242,969**	589,692
Contract liabilities	29	**358,751**	–
Amounts due to customers for contract work	23	**–**	42,813
Amount due to ultimate holding company	40	**638**	7,400
Amount due to immediate holding company	40	**2,832**	2,123
Amounts due to fellow subsidiaries and associates of ultimate holding company	40	**3,637**	3,673
Amounts due to joint ventures	40	**362**	608
Amounts due to an associate and subsidiaries of an associate	40	**28,435**	37,327
Provision for litigation claim	36	**60,117**	–
Refund liabilities	36	**100,903**	–
Current income tax liabilities		**21,979**	28,091
Bank borrowings	31	**563,239**	367,428
Warranty provision	30	**5,311**	5,755
		1,389,173	1,084,910
Net current assets		**115,271**	185,223
Total assets less current liabilities		**821,691**	888,584
Non-current liabilities			
Other borrowings	31	**35,093**	–
Deferred income	33	**70,192**	61,180
		105,285	61,180
Net assets		**716,406**	827,404
Capital and reserves			
Share capital	27	**4,022**	4,022
Share premium		**82,281**	82,281
Capital reserves		**77,338**	77,338
Other reserves		**58,361**	39,576
Retained earnings		**494,404**	624,187
Total equity		**716,406**	827,404

The consolidated financial statements on pages 80 to 189 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Chu Chih-Yaung
DIRECTOR

Wen Chi-Tang
DIRECTOR

Consolidated Statement of Changes In Equity

	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserves RMB'000 (note b)	Other reserves RMB'000 (note c)	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	4,022	82,281	77,338	61,248	579,179	804,068
Profit for the year	–	–	–	–	65,690	65,690
Other comprehensive (expense) income						
Share of other comprehensive expense of associates	–	–	–	(47,272)	(522)	(47,794)
Exchange difference arising on translation of foreign operations	–	–	–	25,600	–	25,600
	–	–	–	(21,672)	(522)	(22,194)
Total comprehensive (expense) income	–	–	–	(21,672)	65,168	43,496
Dividends recognised as distribution *(note 12)*	–	–	–	–	(20,160)	(20,160)
At 31 December 2017	4,022	82,281	77,338	39,576	624,187	827,404
Effect arising from adoption of HKFRS 9	–	–	–	(3,106)	(5,755)	(8,861)
Effect arising from adoption of HKFRS 15	–	–	–	–	(22,973)	(22,973)
Adjusted balance at 1 January 2018	4,022	82,281	77,338	36,470	595,459	795,570
Loss for the year	–	–	–	–	(57,724)	(57,724)
Other comprehensive income						
Share of other comprehensive income of associates	–	–	–	17,228	1,021	18,249
Exchange difference arising on translation of foreign operations	–	–	–	2,664	–	2,664
Net fair value gain on receivables at FVTOCI	–	–	–	1,999	–	1,999
	–	–	–	21,891	1,021	22,912
Total comprehensive income (expense)	–	–	–	21,891	(56,703)	(34,812)
Dividends recognised as distribution *(note 12)*	–	–	–	–	(44,352)	(44,352)
At 31 December 2018	4,022	82,281	77,338	58,361	494,404	716,406

Notes:

a. **Share premium**

Under Section 34(2) of the Companies Law, Cap. 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be applied by the Company paying dividends to members provided that no dividend may be paid to members out of the share premium account unless, immediately following the date on which the dividend proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

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 enterprise expansion reserve which are set up in accordance with statutory requirements in the People's Republic of China ("PRC").

Consolidated Statement of Cash Flows

	NOTES	2018 RMB'000	2017 RMB'000
Operating activities			
Cash (used in) generated from operations	34	**(25,120)**	124,789
Income tax and withholding tax paid		**(21,905)**	(18,204)
Net cash (used in) generated from operating activities		**(47,025)**	106,585
Investing activities			
Repayment from associates and subsidiaries of an associate		**10,320**	70,287
Advance to associates and subsidiaries of an associate		**(15,048)**	(154,283)
Loan to a non-controlling shareholder of a subsidiary of an associate of the Group		**(35,627)**	–
Acquisition of property, plant and equipment		**(44,922)**	(8,476)
Acquisition of prepaid lease payments		**–**	(5,134)
Proceeds from disposal of property, plant and equipment	34	**519**	1,027
Purchases of intangible assets		**(264)**	(1,175)
Interest received		**4,496**	4,261
Withdrawal of restricted bank deposits		**32,716**	33,163
Placement of restricted bank deposits		**(15,180)**	(32,716)
Withdrawal of financial assets at FVTPL		**507,800**	–
Purchases of financial assets at FVTPL		**(539,680)**	–
Withdrawal of structured deposits		**–**	507,080
Purchases of structured deposits		**–**	(583,220)
Net cash used in investing activities		**(94,870)**	(169,186)
Financing activities			
Proceeds from bank and other borrowings		**3,390,069**	602,194
Repayments of bank borrowings		**(3,184,943)**	(590,223)
Government grant received		**9,012**	–
Dividends paid		**(44,352)**	(20,160)
Interest paid		**(14,180)**	(8,803)
Net cash generated from (used in) financing activities	35	**155,606**	(16,992)
Net increase (decrease) in cash and cash equivalents		**13,711**	(79,593)
Cash and cash equivalents at beginning of the year		**98,071**	177,946
Effect of foreign exchange rate changes		**891**	(282)
Cash and cash equivalents at end of the year, represented by bank balances and cash		**112,673**	98,071

Notes to the Consolidated Financial Statements

1. GENERAL

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

The Company was incorporated in the Cayman Islands. The address of its registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company's shares have been listed on the Main Board of the Stock Exchange since 11 January 2006. In addition, 67,200,000 units of Taiwan depositary receipts ("TDRs"), representing 67,200,000 newly issued shares of the Company, were issued and listed on the Taiwan Stock Exchange Corporation ("Taiwan Stock Exchange") on 18 March 2010. Good Friend (H.K.) Corporation Limited, 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.

These consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the design and production of:

- Machine Tools
- Parking Garage Structures
- Forklift Trucks

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5A and 3, respectively.

Summary of effects arising from initial application of HKFRS 15

The following table summarises the impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

	Note	**Impact of adoption of HKFRS 15 at 1 January 2018 RMB'000**
Retained earnings		
Revenue from parking garage structures recognised at a point in time	(a)	**147,884**
Recognition of cost of revenue	(a)	**(120,857)**
Deferred income tax effect	(a)	**(4,054)**
Impact at 1 January 2018		**22,973**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the change have not been included.

	Notes	Carrying amounts previously reported as at 31 December 2017	Reclassification	Remeasurement	Carrying amounts under HKFRS 15 as at 1 January 2018*
		RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets	(a)	22,401	–	4,054	26,455
Inventories	(a)	345,626	–	120,857	466,483
Contract assets	(d)	–	46,703	–	46,703
Trade and other receivables and prepayment	(d)	541,941	(46,703)	–	495,238
Amounts due from customers for contract work	(a)	50,270	–	(50,270)	–
Trade and other payables and accrued expenses	(c)	(589,692)	296,284	–	(293,408)
Contract liabilities	(a) (b) (c)	–	(339,097)	(97,614)	(436,711)
Amounts due to customers for contract work	(b)	(42,813)	42,813	–	–

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) In relation to the parking garage structures contracts that are not completed as at 1 January 2018, the amount of revenue previously recognised in profit or loss prior to 1 January 2018 amounted to RMB147,884,000 was adjusted to amounts due from customers for contract work and contract liabilities amounted to RMB50,270,000 and RMB97,614,000, respectively. The corresponding cost of revenue previously recognised in profit or loss prior to 1 January 2018 amounted to RMB120,857,000 was adjusted to inventories. The deferred income tax effect amounted to RMB4,054,000 was adjusted to deferred income tax assets.

(b) In relation to parking garage structures contracts previously accounted under HKAS 11, amounts due to customers for contract work of RMB42,813,000 were reclassified to contract liabilities.

(c) As at 1 January 2018, the Group received advance deposits from customers of RMB296,284,000 which were reclassified to contract liabilities upon adoption of HKFRS 15.

(d) As at 1 January 2018, the Group had retention monies amounted to RMB46,217,000 which the right to billing is still conditional upon achieving specified payment milestone were reclassified to contract assets upon adoption of HKFRS 15.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summaries the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Non-current assets			
Deferred income tax assets	27,520	(4,054)	23,466
Current assets			
Inventories	524,752	(163,656)	361,096
Trade and other receivables and prepayment	345,810	46,727	392,537
Contract assets	46,727	(46,727)	–
Amounts due from customers for contract work	–	71,782	71,782
Current liabilities			
Trade and other payables and accrued expenses	242,969	278,541	521,510
Contract liabilities	358,751	(358,751)	–
Amounts due to customers for contract work	–	59,458	59,458
Refund liabilities	100,903	(100,903)	–
Current income tax liabilities	21,979	413	22,392
Equity			
Retained earnings	494,404	25,314	519,718

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Impact on the consolidated statement of profit or loss and other comprehensive income

	As reported RMB'000	**Adjustments** RMB'000	**Amounts without application of HKFRS 15** RMB'000
Revenue	1,090,693	45,553	1,136,246
Cost of revenue	(799,966)	(42,799)	(842,765)
Gross profit	290,727	2,754	293,481
Loss before income tax	(42,730)	2,754	(39,976)
Income tax expense	(14,994)	(413)	(15,407)
Loss attributable to owners of the Company	(57,724)	2,341	(55,383)
Total comprehensive expense attributable to owners of the Company	(34,812)	2,341	(32,471)

Impact on the consolidated statement of cash flows

	As reported RMB'000	**Adjustments** RMB'000	**Amounts without application of HKFRS 15** RMB'000
Loss before income tax	(42,730)	2,754	(39,976)
Inventories	11,468	42,799	54,267
Trade and other receivables and prepayment	20,400	(254)	20,146
Contract assets	(254)	254	–
Amounts due from customers for contract work	–	(21,512)	(21,512)
Amounts due to customers for contract work	–	16,645	16,645
Trade and other payables and accrued expenses	(7,382)	(118,646)	(126,028)
Contract liabilities	(77,960)	77,960	–

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items subject to ECL assessment, and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement.*

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.2 HKFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Receivables at FVTOCI RMB'000	Contract assets RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Deferred income tax assets RMB'000	Structured deposits RMB'000	Financial assets at FVTPL RMB'000	Other reserves RMB'000	Retained earnings RMB'000
Closing balance as at 31 December 2017 – HKAS 39		–	–	541,941	22,401	76,140	–	39,576	624,187
Effect arising from initial application of HKFRS 15		–	46,703	(46,703)	4,054	–	–	–	(22,973)
Reclassification									
From loans and receivables		128,054	–	(128,054)	–	–	–	–	–
From structured deposits		–		–	–	(76,140)	76,140	–	–
Remeasurement									
From amortised cost to fair value	(i)	(3,654)	–	–	548	–	–	(3,106)	–
Impairment under ECL model	(ii)	–	(486)	(5,340)	71	–	–	–	(5,755)
Opening balance as at 1 January 2018		124,400	46,217	361,844	27,074	–	76,140	36,470	595,459

(i) Reclassification of bills receivables from loans and receivables to FVTOCI

As part of the Group's cash flow management, the Group has the practice of endorsing some of the bills receivables before the bills are due for payment. Accordingly, the Group's bills receivables of RMB128,054,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to receivables at FVTOCI. The related fair value loss of RMB3,654,000 and related deferred income tax assets of RMB548,000 were adjusted to receivables at FVTOCI and other reserves as at 1 January 2018.

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, contract assets and trade nature receivables from ultimate holding company, joint venture, fellow subsidiaries, associates of the ultimate holding company, associates and subsidiaries of an associate. To measure the ECL, trade receivables, contract assets and trade nature receivables from ultimate holding company, joint venture, fellow subsidiaries, associates of the ultimate holding company, associates and subsidiaries of an associate are assessed individually for debtors with significant balances or credit impaired and/or collectively using a provision matrix with appropriate grouping.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.2 HKFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9 (Continued)

(ii) Impairment under ECL model (Continued)

Loss allowances for receivables at FVTOCI and other financial assets at amortised cost mainly comprise of other receivables, restricted bank deposits and bank balances, non-trade nature receivables from ultimate holding company, joint venture, fellow subsidiaries, associates of ultimate holding company, associates, subsidiaries of an associate, receivables at FVTOCI and bank balances, are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees provided to an associate and its subsidiaries of Euro13,129,000 (equivalent to RMB102,405,000), the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

As at 1 January 2018, the additional credit loss allowance of RMB5,826,000, together with the recognition of the corresponding deferred income tax assets of RMB71,000 have been recognised against retained earnings. The additional loss allowance is charged against the respective asset.

Loss allowances for financial assets at amortised cost, trade receivables and contract assets as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables RMB'000	**Contract assets** RMB'000	**Total** RMB'000
As at 31 December 2017 – HKAS 39	(37,811)	–	(37,811)
Amounts remeasured through opening retained earnings	(5,340)	(486)	(5,826)
As at 1 January 2018	(43,151)	(486)	(43,637)

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line item affected. Line item that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	**1 January 2018 (Restated) RMB'000**
Non-current assets				
Deferred income tax assets	22,401	619	4,054	**27,074**
Others with no adjustments	680,960	–	–	**680,960**
	703,361	619	4,054	**708,034**
Current assets				
Inventories	345,626	–	120,857	**466,483**
Trade and other receivables and prepayment	541,941	(133,394)	(46,703)	**361,844**
Receivables at FVTOCI	–	124,400	–	**124,400**
Contract assets	–	(486)	46,703	**46,217**
Amounts due from customers for contract work	50,270	–	(50,270)	**–**
Structured deposits	76,140	(76,140)	–	**–**
Financial assets at FVTPL	–	76,140	–	**76,140**
Others with no adjustments	256,156	–	–	**256,156**
	1,270,133	(9,480)	70,587	**1,331,240**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation *(Continued)*

	31 December 2017 (Audited) RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	**1 January 2018 (Restated) RMB'000**
Current liabilities				
Trade and other payables and accrued expenses	589,692	–	(296,284)	**293,408**
Contract liabilities	–	–	436,711	**436,711**
Amounts due to customers for contract work	42,813	–	(42,813)	**–**
Others with no adjustments	452,405	–	–	**452,405**
	1,084,910	–	97,614	**1,182,524**
Net current assets	185,223	(9,480)	(27,027)	**148,716**
Total assets less current liabilities	888,584	(8,861)	(22,973)	**856,750**
Non-current liability				
Deferred income	61,180	–	–	**61,180**
Net assets	827,404	(8,861)	(22,973)	**795,570**
Capital and reserves				
Other reserves	39,576	(3,106)	–	**36,470**
Retained earnings	624,187	(5,755)	(22,973)	**595,459**
Others with no adjustments	163,641	–	–	**163,641**
Total equity	827,404	(8,861)	(22,973)	**795,570**

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Lease[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective ***(Continued)***

HKFRS 16 Lease

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 Lease (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB6,245,000 as disclosed in note 37(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB886,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group has not reassessed whether the contracts are, or contain a lease which already existed prior to the date of initial application. In addition, the Group has elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transition in note 2)

Upon HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transition in note 2) ***(Continued)***

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 machine tools 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.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Goods, services, interests and dividends

Revenue from sales of machine tools and forklift trucks are recognised when goods are delivered, title has been passed, and goods inspected and accepted by the customer.

Revenue from construction of parking garage structures is recognised based on the percentage of completion of the contract, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is estimated by reference to the costs incurred to date as compared to the total costs to be incurred under the contract. Provision is made for foreseeable losses as soon as they are anticipated by the management.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income from leasing of properties is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018) *(Continued)*

Parking garage structures contracts

Where the outcome of a parking garage structures construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured by the proportion of contract costs incurred for work performed to date as compared to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a parking garage structures construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables and prepayment.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments, including the cost of acquisition of land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leasehold land and building

When the Group makes payments for a property interest which included both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rate prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of other reserves.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expense the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are 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.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Pension obligations

The Group makes contributions to defined contribution retirement schemes under the Mandatory Provident Fund Schemes ("MPF") Ordinance in Hong Kong. The assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and the Group. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

The Group also contributes to employee retirement schemes established by municipal governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs *(Continued)*

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before income tax because 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 temporary 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of 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 associated with investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The measurement of deferred tax liabilities and assets 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.

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.

Current and deferred tax is recognised in to profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowings costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

The items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

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

Intangible assets

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.

Research expenditure

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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 at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial assets is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(ii) Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income and accumulated under the heading of other reserves. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income ("OCI") are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets as FVTPL are measured at fair value at the end of each reporting, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application of HKFRS 9 in accordance with transactions in note 2)

The Group recognises a loss allowance for ECL on financial assets and other assets which are subject to impairment under HKFRS 9 (including trade receivables, contract assets, loan receivable, other receivables, restricted bank deposits and bank balances, amounts due from ultimate holding company, amounts due from fellow subsidiaries and associates of ultimate holding company, amounts due from joint ventures, amounts due from associates and subsidiaries of an associate and bank balances) and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done 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 conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transactions in note 2) (Continued)

The Group always recognises lifetime ECL for trade receivables, contract assets and trade receivables from ultimate holding company, joint ventures, fellow subsidiaries, associates of ultimate holding company, associates and subsidiaries of an associate. The ECL on these assets are assessed individually for debtors with significant balances or credit impaired and/or collectively using 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. 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.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there have been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as 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.

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

- 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, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transactions in note 2) (Continued)

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk 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 debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower 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 debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

For the date that the Group becomes a party to the financial guarantee contracts is considered to be the date of initial recognition for the purposes of assessing the financial guarantee contract for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of 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.

(ii) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transactions in note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceeding. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transactions in note 2) (Continued)

(v) Measurement and recognition of ECL *(Continued)*

For a financial guarantee contract, 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. Accordingly, the expected losses is the present value of 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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, contract assets, other receivables, restricted bank deposits and bank balances and bank balances are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for receivables at FVTOCI and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account. For receivables at FVTOCI, the loss allowance is recognised in OCI and accumulated in the other reserves without reducing the carrying amount of these receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, other receivables, restricted bank deposits and bank balances, amounts due from ultimate holding company, joint ventures, fellow subsidiaries, associates of ultimate holding company, associates and subsidiaries of an associate and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of financial assets

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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of receivables as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Derecognition of financial liabilities

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 liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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.

Judgement in determining the timing of satisfaction of performance obligations

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Judgement in determining the timing of satisfaction of performance obligations (Continued)

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.

Key sources of estimation uncertainty

The following are 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.

Provision for litigation claim

As at 31 December 2018, 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 and also recorded as "other expenses" in the consolidated statement of profit or loss and other comprehensive income. Details of the provision for litigation claim as at 31 December 2018 are set out in note 36.

Due to the fact that the outcome of the appeal to the Supreme People's Court cannot be determined at this stage, an overprovision or underprovision for litigation claim may arise when the outcome is reached.

Estimated useful lives and impairment of property, plant and equipment

The Group determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are less than previously estimated, and will write-off or write-down technically obsolete or non-strategic assets.

Machinery and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the machinery and equipment less costs of disposal or the value in use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of property, plant and equipment amounted to RMB204,710,000 (2017: RMB180,401,000). No impairment loss is recognised for the years end 31 December 2018 and 2017.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Provision for 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 2018, the carrying amount of the Group's inventories amounted to RMB524,752,000 (net of allowance for inventories of RMB23,629,000) (2017: RMB345,626,000 (net of allowance for inventories of RMB22,026,000)).

Warranty provision

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

As at 31 December 2018, the carrying amount of the Group's warranty provision amounted to RMB5,311,000 (2017: RMB5,755,000).

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.

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of loss allowance for ECL on trade receivables, contract assets, loan receivable, other receivables, restricted bank deposits and bank balances, receivables at FVTOCI and amounts due from ultimate holding company, 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.

5A. REVENUE

Disaggregation of revenue

For the year ended 31 December 2018

	Total RMB'000
Machine Tools	928,341
Parking Garage Structures	89,814
Forklift Trucks	72,538
	1,090,693

Transaction price allocated to the remaining performance obligations for contracts with customers

The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied as the Group's contract has an original expected duration of less than one year.

5B. 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 assets to its segments as the Executive Directors do not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of total assets for each operating and reportable segment.

	Machine Tools RMB'000	Parking Garage Structures RMB'000	Forklift Trucks RMB'000	Total RMB'000
For the year ended 31 December 2018				
Revenue (all from external sales)	**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**

5B. SEGMENT INFORMATION *(Continued)*

	Machine Tools RMB'000	Parking Garage structures RMB'000	Forklift Trucks RMB'000	Total RMB'000
For the year ended 31 December 2017				
Revenue (all from external sales)	1,009,354	186,165	99,282	1,294,801
Cost of revenue	(737,198)	(154,055)	(91,033)	(982,286)
Segment profit	272,156	32,110	8,249	312,515

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.

6A. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Sale of scrap materials	**38,055**	44,572
Consultancy income	**2,629**	–
Government grants and subsidies related to income*	**22,787**	22,182
Repair income	**13,780**	10,888
Rental income	**460**	220
Interest income	**4,496**	4,261
Others	**2,276**	1,360
	84,483	83,483

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

6B. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Gain (loss) on disposal of property, plant and equipment	**118**	(37)
Net foreign exchange (loss) gain	**(28,439)**	920
	(28,321)	883

6C. OTHER EXPENSES

	2018 RMB'000	2017 RMB'000
Provision for litigation claim (note 36)	**60,117**	–
Cost of scrap materials sold	**27,851**	35,517
	87,968	35,517

7. (LOSS) PROFIT BEFORE INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Directors and chief executives' remuneration	**1,690**	1,839
Other staff costs	**145,906**	151,001
Other staff's retirement benefits scheme contributions	**4,910**	5,036
Total staff costs	**152,506**	157,876
Capitalised in inventories	**(55,746)**	(61,632)
	96,760	96,244
Analysed as:		
Charged in selling expense	**60,992**	65,325
Charged in administrative expenses	**23,987**	19,057
Charged in research and development cost	**11,781**	11,862
	96,760	96,244
Depreciation of property, plant and equipment	**20,795**	22,343
Amortisation of prepaid lease payments	**2,905**	3,032
Amortisation of intangible assets	**1,252**	1,403
Total depreciation and amortisation	**24,952**	26,778
Capitalised in inventories	**(10,967)**	(10,583)
	13,985	16,195
Analysed as:		
Charged in selling expense	**1,261**	1,326
Charged in administrative expenses	**9,357**	11,321
Charged in other operating expense	**2,263**	2,258
Charged in research and development costs	**1,104**	1,290
	13,985	16,195
Auditor's remuneration	**1,808**	1,984
Cost of inventories recognised as an expense	**765,594**	884,532
Write-down (reversal) of inventories	**2,087**	(2,981)
Provision for warranty	**4,983**	6,282
Direct operating expenses incurred for rental income	**330**	137
Research and development costs		
Staff costs	**11,781**	11,862
Depreciation and amortisation	**1,104**	1,290
Cost of inventories recognised as research expenditure	**21,076**	19,971
Others	**3,126**	10,673
	37,087	43,796

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(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:

Executive directors

	Chu Chih Yaung# RMB'000	Chen Hsiang-Jung* RMB'000	Chen Min-Ho RMB'000	Wen Chi-Tang RMB'000	Chiu Rung-Hsien RMB'000	Total RMB'000
Year ended 31 December 2018						
Fees	–	–	–	144	144	288
Salaries and other benefits	–	–	–	–	–	–
Retirement benefit scheme contribution	–	–	–	–	–	–
Discretionary performance related bonus	1,051	–	–	–	–	1,051
Total	1,051	–	–	144	144	1,339
Year ended 31 December 2017						
Salaries and other benefits	–	180	–	144	144	468
Retirement benefit scheme contribution	–	–	–	–	–	–
Discretionary performance related bonus	518	518	–	–	–	1,036
Total	518	698	–	144	144	1,504

\# Chairman and also appointed as chief executive officer on 7 December 2018

* Chief executive officer, passed away on 8 November 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

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

Independent non-executive directors

	Koo Fook Sun, Louis RMB'000	Chiang Chun-Te RMB'000	Yu Yu-Tang RMB'000	Total RMB'000
Year ended 31 December 2018				
Fees	**175**	**88**	**88**	**351**
Year ended 31 December 2017				
Fees	167	84	84	335

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.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2017: one) was director of the Company. The emoluments of the remaining four (2017: four) highest paid employees who are neither a director nor chief executive officer of the company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**1,987**	1,902
Discretionary performance related bonus	**1,992**	1,928
Retirement benefit scheme contribution	**165**	110
	4,144	3,940

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(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:

	2018 No. of employees	2017 No. of employees
Nil to HKD1,000,000	**2**	1
HKD1,000,001 to HKD1,500,000	**2**	3

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.

9. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expense:		
– Bank borrowings	**14,180**	8,803
– Other borrowings	**583**	–
Total borrowing costs	**14,763**	8,803
Less: amounts capitalised in the cost of qualifying assets	**(583)**	–
	14,180	8,803

Borrowing costs capitalised during the year arose on the other borrowings and are calculated by applying a capitalisation rate of 4.75% per annum.

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current Enterprise Income Tax ("EIT")		
– Current year	**16,403**	18,347
– (Over) under provision in prior years	**(610)**	1,729
	15,793	20,076
Deferred tax credit (note 32)	**(799)**	(700)
	14,994	19,376

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

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

EIT is provided at 25% for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). Hangzhou Good Friend renewed its New and High-Tech Enterprise status in 2018, which has been approved by the relevant government authorities, and it is entitled to a reduced tax rate of 15% for a three-year period commencing 2018. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2018 is 15% (2017: 15%).

In 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%.

For the year ended 31 December 2018, 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 amounting to RMB237,377,000 (2017: RMB182,730,000) 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. During the year, no dividend was declared and paid by any of the PRC subsidiaries.

10. INCOME TAX EXPENSE *(Continued)*

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

	2018	2017
	RMB'000	RMB'000
(Loss) profit before income tax	**(42,730)**	85,066
Add: Share of loss of joint ventures and associates	**43,305**	5,651
	575	90,717
Tax calculated at tax rates applicable to the principal operating entity of the Group (15%)	**86**	13,608
Tax effect of:		
Expenses not deductible for tax purpose	**8,018**	5,440
Utilisation of previously unrecognised tax losses	**(1,467)**	(547)
Tax losses for which no deferred income tax asset was recognised	**12,048**	2,117
Deductible temporary differences not recognised	**1,043**	31
Utilisation of deductible temporary differences previously not recognised	**–**	(661)
Different tax rates of subsidiaries	**(62)**	394
Tax concession granted to Hangzhou Good Friend	**(4,062)**	(2,735)
(Over) under provision in prior years	**(610)**	1,729
	14,994	19,376

11. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is calculated by dividing the loss attributable to owners of the Company amounted to RMB57,724,000 (2017: profit attributable to owners of the Company: RMB65,690,000) by the number of ordinary shares in issue during the year of 403,200,000 (2017: 403,200,000) shares.

	2018	2017
Basic (loss) earnings per share (RMB per share)	**(0.14)**	0.16

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

12. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 interim dividend of RMB0.05 per share and 2017 final dividend of RMB0.06 per share (2017: 2017 interim dividend of RMB0.05 per share)	**44,352**	20,160

No dividends was proposed for ordinary shareholders of the Company for the year ended 31 December 2018.

13. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying values		
At the beginning of the year	**125,957**	123,855
Additions	**–**	5,134
Amortised to profit or loss	**(2,905)**	(3,032)
At the end of the year	**123,052**	125,957
Less: Amount to be amortised within one year	**(2,905)**	(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 (2017: RMB3,352,000) to secure the general banking facilities granted to the Group and other borrowings of the Group as disclosed in note 42.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Office and computer equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2017	204,107	169,702	31,422	21,431	3,216	429,878
Additions	1,532	1,399	862	984	3,699	8,476
Transfers	145	–	78	–	(223)	–
Disposals	(562)	(2,279)	(812)	(1,844)	–	(5,497)
At 31 December 2017	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	205,494	170,017	31,847	20,119	46,849	474,326
DEPRECIATION AND IMPAIRMENT						
At 1 January 2017	76,812	114,538	24,059	19,137	–	234,546
Provided for the year	9,398	10,684	1,137	1,124	–	22,343
Disposals	(67)	(1,953)	(753)	(1,660)	–	(4,433)
At 31 December 2017	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	95,300	132,042	25,043	17,231	–	269,616
CARRYING VALUES						
At 31 December 2018	110,194	37,975	6,804	2,888	46,849	204,710
At 31 December 2017	119,079	45,553	7,107	1,970	6,692	180,401

The Group has pledged its buildings with carrying amounts of approximately RMB7,763,000 as at 31 December 2018 (2017: RMB8,428,000) to secure the general banking facilities granted to the Group as disclosed in note 42.

15. INTANGIBLE ASSETS

	Softwares RMB'000
Cost	
At 1 January 2017	14,482
Additions	1,175
At 31 December 2017	15,657
Additions	264
At 31 December 2018	15,921
Amortisation	
At 1 January 2017	11,051
Charge for the year	1,403
At 31 December 2017	12,454
Charge for the year	1,252
At 31 December 2018	13,706
CARRYING VALUES	
At 31 December 2018	2,215
At 31 December 2017	3,203

16. DETAILS OF SUBSIDIARIES

The following is a list of subsidiaries of the Company at 31 December 2018 and 2017:

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held	
				2018	2017
Directly held subsidiaries					
Winning Steps Ltd.	British Virgin Island ("BVI")	Investment holding	Ordinary shares USD110	**100%**	100%
Yu Hwa Holdings Ltd.	BVI	Investment holding	Ordinary shares USD1,500,000	**100%**	100%
Hai Sheng International Holdings Inc.	BVI	Investment holding	Ordinary shares USD200,000	**100%**	100%
Sky Thrive Investment Ltd.	BVI	Investment holding	Ordinary shares USD5,000,000	**100%**	100%
Kai Win Group Ltd.	BVI	Investment holding	Ordinary shares USD1	**100%**	100%
Winnings Steps Hong Kong Development Ltd.	Hong Kong	Trading and Investment holding	Ordinary shares HKD1,000	**100%**	100%
Full Moral Industrial Ltd.	Hong Kong	Inactive	Ordinary shares HKD2	**100%**	100%
Yu Hwa Hong Kong Enterprise Ltd.	Hong Kong	Investment holding	Ordinary shares HKD1,000	**100%**	100%
Hai Sheng International Hong Kong Ltd.	Hong Kong	Investment holding	Ordinary shares HKD1,000	**100%**	100%
Sky Thrive Hong Kong Enterprise Ltd ("Sky Thrive").	Hong Kong	Investment holding	Ordinary shares HKD1,000	**100%**	100%

16. DETAILS OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held 2018	Interest held 2017
Indirectly held subsidiaries					
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 USD11,000,000	**100%**	100%
Hangzhou Global Friend Precision Machinery Co., Ltd.	PRC	Design and assembling of forklift trucks	Registered Capital USD10,000,000	**100%**	100%
Hangzhou Ever Friend Precision Machinery Co., Ltd.	PRC	Design and production of computer numerical control machine tools	Registered Capital USD30,000,000	**100%**	100%
Hangzhou Glory Friend Machinery Technology Co., Ltd.	PRC	Processing of computer numerical control machine tools	Registered Capital USD15,000,000	**100%**	100%
Rich Friend (Shanghai) Precision Machinery Co., Ltd.	PRC	Trading of computer numerical control machine tools	Registered Capital USD200,000	**100%**	100%
Huller Hille (Shanghai) Machinery Co., Ltd. ("Huller Hille")	PRC	Trading of high-end machine tools	Registered Capital USD1,000,000	**100%**	100%
Fair Friend (Henan) Precision Machinery Co., Ltd.	PRC	Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structure	Registered Capital USD30,000,000	**100%**	100%

17. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Cost of unlisted investments in joint ventures	**27,666**	27,666
Share of post-acquisition losses	**(7,161)**	(9,279)
	20,505	18,387

Details of each of the Group's joint ventures at the end of the reporting period are as follow:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2018	2017	**2018**	2017	
Anest Iwata Feeler Corporation ("AIF")	PRC	PRC	**35%**	35%	**35%**	35%	Manufacture and sales of air compressor and parts
Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler")	PRC	PRC	**50%**	50%	**50%**	50%	Wholesale and export of parking garage structures
Hangzhou Feeler Mectron Machinery	PRC	PRC	**45%**	45%	**45%**	45%	Manufacture and sales of machine tools and related products
Hangzhou Union Friend Machinery Co., Ltd. ("UFM")	PRC	PRC	**55%**	55%	**55%**	55%	Manufacture and sales of machine tools and related products

17. 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

	2018 **RMB'000**	2017 RMB'000
Current assets	**48,455**	42,979
Non-current assets	**28,681**	30,547
Current liabilities	**(23,764)**	(24,024)
Non-current liabilities	**(7,065)**	(6,544)
The above amounts of assets and liabilities include the following: Cash and cash equivalents	**8,990**	6,149
Current financial liabilities (excluding trade and other payables and provisions)	**(8,403)**	(9,468)

	2018 **RMB'000**	2017 RMB'000
Revenue	**102,765**	93,267
Profit and total comprehensive income for the year	**3,349**	6,134

17. 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:

	2018 RMB'000	2017 RMB'000
Depreciation and amortisation	**2,971**	3,031
Interest income	**(10)**	(8)
Interest expense	**405**	400
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:

	2018 RMB'000	2017 RMB'000
Net assets of AIF	**46,307**	42,958
Proportion of the Group's ownership interest in AIF	**35%**	35%
Carrying amount of the Group's interest in AIF	**16,207**	15,035

Aggregate information of joint ventures that are not individually material

	2018 RMB'000	2017 RMB'000
The Group's share of profit (loss) and total comprehensive income (expense) for the year	**946**	(254)
Aggregate carrying amount of the Group's interests of these joint ventures	**4,298**	3,352

18. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of unlisted investments in associates	**415,701**	415,701
Share of post-acquisition losses and other comprehensive expenses	**(119,317)**	(92,143)
Exchange difference arising on translation of foreign operations	**34,939**	32,359
	331,323	355,917

As at 31 December 2018 and 2017, the Group has interests in the following associates:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2018	2017	**2018**	2017	
FFG Europe S.p.A. ("FFG Europe")	Italy	Italy	**30.16%**	30.16%	**30.16%**	30.16%	Manufacture and sales of machine tools and related products
FFG Werke Gmbh ("FFG Werke")	Germany	Germany	**39.00%**	39.00%	**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 European and American Holdings GmbH ("FFG EA")	Germany	Germany	**81.37%**	81.37%	**33.33%**	33.33%	Investment holding company.

FFG Europe

FFG Europe is owned approximately as to 30.16% by Sky Thrive, 22.08% by Golden Friendship International Limited ("Golden Friendship") (a wholly owned subsidiary of Fair Friend, which not forming part of the Group), 21.70% by World Ten Limited ("World Ten") (16.24% of its issued share capital indirectly held by Fair Friend), and 26.06% by Alma S.r.l (an independent third party).

According to the article of associate 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. As such the Group has significant influence in FFG Europe. Accordingly, the Group accounted for such investment as an associate in the consolidated financial statements.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

FFG Werke

FFG Werke is owned approximately as to 37.00% by World Ten, 10.00% by Golden Friendship, 39.00% by Sky Thrive and 14.00% by Golden Wealth Inc. Limited ("Golden Wealth") (an independent third party).

According to the article of associate 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. As such the Group has significant influence in FFG Werke. Accordingly, the Group accounted for such investment as an associate in the consolidated financial statements.

FFG EA

FFG EA is owned approximately as to 81.37% by Sky Thrive, 12.12% by Leadwell CNC Machines Mfg. Corp. (16.24% of its issued share capital held by Fair Friend), and 6.51% by Fair Friend.

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. The Group is able to exercise significant influence over FFG EA. Accordingly, the Group accounted for such investment as an associate in the consolidated financial statements.

The principal investment of FFG EA is a 55.3% equity interest in FFG European Holding GmbH ("FFG European"), an investment company incorporated in Germany, which in turn effectively owns a 100% equity interest in MAG Global Holding GmbH ("MAG") and its subsidiaries (collectively referred to as "MAG Group"). The remaining 44.70% equity interest in FFG European is owned as to 18.7% by Mega Grant Limited ("Mega Grant") (an independent third party), 17% by Full Alliance Investment Limited ("Full Alliance") (an independent third party), and 9% by Golden Wealth. The principal activities of MAG Group are production of machine tools and production systems in Germany and USA.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised statement of financial position

	FFG Europe		FFG Werke		FFG EA		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash	**13,723**	32,535	**13,456**	4,697	**188,920**	257,687	**216,099**	294,919
Other current assets	**607,796**	488,518	**468,078**	545,100	**2,057,476**	1,927,309	**3,133,350**	2,960,927
Total current assets	**621,519**	521,053	**481,534**	549,797	**2,246,396**	2,184,996	**3,349,449**	3,255,846
Short term bank borrowings	**(123,572)**	(100,985)	**(237,945)**	(177,916)	**(207,568)**	(254,488)	**(569,085)**	(533,389)
Other financial liabilities	**(473,612)**	(400,297)	**(397,572)**	(375,056)	**(1,835,053)**	(1,648,361)	**(2,706,237)**	(2,423,714)
Total current liabilities	**(597,184)**	(501,282)	**(635,517)**	(552,972)	**(2,042,621)**	(1,902,849)	**(3,275,322)**	(2,957,103)
Non-current assets	**190,028**	181,887	**138,068**	236,230	**1,743,790**	1,875,938	**2,071,886**	2,294,055
Non-current liabilities	**(232,226)**	(211,887)	**(212,408)**	(294,685)	**(1,205,208)**	(1,366,409)	**(1,649,842)**	(1,872,981)
Net (deficit) assets	**(17,863)**	(10,229)	**(228,323)**	(61,630)	**742,357**	791,676	**496,171**	719,817
Less: non-controlling interests	**–**	–	**–**	–	**335,177**	354,271	**335,177**	354,271
Net (deficit) assets attributed to the owners of the associate	**(17,863)**	(10,229)	**(228,323)**	(61,630)	**407,180**	437,405	**160,994**	365,546

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised statement of profit or loss and other comprehensive income

	FFG Europe		FFG Werke		FFG EA		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Revenue	**631,160**	563,027	**532,846**	703,335	**3,572,255**	3,432,545	**4,736,261**	4,698,907
Cost of revenue	**(375,777)**	(335,689)	**(437,216)**	(665,341)	**(3,077,960)**	(2,879,477)	**(3,890,953)**	(3,880,507)
Other expenses	**(257,321)**	(256,374)	**(251,882)**	(121,598)	**(535,239)**	(593,710)	**(1,044,442)**	(971,682)
Loss before tax	**(1,938)**	(29,036)	**(156,252)**	(83,604)	**(40,944)**	(40,642)	**(199,134)**	(153,282)
Income tax credit (expense)	**969**	7,150	**(14,603)**	(12,095)	**(42,263)**	73,065	**(55,897)**	68,120
(Loss) profit for the year	**(969)**	(21,886)	**(170,855)**	(95,699)	**(83,207)**	32,423	**(255,031)**	(85,162)
Less: non-controlling interest	**–**	–	**–**	–	**(27,384)**	10,637	**(27,384)**	10,637
(Loss) profit for the year attributed to owners of the associate	**(969)**	(21,886)	**(170,855)**	(95,699)	**(55,823)**	21,786	**(227,647)**	(95,799)
Other comprehensive expense for the year attributed to owners of the associate	**–**	–	**–**	(2,185)	**22,427**	(57,690)	**22,427**	(59,875)
Share of (loss) profit of associates	**(292)**	(6,601)	**(66,634)**	(37,322)	**(45,423)**	17,726	**(112,349)**	(26,197)
Less: the unrecognised share of loss of associates	**(292)**	(3,085)	**(66,634)**	(15,568)	**–**	–	**(66,926)**	(18,653)
The recognised share of (loss) profit of associates	**–**	(3,516)	**–**	(21,754)	**(45,423)**	17,726	**(45,423)**	(7,544)
Share of other comprehensive (expense) income of associates	**–**	–	**–**	(852)	**18,249**	(46,942)	**18,249**	(47,794)

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Set out below is a reconciliation of the summarised financial information presented to the carrying amount of its investments in associates.

Summarised financial information

	FFG Europe		FFG Werke		FFG EA		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Opening net assets	**(10,229)**	13,846	**(61,630)**	35,964	**437,405**	441,177	**365,546**	490,987
Exchange difference	**(6,665)**	(2,189)	**4,162**	290	**3,171**	32,132	**668**	30,233
Other comprehensive (expense) income for the year	**–**	–	**–**	(2,185)	**22,427**	(57,690)	**22,427**	(59,875)
(Loss) profit for the year attributed to owners of the associate	**(969)**	(21,886)	**(170,855)**	(95,699)	**(55,823)**	21,786	**(227,647)**	(95,799)
Closing net assets attributed to owners of the associates as at 31 December	**(17,863)**	(10,229)	**(228,323)**	(61,630)	**407,180**	437,405	**160,994**	365,546
Equity interest	**30.16%**	30.16%	**39.00%**	39.00%	**81.37%**	81.37%		
Share of net assets	**(5,387)**	(3,085)	**(89,047)**	(24,036)	**331,323**	355,917	**236,889**	328,796
The unrecognised share of loss of associates	**5,387**	3,085	**80,579**	15,568	**–**	–	**85,966**	18,653
Goodwill *(note a)*	**–**	–	**2,451**	2,451	**–**	–	**2,451**	2,451
Effect of fair value adjustment at acquisition *(note a)*	**–**	–	**6,017**	6,017	**–**	–	**6,017**	6,017
Carrying value as at 31 December	**–**	–	**–**	–	**331,323**	355,917	**331,323**	355,917

Note:

a. The Group originally held 13.5% equity interest in FFG Werke and accounted for the investment as available-for-sale using cost method. In late September 2015, the Group acquired further 25.5% equity interest in FFG Werke for the consideration of Euro2,340,000. Goodwill of RMB2,451,000 and effect of fair value adjustment at acquisition of RMB8,544,000 was recognised in respect of this further acquisition of equity interest. The fair value adjustment is subject to amortisation over the estimated useful life of the relevant assets.

19A. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	2018 RMB'000	2017 RMB'000
Trade receivables	**323,790**	387,221
Less: provision for impairment of trade receivables	**(46,931)**	(37,811)
	276,859	349,410
Bills receivables	**–**	128,054
Prepayments	**44,713**	41,662
Others	**24,238**	22,815
Total trade and other receivables and prepayment	**345,810**	541,941

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 RMB22,699,000 (2017: RMB22,487,000) of which the conditions to entitlement of consideration had been reached and became unconditional.

At 31 December 2018 and 2017, the aging analysis of gross trade receivables based on past due date was as follows:

	2018 RMB'000	2017 RMB'000
Current – 30 days	**207,953**	269,787
31 – 60 days	**2,365**	6,943
61 – 90 days	**4,568**	8,576
91 – 180 days	**10,353**	20,052
Over 180 days	**98,551**	81,863
	323,790	387,221

19A. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

At 31 December 2017, the aging analysis of bills receivables based on past due date was as follows:

	2017 RMB'000
Current – 30 days	128,054

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB108,904,000 which are past due over 90 days as at the reporting date. Out of the past due balances, RMB62,039,000 has been past due and not in dispute, which is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high in respect of those debtors. The management of the Group considered that the risk of default became high and defaulted when those debtors had been past due over 1 year or with disputes to the Group.

As at 31 December 2017, the management of the Group assessed whether there is objective evidence that trade receivables are impaired. The Group would provide impairment for receivables that were considered to be impaired individually based on management assessment performed at the end of the reporting period.

As at December 2017, included in the Group's trade receivables are debtors with an aggregate carrying amount of RMB83,440,000 which are past due for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of gross trade receivables which are past due but no impaired:

	2017 RMB'000
1 – 30 days	17,009
31 – 60 days	6,567
61 – 90 days	8,529
91 –180 days	13,981
Over 180 days	37,354
	83,440

19A. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

Movements of provision for impairment of trade receivables of the Group in 2018 are as follows:

	2018 **RMB'000**
At 1 January	**37,811**
Remeasurement of loss allowance under ECL	**5,340**
Adjusted balance as at 1 January	**43,151**
Provision for impairment	**9,131**
Receivables written off	**(5,351)**
At 31 December	**46,931**

Movements of provision for impairment of trade receivables of the Group in 2017 are as follows:

	2017 RMB'000
At 1 January	33,792
Provision for impairment	5,505
Reversal written off	(1,486)
At 31 December	37,811

Included in the balance of provision for impairment for trade receivables in 2017 are individually impaired trade receivables with an aggregate balance of RMB37,811,000 which are considered as not recoverable with reference to the historical collection experience. The Group does not hold any collateral over these balances.

The Group's trade and other receivables and prepayment that are denominated in currency other than the functional currency of the relevant group entities is set out below:

	2018 **RMB'000**	2017 RMB'000
USD	**23,404**	20,211
EUR	**16,708**	24,044
Other currencies	**1,508**	1,170

19B. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018* RMB'000
Machine Tools	**30,692**	32,237
Parking Garage Structures	**16,265**	14,466
	46,957	46,703
Less: loss allowance on contract assets	**(230)**	(486)
	46,727	46,217

* The amounts in this column are after adjustments from the application of HKFRS 9 and 15.

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.

Movement of loss allowance on contract assets

Movement of loss allowance on contract assets for the year ended 31 December 2018:

	2018 RMB'000
At 1 January	**–**
Remeasurement of loss allowance under ECL	**486**
Adjusted balance as at 1 January	**486**
Reversal of loss allowance	**(256)**
At 31 December	**230**

19C. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2018, the Group had transferred to its suppliers by endorsing bills amounted to RMB75,770,000 (2017: RMB183,328,000).

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.

20. LOAN RECEIVABLE

As at 31 December 2018, the Group's loan receivable to Mega Grant is unsecured, non-interest bearing, repayable within one year.

The Group's loan receivable that is denominated in currency other than the functional currency of the relevant group entities is set out below:

	2018 **RMB'000**	2017 RMB'000
EUR	**35,627**	–

21. RECEIVABLES AT FVTOCI

	2018 **RMB'000**
Bills receivables aged within 6 months presented based on the issue dates of bills receivables	**106,400**

22. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**62,425**	62,791
Work in progress	**234,030**	90,002
Finished goods	**228,297**	192,833
	524,752	345,626

In 2018, a write-down of inventories of RMB2,087,000 has been recognised and included in cost of sales. In 2017, a reversal of inventories of RMB2,981,000 has been recognised and included in cost of sales, primarily due to that some certain parts with long aging were reused to make robotic hands in research and development project.

23. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 RMB'000
Contract costs incurred plus recognised profits less recognised losses	913,875
Less: progress billings	(906,418)
	7,457

	2017 RMB'000
Amounts due from contract customers	50,270
Amounts due to contract customers	(42,813)
Net amounts due from customers for contract work	7,457

24. RESTRICTED BANK DEPOSITS AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Restricted bank deposits	15,900	32,716
Restricted bank balances (note 36)	54,087	–
	69,987	32,716

Restricted bank deposits represent the amounts placed in banks as guarantees issued for trade finance facilities granted to the Group. The deposits have maturity period within one year which carry fixed interest rate at 0.3% (2017: 0.4%) per annum.

25. FINANCIAL ASSETS AT FVTPL/STRUCTURED DEPOSITS

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

On 1 January 2018, the Group adopted HKFRS 9 and the structured deposits were mandatorily measured at FVTPL.

26. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.35% to 1.5% (31 December 2017: 0.35% to 1.5%) per annum.

The Group's bank balances and cash that are denominated in currency other than the functional currency of the relevant group entities is set out below:

	2018 RMB'000	2017 RMB'000
USD	6,114	10,777
EUR	31,418	7,225
Other currencies	7,248	1,097

27. SHARE CAPITAL

	Number of shares '000	Share capital HKD'000	Share capital RMB'000
Ordinary share of HKD0.01 each			
Authorised:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**1,000,000**	10,000	10,211
Issued and fully paid:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**403,200**	4,032	4,022

28. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2018 RMB'000	2017 RMB'000
Trade payables	**163,957**	196,462
Advance deposits from customers	**–**	296,284
Other payables	**32,474**	54,170
Accrued expenses	**46,538**	42,776
Total trade and other payables and accrued expenses	**242,969**	589,692

The following is an aging analysis of trade payables presented based on maturity date:

	2018 RMB'000	2017 RMB'000
Current – 30 days	**92,947**	113,021
31 – 60 days	**44,181**	51,625
61 – 90 days	**5,447**	7,592
91 – 180 days	**6,926**	12,499
Over 180 days	**14,456**	11,725
	163,957	196,462

28. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES *(Continued)*

The Group normally receives credit terms of 30 to 60 days.

The Group's trade and other payables and accrued expenses are dominated in currency other than the functional currency of the relevant group entities is set out below:

	2018 **RMB'000**	2017 RMB'000
USD	**3,224**	24,056
EUR	**13,436**	104,157
HKD	**2,111**	2,054

29. CONTRACT LIABILITIES

	31 December **2018** **RMB'000**	1 January 2018* RMB'000
Machine tools	**145,501**	280,784
Parking garage structures	**205,920**	149,490
Forklift trucks	**7,330**	6,437
	358,751	436,711

* The amounts in this column are after the adjustments from the application of HKFRS 15.

Contract liabilities that are expected to be settled within the Group's normal operating cycle are classified as current liabilities.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities. There were no revenue recognised in the current year that related to performance obligations that were satisfied in prior periods.

29. CONTRACT LIABILITIES *(Continued)*

Revenue recognised that was included in the contract liabilities balance at the beginning of the year:

	RMB'000
Machine tools	236,258
Parking garage structures	149,490
Forklift trucks	6,437
	392,185

30. WARRANTY PROVISION

	2018 **RMB'000**	2017 RMB'000
At 1 January	**5,755**	6,018
Provision for the year	**4,983**	6,282
Utilisation of provision	**(5,427)**	(6,545)
At 31 December	**5,311**	5,755

The warranty provision represents the management's best estimate of the Group's liability under 1 to 2 years warranty based on prior experience and industry average level for defective products.

31. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank borrowings – variable interest rate	**563,239**	367,428
Other borrowings – interest free	**35,093**	–
	598,332	367,428
Secured	**35,093**	–
Unsecured	**563,239**	367,428
	598,332	367,428
Carrying amount repayable*		
Within one year	**563,239**	367,428
Within a period of more than two years but not exceeding five years	**35,093**	–
	598,332	367,428

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's variable interest rate borrowings carry interest at Hong Kong Interbank Offered Rate/London Interbank Offered Rate/Taipei Interbank Offered Rate/Euro Interbank Offered Rate.

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 are 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.

31. BANK AND OTHER BORROWINGS *(Continued)*

The range of effective interest rates of the Group's bank and other borrowings are as follows:

	2018	2017
Effective interest rate	**0.9% to 4.75% per annum**	1.20% to 4.79% per annum

The Group's bank and other borrowings that are denominated in currency other than the functional currency of the relevant group entities is set out below:

	2018 RMB'000	2017 RMB'000
USD	**106,268**	265,444
EUR	**139,172**	9,951
HKD	**305,014**	92,033

Notes:

(a) The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB3,262,000 (2017: RMB3,352,000) and buildings with carrying amounts of approximately RMB7,763,000 (2017: RMB8,428,000) as at 31 December 2018 to secure the general banking facilities granted to it. As at 31 December 2018, the Group has not utilised such secured bank facilities (2017: Nil).

(b) As at 31 December 2018, none of the Group's bank facilities was guaranteed by irrevocable standby letter of credits, while as at 31 December 2017, the Group's bank facilities of RMB34,608,000 were guaranteed by irrevocable standby letter of credits issued by banks of which none was utilised.

(c) As at 31 December 2018, cross guarantees between subsidiaries of RMB67,785,000 (2017: RMB108,000,000) have been provided to banks to guarantee the Group's bank borrowings of which RMB22,302,000 has been utilised (2017: RMB6,880,000).

(d) As at 31 December 2018, 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 RMB96,085,000 (2017: RMB78,410,000).

(e) As at 31 December 2018, the Group's other borrowings of RMB35,093,000 were secured by prepaid lease payments with carrying amounts of approximately RMB84,338,000.

32. DEFERRED TAXATION

	2018 RMB'000	2017 RMB'000
Deferred income tax assets	**27,520**	22,401

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

	Allowance for doubtful receivables RMB'000	Allowance for inventories RMB'000	Warranty provision RMB'000	Sales commission RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	3,870	753	866	917	15,295	–	21,701
Credit (charge) to profit or loss	375	313	(47)	59	–	–	700
At 31 December 2017	4,245	1,066	819	976	15,295	–	22,401
Effect arising on adoption of HKFRS 15	–	–	–	–	–	4,054	4,054
Effect arising on adoption of HKFRS 9	619	–	–	–	–	–	619
Adjusted balance at 1 January 2018	4,864	1,066	819	976	15,295	4,054	27,074
Charge to other comprehensive income	(353)	–	–	–	–	–	(353)
Credit (charge) to profit or loss	233	129	(53)	490	–	–	799
At 31 December 2018	4,744	1,195	766	1,466	15,295	4,054	27,520

As at 31 December 2018, the Group had unutilised tax losses of approximately RMB130,086,000 (2017: RMB66,018,000) available for offsetting against future profits. No deferred tax asset had been recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Apart from unutilised tax losses as mentioned above, the Group had other deductible temporary differences of RMB166,345,000 (2017: RMB152,294,000) available to offset against future profits as at 31 December 2018. Deductible temporary differences of RMB115,652,000 (2017: RMB108,553,000) had been recognised in deferred tax assets as at 31 December 2018, while RMB50,693,000 (2017: RMB43,741,000) 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.

32. DEFERRED TAXATION *(Continued)*

These tax losses will be carried forward and expire in years as follows:

	2018 **RMB'000**	2017 RMB'000
With expiry in:		
2018	**–**	6,472
2019	**5,455**	5,528
2020	**13,611**	17,808
2021	**16,588**	22,100
2022	**14,472**	14,110
2023	**79,960**	–
	130,086	66,018

33. DEFERRED INCOME

	2018 **RMB'000**	2017 RMB'000
Assets related government grants	**70,192**	61,180

In November 2016, Fair Friend Henan received certain government grants and subsidies amounting to RMB61,180,000 for its specified purpose to invest in plants and equipment. These grants and subsidies will be recognised in profit or loss over the useful lives of the relevant assets. 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 the approval of these consolidated financial statements, the related construction of the plants and equipment are still under construction and thus the deferred income is not yet recognised in profit or loss.

34. CASH GENERATED FROM OPERATIONS

	2018 RMB'000	2017 RMB'000
(Loss) profit before income tax:	(42,730)	85,066
Adjustments for:		
– Amortisation of prepaid lease payments	2,905	3,032
– Depreciation of property, plant and equipment	9,894	11,826
– Amortisation of intangible assets	1,186	1,337
– Impairment loss on trade receivables and contract assets	8,875	5,505
– Write-down (reversal) of inventories	2,087	(2,981)
– Share of profit of joint ventures	(2,118)	(1,893)
– Share of loss of associates	45,423	7,544
– (Gain) loss on disposal of property, plant and equipment	(118)	37
– Interest income	(4,496)	(4,261)
– Interest expense	14,180	8,803
– Warranty expenses	4,983	6,282
– Unrealised net exchange loss	25,195	4,685
– Provision for litigation claim	60,117	–
– Sales return	3,037	–
Changes in working capital:		
– Inventories	11,468	(129,234)
– Trade and other receivables and prepayment	20,400	(48,363)
– Contract assets	(254)	–
– Restricted bank balances	(54,807)	–
– Amounts due from customers for contract work	–	(9,578)
– Amount due from ultimate holding company	1,053	1,057
– Amounts due from fellow subsidiaries and associates of ultimate holding company	1,453	1,042
– Amounts due from joint ventures	391	70
– Amounts due from an associate and subsidiaries of an associate	(27,248)	46,542
– Trade and other payables and accrued expenses	(7,382)	99,237
– Contract liabilities	(77,960)	–
– Amounts due to customers for contract work	–	11,131
– Amount due to ultimate holding company	(6,762)	5,012
– Amount due to immediate holding company	709	1,504
– Amounts due to joint ventures	(246)	416
– Amounts due to an associate and subsidiaries of an associate	(8,892)	29,346
– Amounts due to fellow subsidiaries and associates of ultimate holding company	(36)	(1,830)
– Warranty provision	(5,427)	(6,545)
Cash (used in) generated from operations	(25,120)	124,789

34. CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2018 **RMB'000**	2017 RMB'000
Carrying amount at date of disposal:	**401**	1,064
Gain (loss) on disposal of property, plant and equipment	**118**	(37)
Proceeds from disposal of property, plant and equipment	**519**	1,027

35. 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.

	Dividends payable RMB'000	**Bank and other borrowings** RMB'000	**Deferred income** RMB'000	**Total** RMB'000
At 1 January 2017	–	350,772	61,180	411,952
Financing cash flows *(note)*	(20,160)	3,168	–	(16,992)
Non-cash changes				
Foreign exchange translation	–	4,685	–	4,685
Interest expenses	–	8,803	–	8,803
Dividends recognised as distributions	20,160	–	–	20,160
At 31 December 2017	–	367,428	61,180	428,608
Financing cash flows *(note)*	(44,352)	190,946	9,012	155,606
Non-cash changes				
Foreign exchange translation	–	25,195	–	25,195
Interest expenses	–	14,763	–	14,763
Dividends recognised as distributions	44,352	–	–	44,352
At 31 December 2018	–	598,332	70,192	668,524

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.

36. PROVISION FOR LITIGATION CLAIM

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.

In October 2018, the Group then filed an appeal to the Supreme People's Court (the "Second-instance"). As at the date of the approval of these consolidated financial statements, the Second-instance is still in progress.

As at 31 December 2018, an aggregate bank balance of 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.

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, which is provided for under "provision for litigation claim" in the consolidated statement of financial position and recorded as "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

37. COMMITMENTS

(a) Capital commitments

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Construction of plant	**53,134**	2,615

(b) Operating lease commitment

The Group as lessee

	2018 RMB'000	2017 RMB'000
Minimum lease payments paid under operating leases during the year	**8,232**	8,606

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 RMB'000	2017 RMB'000
No later than 1 year	**4,764**	4,838
Later than 1 year and no later than 5 years	**1,481**	2,339
	6,245	7,177

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings disclosed in note 31, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium and reserves.

The directors of the Company review the capital structure periodically. As a part of this review, the directors of the Company assess the annual budget prepared by various departments, which takes into account future expansion plans and sources of funding. The directors of the Company consider the cost of capital and the risk associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or redemption of existing debts.

39. FINANCIAL INSTRUMENTS

a. **Categories of financial instruments**

	2018 **RMB'000**	2017 RMB'000
Financial assets		
Receivables at FVTOCI	**106,400**	–
Financial assets at FVTPL	**108,020**	–
Structured deposits	**–**	76,140
Loans and receivables (including cash and cash equivalents)	**–**	753,530
Financial assets measured at amortised cost (including cash and cash equivalents)	**670,927**	–
	885,347	829,670
Financial liabilities		
Financial liabilities at amortised cost	**830,667**	669,191

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, trade receivables, loan receivable, other receivables, structured deposits, receivables at FVTOCI, amounts due from (to) related parties (including ultimate holding company, fellow subsidiaries, associates of ultimate holding company, joint ventures, associates and subsidiaries of an associate), restricted bank deposits and bank balances, bank balances and cash, trade and other payables, and bank and other borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include foreign exchange 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.

Foreign exchange risk

The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollars, United States dollars and Euro against RMB. This foreign exchange risk arises from future commercial transactions or recognised assets and liabilities denominated in a currency that is not the entity's functional currency of RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it has not hedged its foreign exchange risk.

During the year end 31 December 2018, approximately 14.82% (2017: 19.12%) of the Group's sales and approximately 6.56% (2017: 24.07%) of the Group's purchase are denominated in currency other than the functional currency of the relevant group entities making the sale. In addition, the subsidiaries of the Company have intra-group balances with other subsidiaries denominated in foreign currency which also expose to the Group of foreign exchange risk.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currency other than the respective group entities' functional currency at the end of each reporting period are as follows:

	Liabilities		Assets	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**110,083**	291,161	**35,226**	36,206
EUR	**156,683**	118,890	**97,767**	41,399
HKD	**307,125**	94,087	**7,598**	7,065

The Group currently does not have a foreign currency hedging policy as the management of the Group considers that the foreign exchange risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

39. FINANCIAL INSTRUMENTS *(Continued)*

b. **Financial risk management objectives and policies** *(Continued)*

Foreign exchange 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. 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.

	Post-tax (loss) profit for the year	
	2018	2017
	RMB'000	RMB'000
USD	**3,127**	10,644
EUR	**2,461**	3,235
HKD	**12,510**	3,633

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.

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed interest rate restricted bank deposits (see note 24 for details). 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.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

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 (2017: 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 (2017: 50 basis points) in respect of variable interest rate bank borrowings and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2018 would increase/decrease by RMB2,394,000 (2017: post-tax profit for the year would decrease/increase by RMB1,562,000).

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Other price risk

The Group is exposed to other price risk through its investments in structured deposits and financial assets at FVTPL. 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 (loss) profit for the year is insignificant as these investments have short maturities.

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix (2017: incurred loss model). In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Group's exposure to credit risk after adoption of HKFRS 9

After the adoption of the HKFRS 9, in addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, and other items subject to ECL except for trade receivables and contract assets, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12m ECL.

Trade receivables and contract assets

For trade receivables and contract assets, 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 credit rating information is supplied by independent rating agencies where available and, if not available, 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 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.

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Group's exposure to credit risk after adoption of HKFRS 9 (Continued)

Trade receivables and contract assets *(Continued)*

During the year ended 31 December 2018, the impairment allowance is provided in the amount of RMB47,161,000, among which RMB15,195,000 was made based on the provision matrix and RMB31,966,000 was assessed individually on the debtors with balances amounting to RMB220,752,000.

The following table details the risk profile of trade receivables and contract assets assessed based on the provision matrix:

As at 31 December 2018

	Current to 30 days RMB'000	**31 to 60 days** RMB'000	**61 to 90 days** RMB'000	**91 to 180 days** RMB'000	**Over 180 days** RMB'000	**Total** RMB'000
Weighted average expected credit loss 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
Lifetime ECL	(262)	(8)	(26)	(78)	(14,821)	(15,195)
	111,698	529	1,349	4,674	16,550	134,800

The estimated 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. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Group's exposure to credit risk after adoption of HKFRS 9 (Continued)

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)	12m 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

39. FINANCIAL INSTRUMENTS *(Continued)*

b. **Financial risk management objectives and policies** *(Continued)*

Credit risk and impairment assessment (Continued)

Group's exposure to credit risk after adoption of HKFRS 9 (Continued)

Other receivables and loan receivable

For other receivables, the Group has applied the general approach in HKFRS 9 to measure the loss allowance approximate to such at 12m ECL, since the directors of the Company did not expect any significant increase in credit risk.

Bank balances, restricted bank deposits and bank balances and receivables at FVTOCI

The bank balances, restricted bank deposits and 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 deposits and 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 historical settlement patterns from the Group's ultimate holding company, fellow subsidiaries, associates of ultimate holding company, joint ventures, associates and subsidiaries of an associate, the Group has assessed that the expected credit loss for amounts due from these related parties is insignificant. Thus, no loss allowance provision is recognised.

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.

39. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

	Weighted average interest rate %	Repayable on demand or less than 1 year RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2018					
Trade and other payables	**N/A**	**196,431**	**–**	**196,431**	**196,431**
Bank borrowings					
– variable interest rate	**2.84%**	**579,246**	**–**	**579,246**	**563,239**
Other borrowings	**4.75%**	**–**	**43,522**	**43,522**	**35,093**
Amount due to ultimate holding company	**N/A**	**638**	**–**	**638**	**638**
Amount due to immediate holding company	**N/A**	**2,832**	**–**	**2,832**	**2,832**
Amounts due to fellow subsidiaries and associates of ultimate holding company	**N/A**	**3,637**	**–**	**3,637**	**3,637**
Amounts due to an associate and subsidiaries of an associate	**N/A**	**28,435**	**–**	**28,435**	**28,435**
Amounts due to joint ventures	**N/A**	**362**	**–**	**362**	**362**
		811,581	**43,522**	**855,103**	**830,667**
At 31 December 2017					
Trade and other payables	N/A	250,632	–	250,632	250,632
Bank borrowings					
– variable interest rate	2.31%	376,316	–	376,316	367,428
Amount due to ultimate holding company	N/A	7,400	–	7,400	7,400
Amount due to immediate holding company	N/A	2,123	–	2,123	2,123
Amounts due to fellow subsidiaries and associates of ultimate holding company	N/A	3,673	–	3,673	3,673
Amounts due to an associate and subsidiaries of an associate	N/A	37,327	–	37,327	37,327
Amounts due to joint ventures	N/A	608	–	608	608
Financial guarantee contracts	N/A	102,405	–	102,405	–
		780,484	–	780,484	669,191

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.

39. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

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

Financial assets	Fair value as at 31 December 2018	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Receivables at FVTOCI	**Receivables at FVTOCI 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
Structured deposits	**–**	Structured deposits RMB76,140,000	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. *(Note)*	Forecast yield from the investment
Financial assets at FVTPL	**Unlisted financial products and structure deposits: 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. *(Note)*	Forecast yield from the investment

Note: A decrease in the forecast yield used in isolation would result in decrease in the fair value measurement of unlisted financial products and structure deposits and vice versa. The directors of the Company consider that the impact of the fluctuation in forecast yields of the underlying instruments to the fair value of unlisted financial products and structure deposits are insignificant as these investments have short maturities, and therefore no sensitivity analysis is presented.

39. FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value measurements of financial instruments *(Continued)*

Reconciliation of Level 3 fair value measurements

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 at FVTPL RMB'000
At 31 December 2017	–
Effect arising on adoption of HKFRS 9	76,140
Adjusted Balance at 1 January 2018	76,140
Purchases	539,680
Settlements	(507,800)
At 31 December 2018	108,020

40. RELATED PARTY TRANSACTIONS

Save as disclosed in note 31, the Group also had the following transactions with its related parties during the year:

(a) Transactions

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Ultimate holding company				
Fair Friend	Ultimate holding company	Sales of goods	**711**	191
		Purchases of goods	**19,764**	21,830
		Purchases of services	**–**	9,802
Immediate holding company				
Good Friend (H. K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	**57,811**	46,945
Fellow subsidiaries and associates of ultimate holding company				
Equiptop Hitech Corp.	Fellow subsidiary	Sales of goods	**–**	1,420
Ikegai (Shanghai) Machinery & Equipment Co., Ltd	Fellow subsidiary	Purchases of goods	**1,463**	–
SANCO Machine & Tools Co., Ltd. ("SANCO")	Fellow subsidiary	Purchases of goods	**–**	8,654
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	**2**	3

40. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Purchases of goods	**113**	1,519
		Rendering of services	**1,322**	1,027
		Rental income	**68**	3
FFG DMC Co.,Ltd.	Subsidiary of ultimate holding company	Purchases of goods	**–**	3,757
Joint ventures				
AIF	Joint venture	Sales of goods	**43**	8
		Purchases of goods	**132**	483
		Purchases of services	**11**	10
		Rendering of services	**1,213**	1,273
		Rental income	**55**	35
Hangzhou Feeler Mectron Machinery Co., Ltd. ("Feeler Mectron")	Joint venture	Purchases of goods	**2,802**	710
		Rendering of services	**198**	143
		Rental Income	**53**	34

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler")	Joint venture	Purchases of services	**68**	63
		Rendering of services	**20**	21
		Rental income	**8**	6
Hangzhou Union Friend Machinery Co., Ltd ("UFM")	Joint venture	Sales of goods	**10**	15
		Purchases of goods	**2,298**	1,556
		Rendering of services	**62**	31
		Interest income	**20**	23
Associate and subsidiary of an associate				
FFG Werke	Associate	Purchases of goods	**3,511**	219,966
Jobs Automazione S.p.A. ("Jobs")	Subsidiary of an associate of the Group	Purchases of goods	**–**	44,450
SMS Holding Co.,Inc.	Subsidiary of an associate of the Group	Sales of goods	**6**	12

Notes:

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

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

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances

Name of company	Relationship	Nature of transactions	**2018 RMB'000**	2017 RMB'000
Ultimate holding company				
Fair Friend	Ultimate holding company	Trade payable *(note (b))*	**(510)**	(1,460)
		Advance to *(note (b))*	**–**	1,053
		Other payable *(note (b))*	**–**	(5,812)
		Advance from *(note (b))*	**(128)**	(128)
Amount due from ultimate holding company			**–**	1,053
Amount due to ultimate holding company			**(638)**	(7,400)
Immediate holding company				
Hong Kong GF	Immediate holding company	Trade payable *(note (b))*	**(2,832)**	(2,123)
Fellow subsidiaries and associates of ultimate holding company				
Hangzhou Fair Fine Electric & Machinery Co., Ltd.	Fellow subsidiary	Trade receivable *(note (a))*	**–**	1
EQUIPTOP HITECH CORP.	Fellow subsidiary	Trade payable *(note (b))*	**(144)**	(144)
		Advance from *(note (b))*	**(124)**	(124)

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Ikegai (Shanghai) Machinery & Equipment Co., Ltd	Fellow subsidiary	Advance to *(note (b))*	**–**	734
SANCO	Fellow subsidiary	Trade payable *(note (b))*	**(3,253)**	(3,405)
Best Friend	Associate of ultimate holding company	Trade receivable *(note (a))*	**1**	2
Feeler Takamatsu	Associate of ultimate holding company	Other receivable *(note (b))*	**22**	32
		Advance to *(note (b))*	**–**	39
FFG DMC CO., LTD	Subsidiary of ultimate holding company	Advance to *(note (b))*	**–**	668
		Advance from *(note (b))*	**(116)**	–
Amounts due from fellow subsidiaries and associates of ultimate holding company			**23**	1,476
Amounts due to fellow subsidiaries and associates of ultimate holding company			**(3,637)**	(3,673)

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Joint ventures				
AIF	Joint venture	Trade receivable *(note (a))*	**–**	1
		Other receivable *(note (b))*	**127**	114
		Trade payable *(note (b))*	**(42)**	(191)
Feeler Mectron	Joint venture	Other receivable *(note (b))*	**–**	22
		Other payable *(note (b))*	**–**	(4)
		Advance to *(note (b))*	**–**	98
		Trade payable *(note (b))*	**(33)**	(116)
UFM	Joint venture	Trade payable *(note (b))*	**(287)**	(297)
		Other receivable *(note (b))*	**319**	612
		Trade receivable *(note (a))*	**6**	–
Nippon Cable Feeler	Joint venture	Other receivable *(note (b))*	**9**	5
Amounts due from joint ventures			**461**	852
Amounts due to joint ventures			**(362)**	(608)

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Associates and subsidiaries of an associate				
FFG Werke	Associate	Advance to *(note (b))*	**1,357**	1,357
		Trade payable *(note (b))*	**(24,679)**	(33,341)
		Other receivable *(note (b))*	**386**	904
		Shareholder loan *(note (b))*	**20,978**	41,473
FFG Europe	Associate	Other receivable *(note (b))*	**766**	766
		Shareholder loan *(note (c))*	**36,089**	16,505
FFG EA	Associate	Other receivable *(note (b))*	**54,791**	26,063
Grinding technology S.r.l	Subsidiary of an associate of the Group	Other receivable *(note (b))*	**9,463**	–
Jobs	Subsidiary of an associate of the Group	Other receivable *(note (c))*	**17,333**	21,393
		Trade payable *(note (b))*	**(2,844)**	(3,075)
		Other payable *(note (b))*	**(912)**	(911)
		Advance to *(note (b))*	**–**	737

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
MAG	Subsidiary of an associate of the Group	Other receivable *(note (b))*	**575**	575
SMS HOLDING CO.,INC.	Subsidiary of an associate of the Group	Trade receivable *(note (a))*	**–**	4
Sky Thrive Rambaudi S.r.l	Subsidiary of an associate of the Group	Other receivable *(note (c))*	**3,239**	3,234
		Shareholder loan *(note (c))*	**6,082**	6,072
Amounts due from associates and subsidiaries of an associate			**151,059**	119,083
Amounts due to an associate and subsidiaries of an associate			**(28,435)**	(37,327)

Notes:

(a) The Group allowed a normal credit period of 90 days for sales made to the fellow subsidiaries, the ultimate holding company and its associate companies, and subsidiaries of associated company. Balances are unsecured and interest free. As at 31 December 2018 and 2017, the ageing of above balances were mostly within 6 to 12 months.

(b) Balances are unsecured, interest free and repayable on demand.

(c) Balances are unsecured, interest free and repayable on demand. Fair Friend has issued letter of financial support to enable the associate as well as subsidiaries of this associate to meeting their financial obligations as they fall due.

40. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**2,090**	2,656
Discretionary performance related bonus	**1,427**	1,347
Retirement benefit scheme contributions	**57**	107
	3,574	4,110

41. CONTINGENT LIABILITY

Save as disclosed elsewhere in these consolidated financial statements, the Group has the following contingent liabilities at the end of the reporting period:

1) On 25 September 2015, the Company, FFG Werke and a bank ("the Bank") entered into an agreement, pursuant to which the Bank arranged a facility for the maximum principal amount of Euro50,000,000 (equivalent RMB365,340,000) to be available to the Company and FFG Werke on a joint and several basis, whereby each of the Company and FFG Werke is liable for the indebtedness incurred by the other under the facility. FFG Werke fully repaid the borrowings under this facility during 2017. No such arrangement noted in 2018.

2) In 2017, Hangzhou Good Friend issued standby letter of credit with a maximum amount of RMB34,000,000 to guarantee the corresponding amount of the credit facilities to be provided by a bank to FFG Werke. As at 31 December 2017, FFG Werke has drawn down a total amount of Euro4,000,000 (equivalent RMB31,209,000). During the year ended 31 December 2018, the warranty guarantee was fully released.

3) In 2017, Hangzhou Good Friend issued standby letter of credit with a maximum amount of Euro5,125,000 (approximately RMB39,987,000) to guarantee the corresponding amount of the credit facilities to be provided by a bank to FFG Europe. As at 31 December 2017, FFG Europe has drawn down a total amount of Euro5,125,000 (equivalent RMB39,987,000). During the year ended 31 December 2018, the warranty guarantee was fully released.

41. CONTINGENT LIABILITY *(Continued)*

4) In 2017, Hangzhou Good Friend issued standby letter of credit with a maximum amount of Euro4,060,000 (equivalent to RMB31,677,000) to guarantee the corresponding amount of the credit facilities to be provided by a bank to MAG. As at 31 December 2017, MAG has drawn down a total amount of Euro4,000,000 (equivalent RMB31,209,000). During the year ended 31 December 2018, the warranty guarantee was fully released.

5) In September 2017, the Company issued a warranty guarantee of Euro2,475,000 (equivalent to RMB19,311,000) on behalf of MAG IAS GmbH, a wholly owned subsidiary of MAG, to its customer. During the year ended 31 December 2018, the warranty guarantee was fully released.

The management of the Group estimates that the default risk of the abovementioned entities is remote, thus the exposure to guaranty liability arising from these financial guarantees is immaterial and no guaranty liability is recognised in 2017.

42. PLEDGE OF ASSETS

	2018 **RMB'000**	2017 RMB'000
Prepaid lease payments	**87,600**	3,352
Property, plant and equipment	**7,763**	8,428
Restricted bank deposits	**15,900**	32,716
	111,263	44,496

The Group has pledged its prepaid lease payments and buildings in order to secure the general banking facilities granted to the Group and other borrowings of the Group. The Group also has restricted bank deposits which mainly represent deposits placed in banks for guarantees issued for finance facilities used by the Group.

43. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**52,837**	52,837
Investments in joint ventures	**27,666**	27,666
Amounts due from subsidiaries	**551,628**	560,889
	632,131	641,392
Current assets		
Trade and other receivables and prepayment	**17,859**	11,701
Amounts due from associates and subsidiaries of an associate	**147,430**	115,107
Bank balances and cash	**39,615**	9,521
	204,904	136,329
Current liabilities		
Other payables and accrued charges	**15,546**	7,243
Amounts due to subsidiaries	**3,543**	–
Amounts due to an associate and subsidiaries of an associate	**2,513**	3,657
Amounts due to ultimate holding company	**–**	5,812
Bank borrowings	**550,454**	367,428
	572,056	384,140
Net current liabilities	**(367,152)**	(247,811)
Total assets less current liabilities	**264,979**	393,581
Capital and reserves		
Share capital	**4,022**	4,022
Share premium	**82,281**	82,281
Other reserves	**7,973**	7,973
Retained earnings	**170,703**	299,305
Total equity	**264,979**	393,581

43. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

The movement of the Company's reserves for the year ended 31 December 2018 is as follows:

	Share premium RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2017	82,281	7,973	420,515	510,769
Loss and total comprehensive expense	–	–	(101,050)	(101,050)
Dividends recognised as distribution	–	–	(20,160)	(20,160)
At 31 December 2017	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	82,281	7,973	170,703	260,957

Five-Year Financial Summary

OPERATING RESULTS

For the year ended 31 December

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	1,300,119	990,239	1,082,336	1,294,801	**1,090,693**
Gross profit	344,894	267,925	295,151	312,515	**290,727**
Profit (loss) before income tax	125,071	55,952	87,650	85,066	**(42,730)**
Profit (loss) attributable to equity holders of the Company	101,313	46,097	60,749	65,690	**(57,724)**
Earnings (loss) per share – basic (RMB)	0.25	0.11	0.15	0.16	**(0.14)**

ASSETS AND LIABILITIES

As at 31 December

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Non-current assets	309,492	589,531	743,761	703,361	**706,420**
Net current assets	433,321	154,908	121,487	185,223	**115,271**
Non-current liabilities	(16,118)	–	(61,180)	(61,180)	**(105,285)**
Net assets	726,695	744,439	804,068	827,404	**716,406**
Share capital	4,022	4,022	4,022	4,022	**4,022**
Reserves	722,673	740,417	800,046	823,382	**712,384**
Shareholders' equity	726,695	744,439	804,068	827,404	**716,406**