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 2020

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

KOO Fook Sun, Louis
YU Yu-Tang
KAO Wen-Cheng

COMPANY SECRETARY

LO Tai On

AUTHORISED REPRESENTATIVES

CHU Chih-Yaung
WEN Chi-Tang

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

RSM Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China
United Overseas Bank Limited
Industrial and Commercial Bank of China
KGI Bank
Mega International Commercial Bank
Taishin International Bank
Bank SinoPac
Bangkok Bank

STOCK CODE

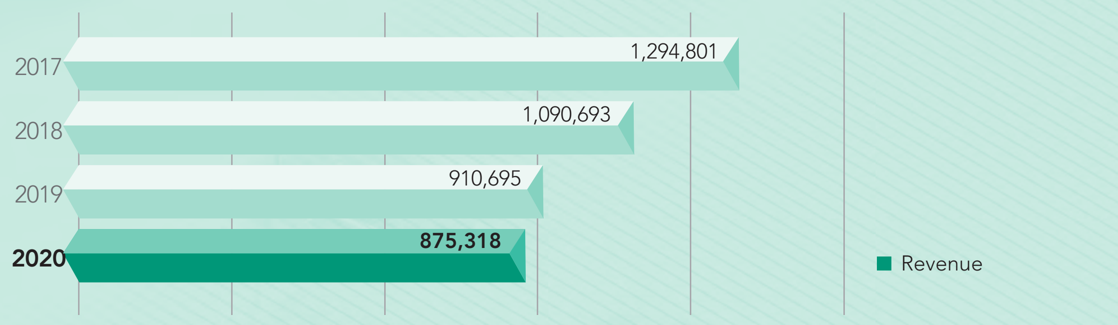
2398

WEBSITE

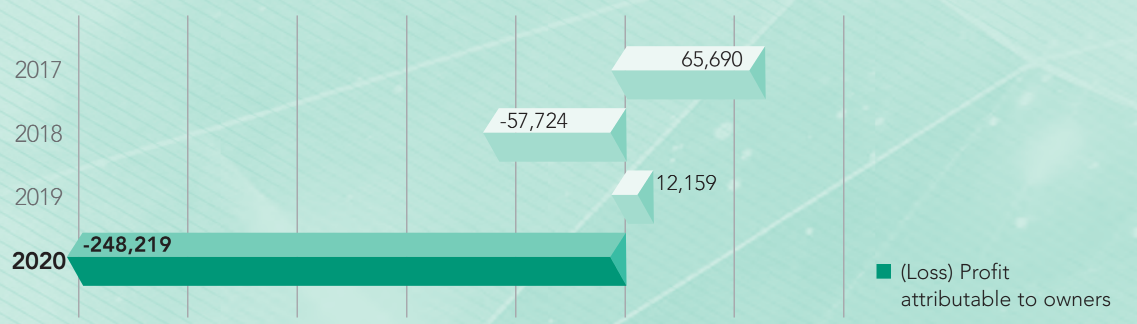
http://www.goodfriend.hk

Financial Highlights

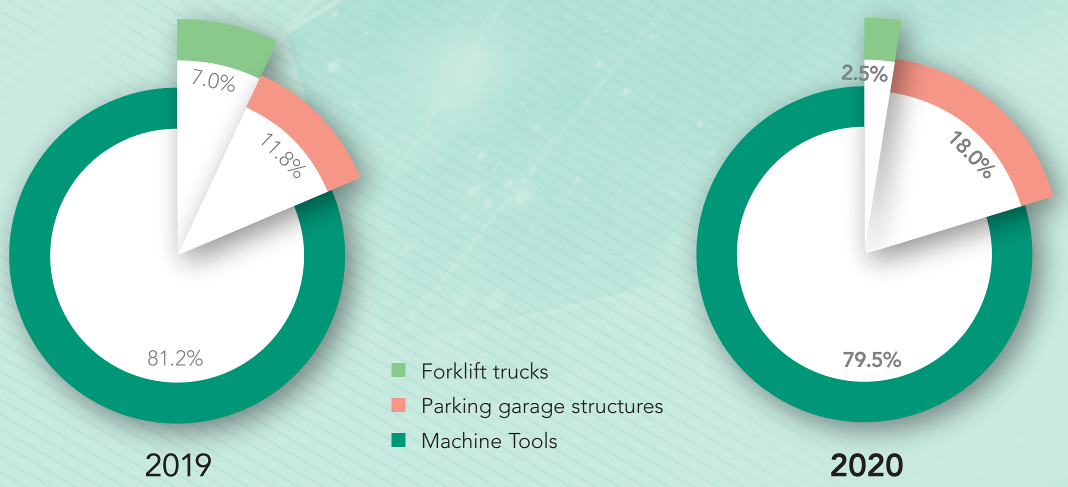
REVENUE (RMB'000)



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



BUSINESS SEGMENTS (in terms of revenue)



TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2020 **RMB'000**	2019 RMB'000	Change (%)
Revenue	**875,318**	910,695	(3.9)%
Gross profit	**196,471**	209,098	(6.0)%
(Loss) Profit attributable to owners	**(248,219)**	12,159	(2,141.4)%
Shareholders' equity	**442,869**	708,479	(37.5)%
Total assets	**1,930,819**	2,124,080	(9.1)%
(Loss) earnings per share – basic (RMB)	**(0.62)**	0.03	(2,166.7)%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2020	2019	Change (%)
Gross profit margin Note 1	**22.4%**	23.0%	(2.6)%
Net (loss) profit margin Note 2	**(28.4)%**	1.3%	(2,284.6)%
Inventory turnover days Note 3	**231.8**	256.5	(9.6)%
Debtors' turnover days Note 4	**53.5**	74.5	(28.2)%
Creditors' turnover days Note 5	**83.0**	84.7	(2.0)%
Current ratio (Times) Note 6	**1.1**	1.0	10.0%
Quick ratio (Times) Note 7	**0.8**	0.6	33.3%
Gearing ratio (%) Note 8	**21.9%**	18.8%	16.5%
Return on equity (%) Note 9	**(56.0)%**	1.7%	(3,394.1)%

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 2020 (the "year").

FINANCIAL PERFORMANCE

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB875.32 million, representing a decrease of approximately 3.9% compared to 2019. Loss attributable to owners amounted to approximately RMB248.22 million was recorded in the current year; whilst in 2019 profit attributable to owners amounted to approximately RMB12.16 million.

FINAL DIVIDEND

The Board resolved not to recommend a final dividend for the year ended 31 December 2020 (2019: Nil).

BUSINESS REVIEW

China maintained a generally stable economy in 2020. 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 2.3% in 2020. For the year ended 31 December 2020. Sales volume and sales revenue of the Group's major products CNC machines tools amounted to 1,601 units and RMB696.11 million respectively.

PROSPECTS

At the beginning of 2020, the COVID-19 pandemic had brought about unprecedented challenges on the production and operation of the Group. With the gains achieved by the Chinese government adopting various strict prevention and control policies coupled with the effective business strategies adopted by the Group, the business conditions continued to improve. The overall business performance of the Group notably recovered as from the second quarter of 2020. Though the Group recorded loss during the year which was due to the share of loss of associates located in Germany, the share of loss of associates is a non-cash item and hence there will be no effect on the operating cash flow of the Group. Moreover, before including this item, the Group recorded a profit before tax of approximately RMB54.69 million for the year ended 31 December 2020 under this tough operating environment. The management therefore considers that the overall financial position of the Group remain solid.

Looking ahead, the Chinese government unveiled its clear objective of implementation of the tasks of "six stables" and "six guarantees". The China's economy is expected to improve steadily under this strategy. The Group will keep close track of the global economic trend and market situation in order to capture business opportunities and reduce operation risks. On the other hand, the management will continue to control operating costs for achieving better operating results of the Group. The management is optimistic on the long-term development prospects of the Group.

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.

On behalf of the Board
CHU Chih-Yaung
Chairman
Hong Kong, 31 March 2021

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB875.32 million, representing a decrease of approximately 3.9% as compared to 2019. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,601 units, 9,707 units and 280 units respectively (2019 comparative figures: 1,527 units, 7,792 units and 841 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 RMB696.11 million, representing a decrease of approximately 5.8% as compared to 2019. Revenue of CNC machine tools accounted for approximately 79.5% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB157.21 million during the year, representing an increase of approximately 46.5% as compared to 2019 and accounted for approximately 18.0% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 65.8%, as compared to 2019, to approximately RMB22.00 million and approximately 2.5% of the Group's total revenue.

Gross profit and margin

For the year ended 31 December 2020, gross profit of the Group amounted to approximately RMB196.47 million. Overall gross profit margin was approximately 22.4%, which remained fairly stable when compared to 23.0% for 2019.

Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB94.85 million for the year ended 31 December 2020, representing a decrease of approximately 22.2% as compared to last year. This was mainly attributable to the stringent control of the expenses by the management. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 10.8%, compared to approximately 13.4% for 2019.

Administrative expenses

Administrative expenses for the year ended 31 December 2020 decreased by approximately 19.7% as compared to 2019. This was mainly attributable to the management's stringent control of the expenses during the year.

Other gains and losses

Other gains during the year represented approximately RMB13.35 million foreign exchange gain, as well as approximately RMB23.78 million being the reversal of provision for litigation claim following the settlement of the litigation in March 2021.

Finance costs

During the year, finance costs decreased by approximately 24.7% to approximately RMB18.64 million. This was primarily due to the decrease of the interest rates of bank borrowings of the Group during 2020.

Share of loss of associates

For the year ended 31 December 2020, share of loss of associates amounted to approximately RMB287.06 million. The amount represented the Group's share of results of "FFG European and American Holdings GmbH" (an associate located in Germany) during the year.

Loss/Profit attributable to owners of the Company

For the year ended 31 December 2020, loss attributable to owners of the Company amounted to approximately RMB248.22 million. For the year ended 31 December 2019, profit attributable to owners of the Company amounted to approximately RMB12.16 million.

Liquidity and financial resources

As at 31 December 2020, the Group had net current assets of approximately RMB89.65 million (2019: RMB34.62 million), shareholders' fund of approximately RMB442.87 million (2019: RMB708.48 million) and short-term bank borrowings of approximately RMB423.81 million (2019: RMB400.07 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 2020 amounted to approximately RMB104.01 million (2019: RMB74.86 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.1 times (2019: 1.0 times). The gearing ratio (ratio of total debts to total assets) was approximately 21.9% (2019: 18.8%), indicating that the Group's overall financial position remained solid.

Capital structure and treasury policies

The share capital of the Company as at 31 December 2020 was HK$4,030,740 divided into 403,074,000 shares of HK$0.01 each (at 31 December 2019: HK$4,030,740 divided into 403,074,000 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 2020, the total outstanding short-term borrowings stood at approximately RMB423.81 million (2019: RMB400.07 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 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2020.

SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2020 are set out in note 6B to the consolidated financial statements.

Staff and remuneration policies

As at 31 December 2020, the Group employed a total of 950 (2019: 1,080) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB135.76 million (2019: RMB154.02 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

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

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year ended 31 December 2020, the Group contributed approximately RMB0.48 million (2019: RMB5.54 million) to the said schemes.

Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB24.25 million (2019: RMB24.25 million) which are contracted but not provided in the unaudited consolidated financial statements for the year ended 31 December 2020. The Group had no material contingent liabilities as at 31 December 2020 (2019: Nil).

Charges on the Group's assets

As at 31 December 2020, the Group had restricted bank balances with an amount of approximately RMB139.43 million (2019: RMB106.33 million), which mainly represented bank balances being frozen by banks in relation to a litigation claim raised by a customer, as well as deposits placed in banks for acceptance bills.

Meanwhile, a subsidiary of the Company pledged its land with an aggregate carrying amount of approximately RMB80.63 million (2019: RMB82.48 million) to secure financing facilities granted to it. As at 31 December 2020, the subsidiary has utilized such secured financing facilities of approximately RMB38.51 million (2019: RMB36.76 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2020. 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 2020, 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 74, was appointed as an executive Director and the Chief Executive Officer in September 2005 and December 2019 respectively. He is the Chairman of the Board responsible for the Group's overall strategic planning, management, business development, and the formulation of the Group's corporate policies. Mr. Chu has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. Mr. Chu is also a director of Hangzhou Global Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co., Ltd., both are wholly-owned subsidiaries of the Company.

Mr. Chen Min-Ho (陳明河先生), aged 70, 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 (温吉堂先生), aged 56, 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 35 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis (顧福身先生), aged 64, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He has more than 30 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.

Mr. Yu Yu-Tang (余玉堂先生), aged 84, was appointed as an independent non-executive Director in December 2005 and is a member of the audit committee, nomination committee and remuneration committee of the Company. He was a consultant of the Taiwan Hsin Chu County Government (台灣新竹縣政府) and the Provincial Government.

Mr. Kao Wen-Cheng (高文誠先生), aged 61, was appointed as an independent non-executive Director on 10 January 2021 and is a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Kao has previously served at the Petitions and Appeals Committee of the Ministry of Economic Affairs, R.O.C. and the office of the Vice President of the Legislative Yuan, R.O.C. From 2008 to 2012, he served as the deputy general secretary of the Straits Exchange Foundation, R.O.C. (財團法人海峽交流基金會). From 2012 to 2019, he served as the deputy general secretary of The Third Wednesday Club (中華民國三三企業交流會). From 2012 to 2016, he served as a consultant of China Trust Commercial Bank. From 2017 to 2020, he was re-designated as a special member of the chairman's office of China Trust Commercial Bank, and he retired on 1 January 2021. Currently, Mr. Kao is a director of Jiangsu Longchen Greentech Co., Ltd. (江蘇榮成環保科技股份有限公司).

SENIOR MANAGEMENT

Mr. Chiang Chia-Shin (強家鑫先生), aged 62, was appointed as the manufacturing, marketing and after sales service manager of Hangzhou Global Friend and is responsible for the manufacturing, operating, marketing and after sales service of forklifts trucks in Mainland China. Mr. Chiang graduated from mechanical engineering department of Taiwan Fushin Institute Technology School (台灣復興工業專科學校) in 1979. He joined the Group in 1 July 2000 and has over 35 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 59, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend and then was promoted as the senior manager with effect from January 2014. He joined the Group in October 2000 and has over 36 years of experience in the machine tools industry.

Mr. Huang Fei-Hsiung (黃飛雄先生), aged 52, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Huang graduated from City University of Hong Kong in DBA with a degree in 2015. Before he joined the Group in May 2020, he served in Taiwan's listed companies and has over 26 years of experience in the fields of auditing, accounting and finance, business management.

Mr. Yip Sai Keung, Esmond (葉世強先生), aged 55, was appointed as the financial controller of the Company and is responsible for the finance and accounting functions of the Group. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yip joined the Group in November 2007 and has about 30 years of experience in the fields of corporate finance, auditing and accounting.

Report of the Directors

The board of directors of the Company (the "Board") is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

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 2020 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 7 and pages 8 to 11 respectively of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES FOCUSING THE COMPANY

A description of possible risks and uncertainties that the Group may be facing are set out in the Chairman's Statement on pages 6 to 7 of this annual report. The financial risk management objectives and policies of the Group are set out in note 37 to the consolidated financial statements.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

IMPORTANT EVENT THAT HAVE OCCURRED SINCE THE FINANCIAL YEAR END

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2020 is set out in note 6B to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2020 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 71 to 161.

The Directors resolved not to recommend a final dividend for the year ended 31 December 2020.

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

An annual general meeting will be held on Wednesday, 30 June 2021 (the "2021 AGM"). Details of the 2021 AGM, notice of 2021 AGM and proxy form are set out in the circular of the Company dated 17 May 2021 which will be despatched to shareholders of the Company (the "Shareholders") together with the 2020 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 2020 are set out in note 26 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2020 are set out in note 30 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. CHU Chih-Yaung *(Chairman and Chief Executive Officer)*
Mr. CHEN Min-Ho
Mr. WEN Chi-Tang
Mr. CHIU Rung-Hsien (resigned on 31 July 2020)

Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis
Mr. YU Yu-Tang
Mr. KAO Wen-Cheng

Pursuant to article 87 of the articles of association of the Company (the "Articles"), Messrs. Wen Chi-Tang and Yu Yu-Tang, Directors who have been longest in office since their last re-election, will retire by rotation and will offer themselves for re-election at the 2021 AGM.

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 2021 with the Company for a term of three years commencing from 11 January 2021 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

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

None of the Directors who are proposed for re-election at the forthcoming 2021 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2020, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

SHARE OPTION SCHEME

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

The principal terms of the Scheme are summarised as follows:

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

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

(b) The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each eligible person under the Scheme or any other share option schemes adopted by the Company (including both exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the total number of issued shares of the Company.

(c) The subscription price in respect of each share of the Company issued pursuant to the exercise of options granted under the Scheme shall be determined by the Board and notified to an eligible person at the time of the grant of the options and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of option, which must be a business day ("Date of Grant"); (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Company's share on the Date of Grant.

(d) The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than ten years from the relevant Date of Grant. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

(e) The Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised.

(f) Upon acceptance of an option, the grantee shall pay HK$1 to the Company as consideration for the grant within 28 days from the Date of Grant.

(g) The Scheme shall be valid and effective for a period of ten years from the date of fulfilment of the conditions precedent for the Scheme, i.e. 2 June 2016.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2020, 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	15,472,255 ordinary shares	15.10%
	Taiwan FF	Spouse interest (Note 1)	2,485,969 ordinary shares	2.43%
	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 2.43% 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 2020, 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 2020, 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 2020, 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)	57.56%
Taiwan FF	Interest of controlled corporation	232,208,000 shares (Note)	57.61%

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2020.

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 2020, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

EMOLUMENT POLICY

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

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

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 39 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 transactions

As disclosed in the announcement of the Company dated 26 May 2017 and the circular of the Company dated 27 June 2017, the Company had on 26 May 2017 entered into: (a) a components agreement (the "CKD Components Agreement") with Taiwan FF, pursuant to which the Group (and/or its permitted designates) (the "GF Parties") will supply CKD components to Taiwan FF and its subsidiaries (and/or its permitted designates) (the "FF Parties") and the FF Parties will supply CKD components to the GF Parties for a term of three years from 13 July 2017; and (b) a machine tools agreement (the "CNC Machine Tools Agreement") with Taiwan FF, pursuant to which the GF Parties can purchase from the FF Parties the designated CNC machine tools and have the right to sell designated CNC machine tools in the PRC, Hong Kong and Macau Special Administrative Region (the "Sales Region") on an exclusive basis, and the FF Parties will authorize the GF Parties to sell designated CNC machine tools in the Sales Region on an exclusive basis for a period of three years from 13 July 2017. The CKD Components Agreement and the CNC Machine Tools Agreement expired on 12 July 2020.

As disclosed in the announcement of the Company on 10 July 2020 and the circular of the Company on 14 August 2020, the Company had on 10 July 2020 entered into agreements with Taiwan FF to renew the CKD Components Agreement (the "Renewed CKD Components Agreement") and the CNC Machine Tools Agreement (the "Renewed CNC Machine Tools Agreement") respectively for a period of three years from 31 August 2020.

As Taiwan FF is the holding company of Hong Kong GF, the controlling shareholder of the Company, Taiwan FF is therefore an associate of Hong Kong GF and a connected person of the Company under the Listing Rules. The transactions under the CKD Machine Tools Agreement, the CNC Machine Tools Agreement, the Renewed CKD Components Agreement and the Renewed 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 2020 to 12 July 2020 under the CKD Components Agreement were RMB1.90 million and RMB67.02 million respectively and the actual supply amount and purchase amount of the period were RMB0.33 million and RMB24.24 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 2020 to 12 July 2020 under the CNC Machine Tools Agreement was RMB582.59 million and the actual purchase amount of the period was RMB15.75 million.

The resolutions approving the Renewed CKD Components Agreement and the Renewed CNC Machine Tools Agreement, the transactions contemplated thereunder and the annual caps thereof were duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 31 August 2020. 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 31 August 2020 to 31 December 2020 under the Renewed CKD Components Agreement were RMB1.08 million and RMB28.63 million respectively and the actual supply amount and purchase amount of the period were RMB0.3 million and RMB21.45 million respectively. The annual cap for the purchase of CNC machine tools from the FF Parties by the GF Parties for the period from 31 August 2020 to 31 December 2020 under the Renewed CNC Machine Tools Agreement was RMB40 million and the actual purchase amount of the period was RMB8.57 million.

The independent non-executive Directors have reviewed the CKD Components Agreement, the CNC Machine Tools Agreement, the Renewed CKD Components Agreement and the Renewed 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, the CNC Machine Tools Agreement, the Renewed CKD Components Agreement and the Renewed CNC Machine Tools Agreement and on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

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

PRE-EMPTIVE RIGHTS

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

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

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 2020.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 10.87% of the Group's total turnover for the year and the largest customer accounted for approximately 2.58% of the Group's total turnover. The five largest suppliers accounted for approximately 29.20% of the Group's total purchases for the year and the largest supplier accounted for approximately 15.79% of the Group's total purchases.

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY

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

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as those set out in note 39 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, its parent company, its subsidiaries or fellow subsidiaries were a party and in which Director or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Corporate Governance Code. The duties of the Audit Committee includes review and supervise the financial reporting process and risk management and internal control systems of the Group. The Audit Committee currently comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Yu Yu-Tang and Mr. Kao Wen-Cheng. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2020.

CORPORATE GOVERNANCE

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

DISTRIBUTABLE RESERVES

As at 31 December 2020, reserves of the Company available for distribution to the shareholders of the Company were approximately RMB226,125,000 (2019: RMB478,483,000). Under the Companies Law of the Cayman Islands (Cap 22, Law 3 of 1961, consolidated and revised), the share premium account of the Company of approximately RMB82,183,000 (2019: RMB82,183,000) is distributable to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account of the Company may also be distributed in the form of fully paid bonus shares to be issued to members.

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 162.

AUDITOR

RSM Hong Kong ("RSM") was appointed as auditor of the Company by the Board with effect from 25 October 2019 to fill the casual vacancy arising from the resignation of Deloitte Touche Tohmatsu on 24 October 2019. The consolidated financial statements for the year ended 31 December 2019 and 31 December 2020 have been audited by RSM. A resolution will be proposed at the forthcoming 2021 AGM to re-appoint RSM as auditor of the Company.

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

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

Hong Kong, 31 March 2021

Corporate Governance Report

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of directors of the Company (the "Board") should attend the annual general meeting. Mr. Chu Chih-Yaung, the Chairman of the Board was unable to attend the annual general meeting of the Company held on 30 June 2020 due to other business engagements and Mr. Koo Fook Sun, Louis, the independent non-executive director of the Company (the "Director"), took the chair of the annual general meeting pursuant to the articles of association of the Company ("Articles").

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2020, 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 six Directors with three 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 (resigned on 31 July 2020)

Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis
Mr. YU Yu-Tang
Mr. KAO Wen-Cheng

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

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

Chairman and Chief Executive Officer

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

Mr. CHEN Hsiang-Jung, the then Chief Executive Officer and executive Director, was pass away on 8 November 2018. Mr. CHU Chih-Yaung, the Chairman of the Board, was appointed as Chief Executive Officer on 7 December 2018.

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

Independent non-executive Directors

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

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

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

Role of the Board

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

Corporate Governance Functions

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

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of Directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

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; and

6. review contribution from director about his responsibility to the Company.

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 2020:

Directors	Type of trainings
Executive Directors	
CHU Chih-Yaung	A, B
CHEN Min-Ho	A, B
WEN Chi-Tang	A, B
CHIU Rung-Hsien (resigned on 31 July 2020)	A, B
Independent Non-Executive Directors	
KOO Fook Sun, Louis	A, B
YU Yu-Tang	A, B
KAO Wen-Cheng	A, B

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

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

Frequency of Board Meetings and Attendance

Board meetings are held at least four times a year and the Board meets as and when required. During the year ended 31 December 2020, the Board convened a total of four regular meetings and the attendances of the Directors at these Board meetings are as follows:

Directors	Number of attendance
Mr. CHU Chih-Yaung	4/4
Mr. CHEN Min-Ho	3/4
Mr. WEN Chi-Tang	4/4
Mr. KOO Fook Sun, Louis	4/4
Mr. YU Yu-Tang	3/4
Mr. KAO Wen-Cheng	4/4
Mr. CHIU Rung-Hsien (resigned on 31 July 2020)	2/2

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

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

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

AUDIT COMMITTEE

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

The role of the Audit Committee is to monitor the establishment and maintenance of an adequate 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 2020. The audited financial statements of the Company for the year ended 31 December 2020 has also been reviewed by the Audit Committee.

The forthcoming annual general meeting of the Company will be held on Wednesday, 30 June 2021 (the "2021 AGM"). With the recommendation of the Audit Committee, RSM Hong Kong, Certified Public Accountants has been proposed for re-appointment as auditor of the Company at the forthcoming 2021 AGM.

Frequency of Meetings and Attendance

During the year 2020, 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. YU Yu-Tang	2/3
Mr. KAO Wen-Cheng	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. YU Yu-Tang and Mr. KAO Wen-Cheng.

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

In accordance with the Articles, at least one-third of the Directors will retire from office at the forthcoming annual general meeting. Pursuant to article 87 of the Articles, Messrs. Wen Chi-Tang and Yu Yu-Tang, Directors who have been longest in office since their last re-election, will retire by rotation and will offer themselves for re-election at the 2021 AGM.

Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2020 and details of the attendance of its meeting are as follows:

Name of members	Number of attendance
Mr. KOO Fook Sun, Louis	1/1
Mr. YU Yu-Tang	0/1
Mr. KAO Wen-Cheng	1/1

Board Diversity Policy

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

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

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

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

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

Nomination Policy

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

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

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

5. The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee.

Dividend Policy

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

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

REMUNERATION OF DIRECTORS

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

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

Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2020 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. YU Yu-Tang	0/1
Mr. KAO Wen-Cheng	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 9 to the consolidated financial statements.

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

Remuneration of Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2020 is set out below:

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

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

COMPANY SECRETARY

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

CONSTITUTIONAL DOCUMENTS

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

AUDITOR'S REMUNERATION

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

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

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 2020, 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 2020, 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.

In 2020, the results of risk management and internal control indicated that there weren't any material faults or weak points in the major risk monitoring. The management processes of the Company, such as financial reports and information disclosures, strictly complied with the provisions of the Listing Rules, and the risk management and internal control were effective according to the evaluation of the Board.

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's accounts for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2020, 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 30 June 2020 (the "2020 AGM"). A notice convening the 2020 AGM contained in the circular dated 15 May 2020 was dispatched to the Shareholders together with the 2019 Annual Report. The chairman of the Board was unable to attend the 2020 AGM due to other business engagements. Mr. Koo Fook Sun, Louis, the Independent Non-Executive Director, attended and chaired the 2020 AGM. Except for Mr. Yu Yu-Tang and Mr. Kao Wen-Cheng, other directors were unable to attend the 2020 AGM due to their other business commitment.

The Chairman of the 2020 AGM explained detailed procedures for conduction a poll. All the resolutions proposed at the 2020 AGM were passed separately by the Shareholders by way of poll. The results of the poll were published on the websites of Hong Kong Exchanges and Clearing Limited ("HKEX") and the Company after the meetings.

A notice convening 2021 AGM will be published on the websites of HKEX and the Company and dispatched together with the 2020 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 2020.

Hong Kong, 31 March 2021

ABOUT THE REPORT

Good Friend International Holdings Inc. (the "Company" together with its subsidiaries, hereinafter referred to as the "Group", we or us) hereby presents the annual Environmental, Social and Governance ("ESG") Report in 2020 to summarise the Group's policies, measures and performance on the key ESG issues.

REPORTING PERIOD

This Report illustrates the overall performance of the Group regarding the environmental and social aspects from 1 January 2020 to 31 December 2020 ("FY2020").

REPORTING SCOPE

The ESG Report focuses on the principal business activities of the Group. After comprehensive consideration of a series of indicators such as sales, business type, profit amount and asset amount, the scope of the ESG Report is consistent with the ESG Report for the previous financial year ended 31 December 2019 ("FY2019"), covering the following entities in the People's Republic of China (the "PRC"):

- Hangzhou Good Friend Precision Machinery Precision Co., Ltd.
- Hangzhou Global Friend Precision Machinery Co., Ltd.
- Hangzhou Ever Friend Precision Machinery Co., Ltd.
- Hangzhou Glory Friend Machinery Technology Co., Ltd.

While the ESG Report does not cover all the Group's operations, the Group aims to improve its internal data collection mechanism and gradually expand the scope of the disclosure.

REPORTING BASIS

The Report is prepared in accordance with the ESG Reporting Guide (the "ESG Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities (the "Main Board Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the basis of the four reporting principles – materiality, quantitative, balance and consistency. The Company has complied with the "comply or explain" provisions set out in the ESG Guide. The ESG Report should be read in conjunction with the Corporate Governance Report on pages 26 to 40 of our Annual Report 2020.

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

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

SELECTION OF MAJOR ISSUES

Communication with stakeholders

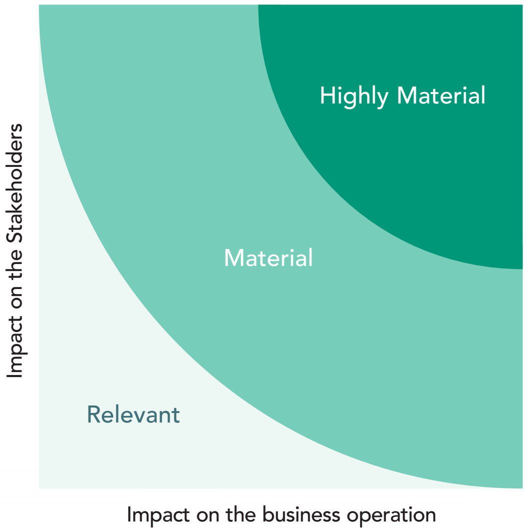
Judging from the characteristics of the business and operation, we identified major stakeholders such as investors, governments and regulators, employees, non-governmental organizations, customers, suppliers and communities.

Stakeholders	Expectation & requirement	Communication & response
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 mailbox • 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 • Production plant visit
Customers	• Customer satisfaction management • Customer complaint management • Product responsibility	• Daily communication • Regular interviews and visits • Customer service centre and hotline
Suppliers	• Suppliers' code of conduct • Supplier assessment • Supplier cooperation	• High-level meetings • Workshop • Suppliers' summits • Supplier entry and assessment • Fieldwork • Daily communication
Communities	• Noise management • Support economic development • Enthusiasm towards public welfare	• Charitable activities • Community services • Environmental protection activities

ASSESSMENT OF MATERIAL ISSUES

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

Matrix for material issues



Highly Material

- Product and service quality
- Customer privacy and corporate information protection
- Occupational health and safety
- Staff development and training

Material

- Material consumption
- Anti-discrimination
- Employee care
- Marketing and Labelling
- Prohibition of child and forced labour
- Responsible supply chain management
- Energy efficiency
- Diversity and equal opportunities

Relevant

- Waste management
- Water efficiency
- Environmental impact mitigation
- Environmental compliance
- Community investment
- Greenhouse gas emission
- Air emission management
- Climate change

MARKET

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

In FY2020, we did not find any products, which were returned to us due to safety or health problems.

Quality assurance

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

1 It refers to computer numerical control, which is commonly called CNC.

management, finished product inspection management, and defective product control management procedures, and organise the internal quality review. We have also obtained the ISO 10012 Measurement Management Systems which specifies quality management requirements of a measurement management system that can be used by an organization performing measurements as part of the overall management system, and to ensure metrological requirements are met.

Our manufacturing operation has the met the Guobiao (GB) standard, the Chinese national standards issued by the Standardization Administration of China (SAC) and the Chinese National Committee of the International Organization for Standardization (ISO) and International Electrotechnical Commission (IEC), including but not limited to the followings:

- Metal-cutting machine tools – General safeguarding specification (GB15760-2004)
- Machining centre – Safeguarding specification (GB18568-2001)

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

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

In addition, we also contribute to improving the quality control of the mechanics, manufacturing and machine tools industry. In order to improve the quality and technical requirements of the industry in the PRC, we have been actively participating in the drafting of the *Standard for Mechanical Parking Equipment Design* ("*機械式停車設備設計規範*"), which has been led by National Technical Committee on Cranes Standardisation SAC/TC227 since financial year ended 31 December 2018 ("FY2018").

Technology is important for quality improvement. We are committed to technological innovation and continuously improve the technical content of our products to enhance the quality of our products. Now we have owned over 68 valid patents, including 15 software copyrights, of which we have applied and obtained 16 valid patents in FY2020. We also formulate the *Patent Management System* ("*專利管理制度*") to regulate the patent development and protection processes and fully complied with the laws and regulations including but not limited to the Patent Law of the PRC and Trademark Law of the PRC.

Customer Service

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

We strive to provide high-quality services for customers. In order to timely submit customers' orders and boost customer satisfaction, we implement lean management internally and set up a cross-sectoral subdivision and special investigation team. By summarising and classifying business management data, we easily locate the occurrence points and detection points of problems and promptly solve the problems in the daily operation process. In addition, we regularly conducted satisfaction surveys on product quality and after-sales service. In FY2020, no customer complaints occurred, our average customer satisfaction rate was 99% (FY2019: 97%).

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

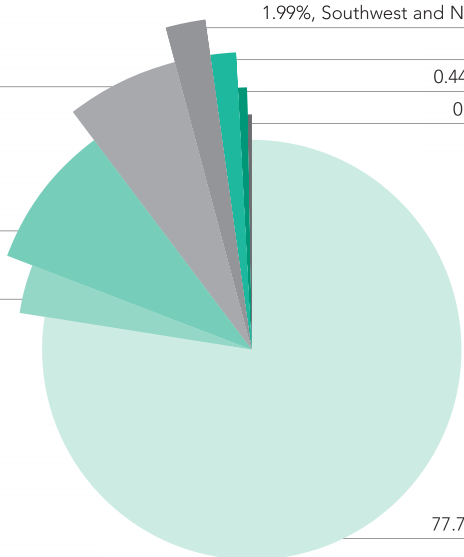
Supplier Management

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

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

We give priority to local suppliers in order to promote the local economic development. In FY2020, we cooperated with 453 suppliers[3] (FY2019: 824), which are mainly from Jiangsu, Zhejiang and Shanghai. The geographical distribution[4] is as follows.

FY2020 Suppliers by geographical locations



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

Business Ethics

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

We strictly comply with the related laws and regulations, including but not limited to the Criminal Law of the PRC. In FY2020, we have not been involved in any lawsuits relating to corruption, bribery, blackmail, fraud, or money laundering.

3 The figure refers to the suppliers with amount incurred in FY2020.

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

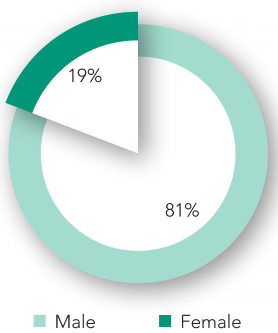
EMPLOYEE

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

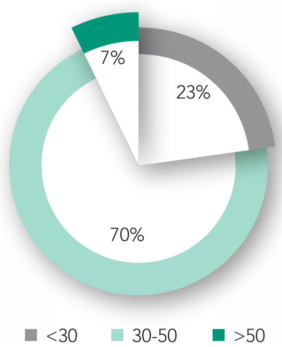
We are committed to creating an innovative, win-win and fair working environment for our employees. While ensuring employees' safety and health in the workplace, we focus on taking care of our employees and organise diverse activities to promote employees' physical and mental health. In order to realise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

In FY2020, the total number of employees[5] reached 918 (FY2019: 1,075), among which 175 (FY2019: 194) were female and they accounted for 19% (FY2019: 21%) of the total employees. The overall employee turnover ratio was 21% (FY2019: 22%). The breakdown of the percentage of the workforce by gender, age group, employee category, geographical location and employee type is illustrated as below:

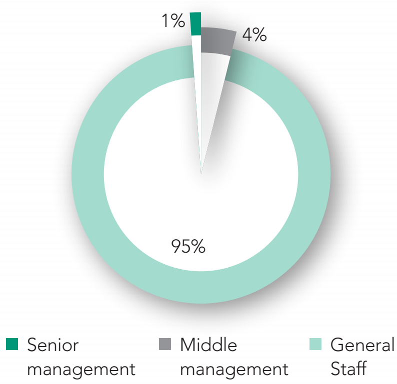
Percentage of employee by gender



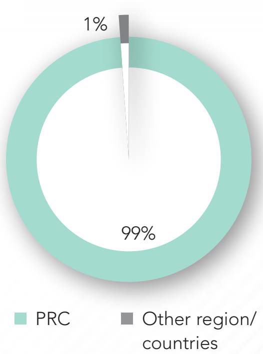
Percentage of employee by age group



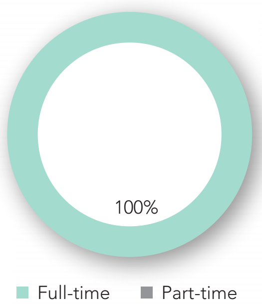
Percentage of employee by employee category



Percentage of geographical location



Percentage of employee type



5 It refers to the number of employees as at 31 December 2020.

Employment and Labour Standards

Labour standards

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

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

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

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

We did not involve in any child labour, forced labour and discrimination cases in FY2020.

Salary and welfare

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

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

Training and Development

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

In FY2020, 100% of our employees (FY2019: 65%) received training and the average training hours of each employee were 28 hours (FY2019: 29 hours).

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

Safety and Health

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

We have obtained accreditation under the ISO 45001 Occupational Health and Safety Management System. We constantly enhance the level of occupational health and safety management, forming a comprehensive mechanism of self-monitoring, self-discovery and self-improvement. Every year, we carry out a complete and comprehensive review on the surrounding environment of production plants to ensure the safety of our employee in the workplace. In FY2020, we did not aware of any work-related fatalities or significant accidents.

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

- Decontamination of dust

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

- Noise management

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

- Disease prevention

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

Care for Employees

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

Since FY2019, we have been organising a running group, namely "**Joyrun**" ("**悅跑圈**"), via a mobile application platform to promote physical fitness among our employees.

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

ENVIRONMENT

The Group focuses on the sustainable development management and improving the utilisation rate of resources. We strive to mitigate the impacts on environment in every aspect of our operational processes. We have received ISO 14001 Environmental Management System certification for our production plants. We also organised annual internal and external review to ensure that the environmental management system is manageable and effective in the long run.

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

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

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

Our manufacturing operation has the met the national standards and local standards, including but not limited to the followings:

- Standard for fugitive emissions of volatile organic compounds (GB 37822-2019)
- Ambient air quality standards (GB 3095-2012)
- Standard for volatile organic emissions in key industrial enterprise (DB3301/T0277-2018)

In FY2020, there were no environmental pollution accidents, illegal events or complaints from the surrounding residents.

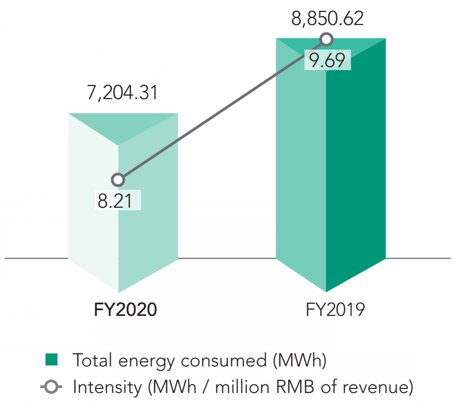
Resources Management

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

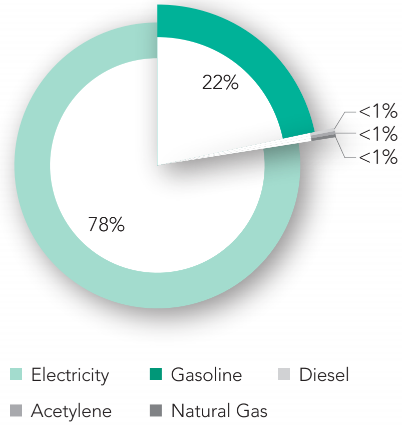
Low-carbon production

The main source of energy consumption in our operation are electricity, gasoline, diesel and natural gas. In FY2020, we consumed 7,204.31MWh (FY2019: 8,850.62 MWh) of energy in total and the purchased electricity accounted for 78% (FY2019: 70%) of the total energy consumption. Compared to FY2019, the total energy consumption decreased by 19% as there was a decrease in fossil fuel and electricity consumption.

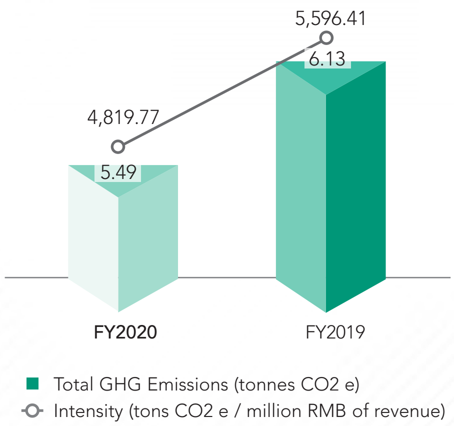
Total Energy Consumption and its Intensity



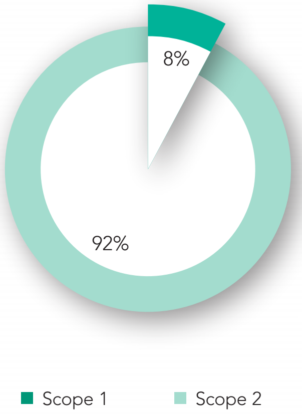
FY2020 Energy Consumption by Category



Total GHG Emissions and its Intensity



FY2020 GHG Emissions by Scope



In FY2020, we have 396.96 tonnes carbon dioxide equivalent (CO_2 e) (FY2019: 594.53 tonnes CO_2 e) of direct greenhouse gas (GHG) emissions (Scope 1) and 4,422.81 tonnes CO_2 e (FY2019: 5,001.88 tonnes CO_2 e) of indirect GHG emissions (Scope 2). Compared with FY2019, the total GHG emissions decreased by 14%, which is aligned with the decrease in the total energy consumption.

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

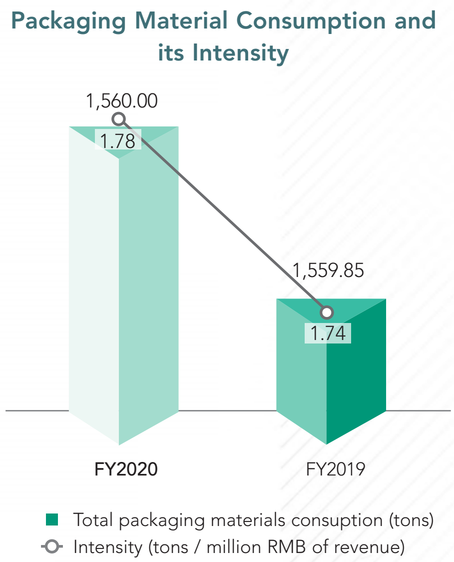
Regarding the production of car parking garage structures, we use equipment complying with the energy efficiency standards in Europe. Although cost of the equipment is higher, we uphold the concept of environmental friendliness and implement environmental protection measures at all costs.

Raw materials and packaging materials

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

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

In FY2020, we consumed 1,560 tonnes (FY2019: 1,563.97 tonnes) of packaging materials which are primarily wood.



Air Emission Management

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

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

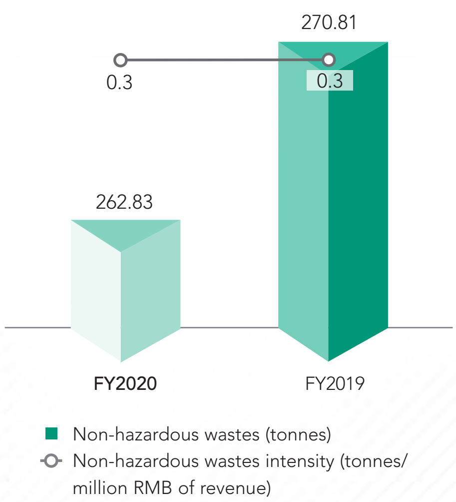
Waste Management

Solid wastes

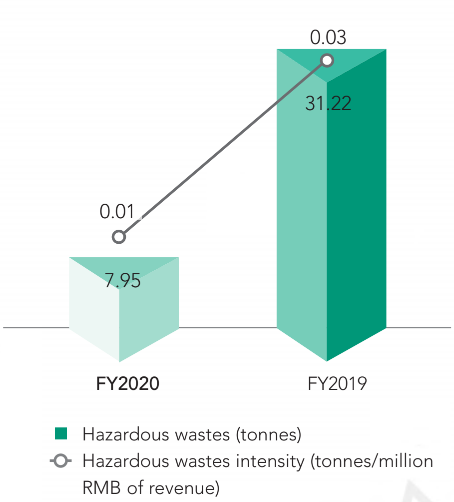
The wastes generated in our production are mainly divided into hazardous wastes and non-hazardous wastes. Non-hazardous wastes mainly include living garbage, scrap iron, grinding wheel and office consumables. The reporting scope of FY2020 was expanded to include paper usage in office consumables, which resulted in the significant increase of office consumables waste to 3.43 tonnes in FY2020 (FY2019: 0.38 tonnes).

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

Total non-hazardous waste produced and its intensity



Total hazardous waste produced and its intensity



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

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

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

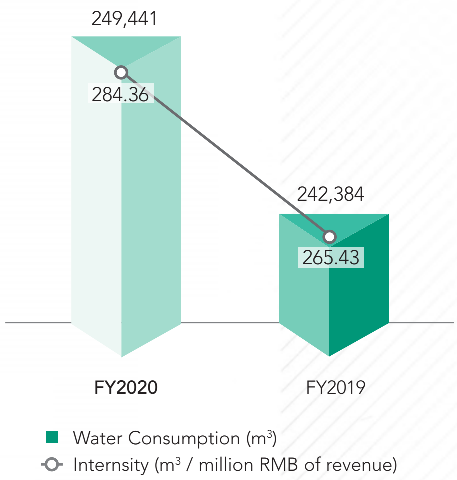
Water Resource Management

Our water is sourced from the urban water supply system. In FY2020, we consumed 249,441 m^3 (FY2019: 242,384 m^3) of water.

During the production process, we produce 249,390 tonnes of industrial and domestic wastewater in FY2020. The domestic wastewater is mainly discharged from office toilets and kitchens. There was no discharge of poisonous, hazardous and special substance. Industrial wastewater is directly discharged through the municipal sewage pipe network and handled by the municipal government's sewage treatment plant before the discharge. The details of pollutants discharged in wastewater in FY2020 are illustrated as below:

Emissions discharged in wastewater	Unit	Annual amount
Ammonia nitrogen	tonnes	0.07
Suspended particulates	tonnes	1.68
Sulphur content	tonnes	0.006
Nitrogen content	tonnes	0.355

Total Water Consumed and its Intensity



COMMUNITY

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

Noise Management

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

Boost of Economic Growth

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

Community Dedication

We actively participate in various community activities and charitable donations. In FY2020, we participated in the voluntary blood donation activity. At our advocacy, a total of 21,600 millilitres of blood were donated, involving 50 employees.

Education Development

We show great concern and support for the development of education. We have co-organised the Vocational and Technical Exhibition with Hangzhou Xiaoshan Technician College ("杭州蕭山技師學院") in previous year. However, under the effect of the COVID-19 pandemic, no social event related to education was held in FY2020.

ESG DATA OVERVIEW

Environmental KPIs	Unit	FY2020	FY2019
Air Emissions Note 1			
NO_x	tonnes	**0.05**	0.08
SO_x	tonnes	**0.01**	0.02
PM	tonnes	**0.002**	0.01
VOCs	tonnes	**13.66**	25.02
Total	tonnes	**13.73**	25.13
GHG Emissions Note 2			
Scope 1	tonnes CO_2 e	**396.96**	594.53
Scope 2	tonnes CO_2 e	**4,422.81**	5,001.88
Total	tonnes CO_2 e	**4,819.77**	5,596.41
Intensity Note 3	tonnes/million RMB	**5.49**	6.13
Hazardous wastes			
Grinding mud	tonnes	**5.8**	21.25
Activated charcoal contaminated with paint	tonnes	**1.2**	2.50
The paint bucket	tonnes	**0.26**	2.64
Waste oil	tonnes	**0.4**	4.83
Waste fluorescent light tubes	tonnes	**0.1**	N/A
Ink cartridge	tonnes	**0.04**	N/A
Paint residue	tonnes	**0.0365**	N/A
Waste battery	tonnes	**0.01**	N/A
Other hazardous wastes	tonnes	**0.105**	N/A
Total hazardous wastes produced	tonnes	**7.95**	31.22
Intensity Note 3	tonnes/million RMB	**0.01**	0.03
Non-hazardous wastes			
Scrap iron	tonnes	**70.20**	70.65
Living garbage	tonnes	**132.00**	166.24
Grinding wheel	tonnes	**1.2**	1.43
Office consumables	tonnes	**3.43**	0.38
Other industrial garbage	tonnes	**56.00**	32.11
Total non-hazardous wastes produced	tonnes	**262.83**	270.81
Intensity Note 3	tonnes/million RMB	**0.30**	0.30

Environmental KPIs	Unit	FY2020	FY2019
Water consumption			
Total	m^3	**249,441.00**	242,384.00
Intensity Note 3	m^3/million RMB	**284.36**	265.43
Energy consumption			
Electricity	MWh	**5,583.65**	6,216.61
Gasoline	MWh	**1,574.12**	2,018.20
Diesel	MWh	**26.91**	577.98
Natural gas	MWh	**17.30**	37.83
Acetylene	MWh	**2.33**	N/A
Total	MWh	**7,204.31**	8,850.62
Intensity Note 3	MWh/million RMB	**8.21**	9.69
Packaging material consumption			
Wood	tonnes	**1,560.00**	1,559.85
Other materials	tonnes	**0**	31.14
Total	tonnes	**1,560.00**	1,590.99
Intensity Note 3	tonnes/million RMB	**1.78**	1.74

Note 1: Reference is made to Road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial) issued by the Ministry of Ecology and Environment of the PRC regarding the calculation of NOx, SOx and PM. The air pollutants emissions incurred by forklift trucks were not included due to the distance travel data were not available.

Note 2: Reference is made to the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and 2019 Regional Emission Reduction Project China Regional Grid Baseline Emission Factors issued by the Climate Change Department of the Ministry of Ecology and Environment of the PRC regarding the calculation of the GHG emissions.

Note 3: Intensity is calculated as the total divided by revenue (in million RMB) the corresponding years. The corresponding revenue in 2020 was 877.2 million RMB.

Social KPIs	Unit	FY2020	FY2019
Workforce			
Total Note 4	/	**918**	1,075
By gender			
Female	/	**175**	194
Male	/	**743**	881
By age group			
Under 30	/	**217**	305
From 30 to 50	/	**639**	696
Over 50	/	**62**	74
By employee category			
Senior management	/	**9**	6
Middle management	/	**41**	134
General Staff	/	**868**	935
By geographical location			
PRC	/	**908**	N/A
Hong Kong	/	**0**	N/A
Other regions/countries	/	**10**	N/A
By employment type			
Full-time	/	**918**	N/A
Part-time	/	**0**	N/A
Employee turnover Note 5	%	**21**	22
Safety			
Number of work-related fatalities	/	**0**	0
Rate of work-related fatalities	/	**0**	0
Number of lost days due to work injury	/	**526**	527

Social KPIs	Unit	FY2020	FY2019
Development and Training			
Percentage of employees trained [Note 6]			
Overall	%	**100**	65
By gender			
Female	%	**100**	44
Male	%	**100**	70
By employee category			
Senior management	%	**100**	82
Middle management	%	**100**	99
General Staff	%	**100**	60
Average training hours completed per employee [Note 7]			
Overall	hours/employee	**28**	29
By gender			
Female	hours/employee	**24**	26
Male	hours/employee	**29**	30
By employee category			
Senior management	hours/employee	**6**	18
Middle management	hours/employee	**27**	32
General Staff	hours/employee	**29**	29

Note 4: Social KPIs only cover the four entities: Hangzhou Good Friend Precision Machinery Precision Co., Ltd., Hangzhou Global Friend Precision Machinery Co., Ltd., Hangzhou Ever Friend Precision Machinery Co., Ltd. and Hangzhou Glory Friend Machinery Technology Co., Ltd. Therefore, variances may exist compared to figures presented in other sections of our Annual Report 2020.

Note 5: Employee turnover rate is calculated as the total number of employees who left employment divided by the sum of the total number of employees who left employment and the total number of employees as at 31 December 2020.

Note 6: Percentage of employees trained is calculated as the total number of employees trained divided by the total number of employees.

Note 7: Average training hours completed per employee is calculated as the total number of training hours divided by the total number of employees.

APPENDIX I – INDEX OF ESG GUIDE

Aspect	Description	Sections/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; Air emission management; Waste management; Water resource management
A1.1	The types of emissions and respective emissions data	Air emission management
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Resource management
A1.3	Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Waste management
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Waste management
A1.5	Description of measures to mitigate emissions and results achieved	Resource management; Air emission 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	Sections/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 A3: The environment and natural resources		
General disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Resource management; Air emission 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; Air emission management; Waste management; Water resource management

Aspect	Description	Sections/Remarks
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, antidiscrimination, and other benefits and welfare	Employee
B1.1	Total workforce by gender, employment type, age group and geographical region	ESG data overview
B1.2	Employee turnover rate by gender, age group and geographical region	ESG data overview (Remark: Only total employee turnover rate is disclosed.)
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	ESG data overview
B2.2	Lost days due to work injury	ESG data overview
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Safety and health
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)	ESG data overview
B3.2	The average training hours completed per employee by gender and employee category	ESG data overview

Aspect	Description	Sections/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 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	Customer service
B6.3	Description of practices relating to observing and protecting intellectual property rights	Quality assurance
B6.4	Description of quality assurance process and recall procedures	Quality assurance
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Customer service

Aspect	Description	Sections/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 whistleblowing 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)	Boost of economic growth; Community dedication; Education development
B8.2	Resources contributed (e.g. money or time) to the focus area	Boost of economic growth; Community dedication; Education development

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 161, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Impairment assessment of trade receivables and contract assets

2. Impairment assessment of inventories

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
1. Impairment assessment of trade receivables and contract assets	
Refer to note 20A, 20B and 37(d) to the consolidated financial statements. As at 31 December 2020, the carrying amount (net of impairment) of trade receivables and contract assets amounted to approximately RMB181,041,000. The impairment assessment of trade receivables and contract assets involves judgement and management estimates in evaluating the expected credit loss ("ECL") of the Group's trade receivables and contract assets at the end of the reporting period. 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. The Group recognised net impairment of trade receivables and contract assets totalling RMB12,985,000 during the year ended 31 December 2020. The Group's lifetime ECL on trade receivables and contract assets as at 31 December 2020 amounted to RMB39,846,000.	Our procedures in relation to the loss allowance for ECL on trade receivable 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 creditworthiness of the counterparties; • Testing the trade receivables' aging report as at 31 December 2020, on a sample basis, by comparing individual balances in the aging report with the relevant sale agreements, sales invoices and other supporting documents; and • 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 2020, including their identification and evaluation of individually assessed trade receivables and contract assets, the reasonableness of the management of the Group's grouping of trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information).

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

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Impairment assessment of inventories	
Refer to note 5(b) as stated in key sources of estimation uncertainty and 23 to the consolidated financial statements. As at 31 December 2020, the carrying amount (net of impairment) of inventories amounted to approximately RMB431,164,000. The cost of inventories of the Group mainly comprises raw materials, direct labour, other direct costs and related production overheads. Given the relatively long production cycles and the unpredictability of the fluctuations of raw material prices, the inventories are exposed to the risk of being carried in excess of net realisable value. In assessing the net realisable value and making appropriate allowances to inventories, the management estimates impairment of inventories by identifying inventories that are slow moving or obsolete, and consider the inventories' physical conditions, age, market conditions, market prices for similar items, costs of completion and costs necessary to make the sale. The Group recognised impairment of inventories of RMB12,565,000 during the year ended 31 December 2020. The aggregate impairment of inventories as at 31 December 2020 amounted to RMB34,830,000.	Our procedures in relation to the impairment assessment of inventories included: • Obtaining an understanding of the management of the Group's key controls over the impairment assessment of inventories; • Attending the inventory count performed by the management of the Group to evaluate whether obsolete inventories are properly identified with which the impairment assessment is based; • Testing the inventories aging report, on a sample basis, with reference to the procurement and/or production records; • Evaluating the reasonableness of impairment on inventories with reference to the aging report and subsequent movement of the inventories; • Comparing the carrying amount of inventories on hand to the latest selling prices and/or net realisable value on a sample basis; and • Evaluating the adequacy of impairment provision on inventories with reference to the information obtained above.

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

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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' 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 the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

RSM Hong Kong
Certified Public Accountants
Hong Kong

14 May 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	NOTE	2020 RMB'000	2019 RMB'000
Revenue	6A	**875,318**	910,695
Cost of revenue	6B	**(678,847)**	(701,597)
Gross profit		**196,471**	209,098
Other income	7A	**56,941**	157,038
Distribution and selling expenses		**(94,852)**	(121,928)
Administrative expenses		**(57,485)**	(71,562)
Research and development costs		**(27,750)**	(29,086)
(Impairment loss)/reversal of impairment loss on trade receivables and contract assets		**(12,985)**	3,009
Other gains and losses	7B	**36,509**	(7,547)
Other expenses	7C	**(22,741)**	(22,805)
Other operating expenses		**(1,398)**	(1,297)
Finance costs	10	**(18,635)**	(24,744)
Share of profit of joint ventures	18	**615**	1,141
Share of loss of associates	19	**(287,061)**	(57,089)
(Loss)/profit before tax	8	**(232,371)**	34,228
Income tax expense	11	**(15,848)**	(22,069)
(Loss)/profit attributable to owners of the Company		**(248,219)**	12,159
Other comprehensive income:			
Item that may be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		**12,490**	(4,790)
Net fair value (loss)/gain on receivables at fair value through other comprehensive income ("FVTOCI")		**(154)**	246
Share of other comprehensive income of associates	19	**(25,588)**	12,637
		(13,252)	8,093
Item that will not be reclassified to profit or loss:			
Share of other comprehensive income of associates	19	**(4,139)**	(28,080)
Other comprehensive income for the year attributable to owners of the Company, net of tax		**(17,391)**	(19,987)
Total comprehensive income attributable to owners of the Company		**(265,610)**	(7,828)
(Loss)/earnings per share (expressed in RMB per share)	12		
– Basic		**(0.62)**	0.03
– Diluted		**N/A**	N/A
Dividends	13	**–**	–

Consolidated Statement of Financial Position

	NOTE	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	14	**204,098**	218,344
Right-of-use assets	15	**122,251**	124,371
Intangible assets	16	**1,047**	1,407
Investments in joint ventures	18	**22,261**	21,646
Investments in associates	19	**88,274**	392,326
Deferred tax assets	31	**28,551**	27,991
		466,482	786,085
Current assets			
Inventories	23	**431,164**	493,053
Trade and other receivables and prepayments	20A	**166,688**	227,096
Contract assets	20B	**52,653**	44,399
Loans receivable	21	**49,691**	48,394
Receivables at FVTOCI	22	**120,105**	101,945
Amount due from ultimate holding company	39	**1,008**	–
Amount due from immediate holding company	39	**8**	–
Amounts due from a related company, fellow subsidiaries and an associate of ultimate holding company	39	**28,087**	6,248
Amounts due from joint ventures	39	**644**	512
Amounts due from associates and subsidiaries of an associate	39	**370,849**	235,155
Restricted bank balances	24	**139,426**	106,333
Bank and cash balances	25	**104,014**	74,860
		1,464,337	1,337,995

	NOTE	2020 RMB'000	2019 RMB'000
Current liabilities			
Trade and other payables and accrued expenses	27	**471,137**	389,300
Contract liabilities	28	**260,711**	300,336
Deferred income	32	**1,410**	1,410
Amount due to ultimate holding company	39	**1,503**	157
Amount due to immediate holding company	39	**15,627**	815
Amounts due to fellow subsidiaries	39	**2,005**	2,457
Amounts due to joint ventures	39	**517**	380
Amount due to an associate	39	**24,111**	23,481
Lease liabilities	33	**2,623**	2,486
Provision for litigation claim	35	**36,335**	60,117
Refund liabilities	35	**106,211**	100,903
Current tax liabilities		**25,272**	17,445
Bank and other borrowings	30	**423,814**	400,071
Warranty provision	29	**3,409**	4,019
		1,374,685	1,303,377
Net current assets		**89,652**	34,618
Total assets less current liabilities		**556,134**	820,703
Non-current liabilities			
Bank and other borrowings	30	**38,506**	36,760
Deferred income	32	**72,270**	73,680
Lease liabilities	33	**2,489**	1,784
		113,265	112,224
Net Assets		**442,869**	708,479
Capital and reserves			
Share capital	26	**4,021**	4,021
Share premium		**82,183**	82,183
Capital reserves		**77,338**	77,338
Other reserves		**53,202**	66,454
Retained earnings		**226,125**	478,483
Total Equity		**442,869**	708,479

Approved by the Board of Directors on 14 May 2021 and are signed on its behalf by:

CHU Chih-Yaung	**WEN Chi-Tang**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

	Share capital	Share premium (note a)	Capital reserves (note b)	Other reserves (note c)	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	4,022	82,281	77,338	58,361	494,404	716,406
Total comprehensive income for the year	–	–	–	8,093	(15,921)	(7,828)
Share repurchased and cancelled (note 26)	(1)	(98)	–	–	–	(99)
At 31 December 2019 and 1 January 2020	4,021	82,183	77,338	66,454	478,483	708,479
Total comprehensive income for the year	–	–	–	(13,252)	(252,358)	(265,610)
At 31 December 2020	4,021	82,183	77,338	53,202	226,125	442,869

Notes:

a. **Share premium**

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

b. **Capital reserves**

Capital reserves represent 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 reorganization of the Group prior to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

c. **Other reserves**

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

Statutory reserves include statutory surplus reserve and discretionary surplus reserve.

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

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

Consolidated Statement of Cash Flows

	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	**(232,371)**	34,228
Adjustments for:		
Amortisation of intangible assets	**570**	824
Depreciation of property, plant and equipment	**9,460**	9,006
Depreciation of right-of-use assets	**6,424**	5,602
Impairment of inventories	**12,565**	667
Interest expenses	**18,635**	24,744
Interest income	**(3,356)**	(3,842)
Loss on disposal of property, plant and equipment	**622**	416
Reversal of provision for litigation claim	**(23,782)**	–
Provision for refund liabilities	**5,308**	–
Impairment loss/(reversal of impairment loss) on trade receivables and contract assets	**12,985**	(3,009)
Share of loss of associates	**287,061**	57,089
Share of profit of joint ventures	**(615)**	(1,141)
Inventories written off	**870**	1,162
Trade receivables written off	**12,954**	4,337
Unrealised net exchange (gain)/loss	**(8,740)**	5,776
Warranty expenses	**3,549**	2,985
COVID-19 related rent concessions received	**(55)**	–
	334,455	104,616

Consolidated Statement of Cash Flows

	2020 RMB'000	2019 RMB'000
Operating profit before working capital charges	**102,084**	138,844
Decrease in inventories	**56,142**	39,580
Decrease in trade and other receivables and prepayments	**34,250**	117,375
(Increase)/decrease in contract assets	**(8,035)**	2,339
(Increase)/decrease in receivables at FVTOCI	**(18,332)**	4,723
Increase in restricted bank balances	**(33,093)**	(36,346)
Increase in amount due from ultimate holding company	**(1,008)**	–
Increase in amount due from immediate holding company	**(8)**	–
Increase in amounts due from a related company, fellow subsidiaries and an associate of ultimate holding company	**(21,839)**	(6,225)
Increase in amounts due from joint ventures	**(132)**	(51)
Increase in amounts due from associates and subsidiaries of an associate	**(135,694)**	(84,096)
Increase in trade and other payables and accrued expenses	**81,837**	146,331
Decrease in contract liabilities	**(39,625)**	(58,415)
Increase/(decrease) in amount due to ultimate holding company	**1,346**	(141,160)
Increase/(decrease) in amount due to immediate holding company	**14,812**	(2,017)
Decrease in amounts due to fellow subsidiaries	**(452)**	(1,180)
Increase in amounts due to joint ventures	**137**	18
Increase/(decrease) in amount due to an associate	**630**	(4,954)
Decrease in warranty provision	**(4,159)**	(4,277)
Decrease in deferred income	**(1,410)**	(3,749)
Cash generated from operations	**27,451**	106,740
Income tax and withholding tax paid	**(8,563)**	(27,096)
Interest on lease liabilities	**(270)**	(171)
Net cash generated from operating activities	**18,618**	79,473

	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan to a non-controlling shareholder of a subsidiary of an associate of the Group	**(1,297)**	(12,767)
Acquisition of property, plant and equipment	**(1,995)**	(31,571)
Proceeds from disposal of property, plant and equipment	**217**	472
Purchase of intangible assets	**(210)**	(16)
Interest received	**3,356**	3,842
Withdrawal of financial assets at fair value through profit or loss ("FVTPL")	**9,610**	217,655
Purchases of financial assets at FVTPL	**(9,610)**	(109,635)
Net cash generated from investing activities	**71**	67,980
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	**2,694,968**	3,708,993
Repayments of bank borrowings	**(2,662,485)**	(3,877,937)
Government grant received	**–**	8,647
Principal elements of lease payments	**(3,407)**	(2,651)
Repurchase of shares	**–**	(99)
Interest paid	**(18,365)**	(24,573)
Net cash generated from/(used in) financing activities	**10,711**	(187,620)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**29,400**	(40,167)
Effect of foreign exchange rate changes	**(246)**	2,354
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**74,860**	112,673
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**104,014**	74,860
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**104,014**	74,860

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Good Friend International Holdings Inc. (the "Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Room 2003, 20th Floor, Kai Tak Commercial Building, 317-319 Des Vouex Road Central, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange. In addition, 67,200,000 units of Taiwan depositary receipts, representing 67,200,000 newly issued shares of the Company, were issued and listed on the Taiwan Stock Exchange Corporation on 18 March 2010. In the opinion of the directors of the Company, Good Friend (H.K.) Corporation Limited ("Hong Kong GF"), a company incorporated in Hong Kong, and Fair Friend Enterprise Company Limited ("Fair Friend"), a company incorporated in Taiwan, are the immediate holding company and the ultimate holding company, respectively.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements.

2. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendments to HKFRS 16, COVID-19 Related Rent Concessions.

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments had no impact on the consolidated financial statements.

Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020. The application of the amendments had no impact on the consolidated financial statements.

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

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform

The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform.

The amendments had no impact on the consolidated financial statements of the Group.

Amendment to HKFRS 16, COVID-19 Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19 Related Rent Concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19 Related Rent Concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 15). There is no impact on the opening balance of equity at 1 January 2020.

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

Other than the amendments to HKFRS 16, COVID-19 Related Rent Concessions, the Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

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

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

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018 – 2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current	1 January 2023

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(a) Consolidation

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Associates

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

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill, which is included in 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 acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate 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 is not allocated to any asset, including goodwill, that 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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Associates *(Continued)*

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

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

(c) Joint arrangements

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

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

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill, which is included in 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 acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in 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 is not allocated to any asset, including goodwill, that 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Joint arrangements *(Continued)*

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

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

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

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

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

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

(iii) Translation on consolidation

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

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

(f) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leases *(Continued)*

(i) The Group as a lessee

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leases *(Continued)*

(i) The Group as a lessee (Continued)

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

(ii) The Group as a lessor

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

(g) Intangible assets

(i) Research and development expenditure

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

(ii) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is calculated 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 accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets *(Continued)*

(ii) Intangible assets acquired separately (Continued)

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

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

(h) Impairment on non-financial assets

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

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

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

(i) Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Contract assets and contract liabilities

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

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

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

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

(k) Recognition and derecognition of financial instruments

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Financial assets

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

Debt investments

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

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

– FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(m) Trade and other receivables

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

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

(n) Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Borrowings

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

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

(p) Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

(q) Financial guarantee contracts

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

– the amount determined in accordance with the ECL model under HKFRS 9; and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Financial guarantee contracts *(Continued)*

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

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

(r) Trade and other payables

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

(s) Warranties

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("HKAS 37") 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.

(t) Revenue and other income

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue and other income *(Continued)*

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 sends 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 sends the forklift trucks to customer's designated site. If customers are satisfied with the parking garage structures installed and sign for receipt of machine tools and forklift trucks, they will issue an acceptance certificate to the Group. The Group normally provides a warranty period of 1 to 2 years after the installation of parking garage structures and the issuance of the final acceptance certificate. The Group generally allows a credit period of 30 to 180 days to its customers.

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

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

(u) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits schemes

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Employee benefits *(Continued)*

(ii) Retirement benefits schemes (Continued)

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

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

(iii) Termination benefits

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

(v) Borrowing costs

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

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

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

(w) Government grants

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Government grants *(Continued)*

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

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

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

(x) Taxation

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Taxation *(Continued)*

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

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

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

(y) Impairment of financial assets and contracts assets

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

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

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

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

Significant increase in credit risk

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Significant increase in credit risk (Continued)

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

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(i) the financial instrument has a low risk of default,

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Significant increase in credit risk (Continued)

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

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

Definition of default

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

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Credit-impaired financial assets

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

– significant financial difficulty of the issuer or the counterparty;

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

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

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

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

Measurement and recognition of ECL

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Measurement and recognition of ECL (Continued)

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

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

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

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

(z) Provisions and contingent liabilities

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

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

(aa) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

(a) Revenue recognition

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

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

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

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

(b) Significant increase in credit risk

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

(c) Significant influence assessment

Although the Group owns more than 50% of the equity interest in FFG European and American Holdings GmbH ("FFG EA"), FFG EA is treated as an associate because according to the shareholders' agreement, each of the three shareholders are entitled to one member vote of the shareholders' committee. The directors have determined that the Group is only able to exercise significant influence over FFG EA (note 19).

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

Critical judgements in applying accounting policies *(Continued)*

(d) Joint control assessment

In relation to the Group's investments in joint ventures, the directors have determined that the Group has joint control over the arrangement as under the contractual agreement, it appears that unanimous consent is required from all parties to the agreement for all relevant activities (note 18).

Key sources of estimation uncertainty

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

(a) Impairment of property, plant and equipment and right-of-use assets

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

As at 31 December 2020, the carrying amount of property, plant and equipment and right-of-use assets amounted to RMB204,098,000 (2019: RMB218,344,000) and RMB122,251,000 (2019: RMB124,371,000) respectively. No impairment loss is recognised for the years ended 31 December 2020 and 2019.

(b) 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 2020, the carrying amount of the Group's inventories amounted to RMB431,164,000 (net of impairment of inventories of RMB34,830,000) (2019: RMB493,053,000 (net of impairment of inventories of RMB23,135,000)).

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

Key sources of estimation uncertainty *(Continued)*

(c) Warranty provision

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

As at 31 December 2020, the carrying amount of the Group's warranty provision amounted to RMB3,409,000 (2019: RMB4,019,000).

(d) Impairment of financial assets and contract assets

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

The management of the Group estimates the amount of loss allowance for ECL on trade and other receivables, contract assets, loans receivable, restricted bank balances, amounts due from joint ventures, a related company, fellow subsidiaries, an associate 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.

(e) Impairment of investments in associates and joint ventures

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

6A. REVENUE

Disaggregation of revenue

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

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Machine tools	**696,106**	739,056
– Parking garage structures	**157,214**	107,345
– Forklift trucks	**21,998**	64,294
	875,318	910,695

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

6B. SEGMENT INFORMATION

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

The Executive Directors consider that the Group has three operating and reportable segments: (1) machine tools; (2) parking garage structures; and (3) forklift trucks. No operating segments have been aggregated in arriving at the reportable segments of the Group.

6B. SEGMENT INFORMATION *(Continued)*

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

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

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
For the year ended 31 December 2020				
Revenue (from external customers)	696,106	157,214	21,998	875,318
Cost of revenue	(527,615)	(126,991)	(24,241)	(678,847)
Segment profit/(loss)	168,491	30,223	(2,243)	196,471
Share of profit of joint ventures				615
Share of loss of associates				(287,061)
Unallocated amounts:				
Other income				56,941
Distribution and selling expenses				(94,852)
Administrative expenses				(57,485)
Research and development costs				(27,750)
Impairment loss on trade receivables and contract assets				(12,985)
Other gains and losses				36,509
Other expenses				(22,741)
Other operating expenses				(1,398)
Finance costs				(18,635)
Loss before tax				(232,371)

6B. 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 2019				
Revenue (from external customers)	739,056	107,345	64,294	910,695
Cost of revenue	(549,878)	(88,079)	(63,640)	(701,597)
Segment profit	189,178	19,266	654	209,098
Share of profit of joint ventures				1,141
Share of loss of associates				(57,089)
Unallocated amounts:				
Other income				157,038
Distribution and selling expenses				(121,928)
Administrative expenses				(71,562)
Research and development costs				(29,086)
Reversal of impairment loss on trade receivables and contract assets				3,009
Other gains and losses				(7,547)
Other expenses				(22,805)
Other operating expenses				(1,297)
Finance costs				(24,744)
Profit before tax				34,228

For the years ended 31 December 2019 and 2020, 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.

7A. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Compensation income from an associate, FFG Werke GmbH ("FFG Werke") (note a)	–	72,667
Sale of scrap materials	23,550	31,118
Consultancy income	2,795	4,301
Government grants and subsidies related to income (note b)	9,069	19,890
Repair income	13,922	16,265
Rental income	593	1,261
Interest income	3,356	3,842
Others	3,656	7,694
	56,941	157,038

Notes:

(a) Compensation income represents the compensation from FFG Werke, an associate of the Group and the supplier of the corresponding CNC machine tools products, to the Group in respect of the litigation claim raised by a customer to the Group's subsidiaries as disclosed in note 35(a).

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

7B. OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Reversal of provision for litigation claim (note 35(a))	23,782	–
Loss on disposal of property, plant and equipment	(622)	(416)
Net foreign exchange gain/(loss)	13,349	(7,131)
	36,509	(7,547)

7C. OTHER EXPENSES

	2020 RMB'000	2019 RMB'000
Provision for refund liabilities	5,308	–
Cost of scrap materials sold	17,433	22,805
	22,741	22,805

8. (LOSS)/PROFIT BEFORE TAX

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

	2020 RMB'000	2019 RMB'000
Directors' remuneration	**1,876**	1,721
Other staff costs	**133,409**	146,751
Other staff's retirement benefits scheme contributions	**475**	5,543
Total staff costs	**135,760**	154,015
Capitalised in inventories	**(43,616)**	(52,685)
	92,144	101,330
Depreciation of property, plant and equipment	**17,148**	18,716
Depreciation on right-of-use assets	**6,424**	5,602
Amortisation of intangible assets	**570**	824
Total depreciation and amortisation	**24,142**	25,142
Capitalised in inventories	**(7,688)**	(9,710)
	16,454	15,432
Auditors' remuneration	**1,937**	1,893
Cost of inventories sold	**675,299**	695,986
Impairment of inventories	**12,565**	667
Loss on disposals of property, plant and equipment	**622**	416
Impairment loss/(reversal of impairment loss) on trade receivables and contract assets	**12,985**	(3,009)
Provision for warranty, net	**3,549**	2,985
Inventories written off	**870**	1,162
Trade receivables written off	**12,954**	4,337
Direct operating expenses incurred for rental income	**159**	469

9. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

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

(i) Executive directors

	Chu Chih Yaung RMB'000	Chen Min-Ho RMB'000	Wen Chi-Tang RMB'000	Chiu Rung-Hsien* RMB'000	Total RMB'000
Year ended 31 December 2020					
Fees	–	–	144	45	189
Salaries and other benefits	–	–	–	–	–
Retirement benefit scheme contribution	–	–	–	–	–
Discretionary performance related bonus	1,332	–	–	–	1,332
Total	1,332	–	144	45	1,521
Year ended 31 December 2019					
Fees	–	–	144	144	288
Salaries and other benefits	–	–	–	–	–
Retirement benefit scheme contribution	–	–	–	–	–
Discretionary performance related bonus	1,075	–	–	–	1,075
Total	1,075	–	144	144	1,363

* Resigned on 31 July 2020

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

(a) Directors' emoluments *(Continued)*

(ii) Independent non-executive directors

	Koo Fook Sun, Louis RMB'000	Chiang Chun-Te* RMB'000	Yu Yu-Tang RMB'000	Kao Wen-Cheng# RMB'000	Total RMB'000
Year ended 31 December 2020					
Fees	177	–	89	89	355
Year ended 31 December 2019					
Fees	178	90	90	–	358

* Resigned on 10 January 2020

\# Appointed on 10 January 2020

The Executive Directors' emoluments shown above were mainly for their services as directors 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 is determined by factors including their time commitment, responsibilities, performance, experiences, and the overall performance of the Group.

(iii) Save as these set out in note 39, no significant transactions arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2019: one) was director of the Company. The emoluments of the remaining four (2019: four) highest paid employees of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and allowances	**2,506**	5,204
Discretionary performance related bonus	**3,302**	4,045
Retirement benefit scheme contribution	**159**	93
	5,967	9,342

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

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

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

	Number of individuals	
	2020	2019
Nil to RMB2,000,000	**4**	2
RMB2,000,001 to RMB5,000,000	**0**	2

During the year, no emoluments were paid by the Group to any of the directors 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 of the Company waived any emoluments during the year (2019: Nil).

10. FINANCE COSTS

	2020 **RMB'000**	2019 RMB'000
Interest expenses on:		
– Bank borrowings	**18,365**	24,573
– Other borrowings	**1,746**	1,667
– Lease liabilities (note 15)	**270**	171
Total borrowing costs	**20,381**	26,411
Less: amounts capitalised in the cost of qualifying assets	**(1,746)**	(1,667)
	18,635	24,744

Borrowing costs on other borrowings capitalised during the year are calculated by applying a capitalisation rate of 4.75% per annum (2019: 4.75%).

11. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current Tax – PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**14,954**	26,748
– Under/(over) provision in prior years	**1,454**	(4,208)
	16,408	22,540
Deferred tax (note 31)	**(560)**	(471)
	15,848	22,069

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

EIT is provided at 25% (2019: 25%) for subsidiaries in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). Hangzhou Good Friend has been approved by the relevant government authorities and recognised as a new and high-tech enterprise. As such, Hangzhou Good Friend is entitled to a reduced tax rate of 15% for a three-year period commencing from 2018. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2020 is 15% (2019: 15%).

According to Detailed Implementation Regulations for implementation of the EIT law of the PRC issued on 6 December 2007, dividends paid out by companies established in the PRC to their then foreign investors is subject to 10% withholding tax from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%. No dividend was declared and paid by Hangzhou Good Friend during the year (2019: RMB281,653,000).

For the year ended 31 December 2020, the directors of the Company have assessed that no dividends will be declared by any of the PRC subsidiaries in the foreseeable future so it is concluded that no withholding tax shall be accrued on the undistributed retained earnings of the PRC subsidiaries as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences would not be reversed in foreseeable future.

11. INCOME TAX EXPENSE *(Continued)*

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

	2020 **RMB'000**	2019 RMB'000
(Loss)/profit before tax	**(232,371)**	34,228
Add: Share of profit of joint ventures and loss of associates	**286,446**	55,948
	54,075	90,176
Tax calculated at tax rates applicable to the principal operating entity of the Group (15%)	**8,111**	13,526
Tax effect of:		
Income not taxable for tax purpose	**(4,818)**	(12,682)
Expenses not deductible for tax purpose	**7,929**	7,586
Tax losses for which no deferred income tax asset was recognised	**8,251**	11,628
Deductible temporary differences not recognised	**(1,290)**	(4,404)
Different tax rates of subsidiaries	**(2,722)**	766
Tax concession granted to Hangzhou Good Friend	**(1,067)**	(4,226)
PRC dividend withholding tax	**–**	14,083
Under/(over) provision in prior years	**1,454**	(4,208)
Income tax expense	**15,848**	22,069

12. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the loss attributable to owners of the Company amounted to RMB248,219,000 (2019: profit attributable to owners of the Company: RMB12,159,000) by the weighted average number of ordinary shares of 403,074,000 (2019: 403,145,000) shares in issue during the year.

	2020	2019
Basic (loss)/earnings per share (RMB per share)	**(0.62)**	0.03

Diluted (loss)/earnings per share

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

13. DIVIDENDS

No dividends was proposed for ordinary shareholders of the Company for the year ended 31 December 2020 (2019: RMB Nil).

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 2019	205,494	170,017	31,847	20,119	46,849	474,326
Additions	720	810	687	2,247	28,774	33,238
Transfers	5,277	–	–	–	(5,277)	–
Disposals	–	(1,056)	(2,030)	(3,032)	(2)	(6,120)
At 31 December 2019 and 1 January 2020	211,491	169,771	30,504	19,334	70,344	501,444
Additions	–	187	1,138	670	1,746	3,741
Disposals	–	(952)	(1,213)	(3,240)	–	(5,405)
At 31 December 2020	211,491	169,006	30,429	16,764	72,090	499,780
Accumulated depreciation and impairment						
At 1 January 2019	95,300	132,042	25,043	17,231	–	269,616
Provided for the year	8,794	8,129	677	1,116	–	18,716
Disposals	–	(918)	(1,806)	(2,508)	–	(5,232)
At 31 December 2019 and 1 January 2020	104,094	139,253	23,914	15,839	–	283,100
Provided for the year	6,473	9,008	801	866	–	17,148
Disposals	–	(874)	(1,138)	(2,554)	–	(4,566)
At 31 December 2020	110,567	147,387	23,577	14,151	–	295,682
Carrying values						
At 31 December 2020	100,924	21,619	6,852	2,613	72,090	204,098
At 31 December 2019	107,397	30,518	6,590	3,495	70,344	218,344

15. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
At 1 January 2019	123,052	3,322	126,374
Additions	–	3,599	3,599
Depreciation	(2,905)	(2,697)	(5,602)
At 31 December 2019 and 1 January 2020	120,147	4,224	124,371
Additions	–	4,304	4,304
Depreciation	(2,905)	(3,519)	(6,424)
At 31 December 2020	117,242	5,009	122,251

The Group has pledged its leasehold lands with carrying amounts of approximately RMB80,631,000 (2019: RMB82,484,000) as at 31 December 2020 to secure the other borrowings to the Group as disclosed in note 41.

Lease liabilities of RMB5,112,000 (2019: RMB4,270,000) are recognised with related right-of-use assets of RMB5,009,000 (2019: RMB4,224,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2020 RMB'000	2019 RMB'000
Depreciation expenses on right-of-use assets	**6,424**	5,602
Interest expense on lease liabilities (included in finance costs)	**270**	171
Expenses relating to short-term lease (included in cost of goods sold, distribution and selling expenses, administrative expenses and research and development costs)	**1,653**	4,135
COVID-19 related rent concessions received	**55**	–

Details of total cash outflow for leases is set out in note 34.

15. RIGHT-OF-USE ASSETS *(Continued)*

As disclosed in note 3, the Group has early adopted the Amendments to HKFRS 16: COVID-19 Related Rent Concessions, and applied the practical expedient introduced by the Amendments to all eligible rent concessions received by the Group during the period. Further details are disclosed below.

For both years, the Group leases various offices, residence and warehouses for its operations. Lease contracts are entered into for fixed term of 1 year to 5 years (2019: 1 year to 5 years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and certain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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

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

	Lease liabilities recognised (discounted)		**Potential future lease payments under extension options not included in lease liabilities (undiscounted)**	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Offices, residence and warehouses located in PRC	**5,112**	4,270	**5,381**	4,537

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2020, there has been no such triggering event.

16. INTANGIBLE ASSETS

	Softwares
	RMB'000
Cost	
At 1 January 2019	15,921
Additions	16
At 31 December 2019 and 1 January 2020	15,937
Additions	210
At 31 December 2020	16,147
Accumulated amortisation	
At 1 January 2019	13,706
Charge for the year	824
At 31 December 2019 and 1 January 2020	14,530
Charge for the year	570
At 31 December 2020	15,100
Carrying values	
At 31 December 2020	1,047
At 31 December 2019	1,407

17. DETAILS OF SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2020 and 2019:

Name	Place of incorporation/ registration and operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held	
				2020	2019
Directly held subsidiaries					
Winning Steps Ltd.	British Virgin Island (BVI)	Investment holding	Ordinary shares United States dollars (USD)110	**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 Hong Kong dollars (HKD) 1,000	**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%

17. DETAILS OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Principal activities	Issued and fully paid-up share capital/ registered capital	Interest held 2020	Interest held 2019
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 structures	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. (Fair Friend Henan)	PRC*	Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structures	Registered Capital USD30,000,000	**100%**	100%

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

* These subsidiaries are PRC limited liability companies.

18. INVESTMENTS IN JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Cost of unlisted investments in joint ventures	**27,666**	27,666
Share of post-acquisition losses	**(5,405)**	(6,020)
	22,261	21,646

Details of the Group's joint ventures at 31 December 2020 and 2019 are as follows:

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

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

18. INVESTMENTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint venture

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

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

AIF

At 31 December:	**2020** **RMB'000**	2019 RMB'000
Current assets	**54,242**	50,180
Non-current assets	**23,588**	26,220
Current liabilities	**(22,714)**	(21,905)
Non-current liabilities	**(6,533)**	(7,016)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**9,569**	7,497
Current financial liabilities (excluding trade and other payables and provisions)	**(7,084)**	(7,220)

Year ended 31 December:	**2020** **RMB'000**	2019 RMB'000
Revenue	**72,857**	89,674
Profit and total comprehensive income for the year	**1,104**	1,172

18. INVESTMENTS IN JOINT VENTURES *(Continued)*

Summarised financial information of material joint venture *(Continued)*

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

Year ended 31 December:	**2020**	2019
	RMB'000	RMB'000
Depreciation and amortisation	**3,272**	3,226
Interest income	**(14)**	(15)
Interest expense	**253**	–
Income tax expense	**–**	–

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

At 31 December:	**2020**	2019
	RMB'000	RMB'000
Net assets of AIF	**48,583**	47,479
Proportion of the Group's ownership interest in AIF	**35%**	35%
Carrying amount of the Group's interest in AIF	**17,005**	16,618

Aggregate information of joint ventures that are not individually material

Year ended 31 December:	**2020**	2019
	RMB'000	RMB'000
The Group's share of profit and total comprehensive income for the year	**228**	731

At 31 December:	**2020**	2019
	RMB'000	RMB'000
Aggregate carrying amount of the Group's interests of these joint ventures	**5,256**	5,028

19. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Cost of unlisted investments in associates	**556,380**	556,380
Share of post-acquisition losses and other comprehensive income	**(508,637)**	(191,849)
Exchange difference arising on translation of foreign operations	**40,531**	27,795
	88,274	392,326

Details of the Group's associates at 31 December 2020 and 2019 are as follows:

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

19. INVESTMENTS IN ASSOCIATES *(Continued)*

FFG Europe

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

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

FFG Werke

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

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

FFG EA

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

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

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

19. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised statement of financial position of material associate

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

At 31 December:	FFG EA	
	2020	2019
	RMB'000	RMB'000
Cash	**173,268**	147,374
Other current assets	**1,386,527**	1,872,112
Total current assets	**1,559,795**	2,019,486
Short term bank borrowings	**(518,629)**	(172,776)
Other financial liabilities	**(1,326,897)**	(1,459,488)
Total current liabilities	**(1,845,526)**	(1,632,264)
Non-current assets	**1,671,708**	1,737,392
Non-current liabilities	**(1,048,054)**	(1,178,404)
Net assets	**337,923**	946,210
Less: non-controlling interests	**229,439**	464,060
Net assets attributed to the owners of the associate	**108,484**	482,150
Group's share of net assets	**88,274**	392,326

19. INVESTMENTS IN ASSOCIATES *(Continued)*

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

Year ended 31 December:	FFG EA	
	2020	2019
	RMB'000	RMB'000
Revenue	**2,066,866**	3,349,477
Cost of revenue	**(2,054,626)**	(2,882,198)
Other expenses	**(564,581)**	(553,955)
Loss before tax	**(552,341)**	(86,676)
Income tax credit	**750**	12,825
Loss for the year	**(551,591)**	(73,851)
Less: non-controlling interest	**(198,806)**	(3,691)
Loss for the year attributable to owners of the associate	**(352,785)**	(70,160)
Other comprehensive income for the year attributable to owners of the associate	**(36,533)**	(18,979)
Total comprehensive income for the year attributable to owners of the associates	**(389,318)**	(89,139)
Group's share of loss of associates	**(287,061)**	(57,089)
Group's share of other comprehensive income of associates	**(29,727)**	(15,443)

The Group has not recognised loss for the year of FFG Europe and FFG Werke in aggregate amounting to RMB28,180,000 (2019: RMB19,064,000). The aggregate accumulated losses not recognised were RMB138,265,000 (2019: RMB110,525,000).

20A. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 **RMB'000**	2019 RMB'000
Trade receivables	**168,234**	225,452
Less: impairment of trade receivables (note 37(d))	**(39,846)**	(39,596)
	128,388	185,856
Prepayments	**11,224**	14,749
Other receivables	**27,076**	26,491
	166,688	227,096

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 RMB15,709,000 (2019: RMB22,696,000) of which the conditions to entitlement of consideration had been reached and became unconditional.

At 31 December 2020 and 2019, the aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2020 **RMB'000**	2019 RMB'000
0 – 30 days	**16,127**	21,541
31 – 60 days	**11,620**	18,300
61 – 90 days	**1,631**	14,376
91 – 180 days	**21,304**	23,947
Over 180 days	**77,706**	107,692
	128,388	185,856

20A. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

	2020 **RMB'000**	2019 RMB'000
USD	**949**	4,766
EUR	**4,613**	9,248

20B. CONTRACT ASSETS

	2020 **RMB'000**	2019 RMB'000
Arising from revenue from:		
– Machine tools	**30,498**	34,041
– Parking garage structures	**22,155**	10,577
	52,653	44,618
Less: impairment on contract assets (note 37(d))	**–**	(219)
	52,653	44,399

The contract assets primarily relate to the Group's right to billing for work completed and not billed because the rights are conditional upon specified payment milestones at the end of each reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when the Group achieved the specific milestones of payments in the corresponding contracts.

The Group classifies these contract assets as current asset because the Group expects to realise them in its normal operating cycle and within one year.

21. LOANS RECEIVABLE

As at 31 December 2020, the Group's loans receivable to a non-controlling shareholder of an associate is unsecured, interest free, repayable on demand. The repayment of the loans receivable is guaranteed for repayment by the ultimate holding company.

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

	2020 **RMB'000**	2019 RMB'000
EUR	**49,691**	48,394

22. RECEIVABLES AT FVTOCI

	2020 **RMB'000**	2019 RMB'000
Bills receivable aged within 1 year presented based on the issue dates of bills receivable	**120,105**	101,945

Bills receivable are denominated in RMB.

23. INVENTORIES

	2020 **RMB'000**	2019 RMB'000
Raw materials	**53,685**	49,401
Work in progress	**189,543**	234,622
Finished goods	**187,936**	209,030
	431,164	493,053

Impairment of inventories of RMB12,565,000 (2019: RMB667,000) has been recognised and included in cost of sales during the year.

24. RESTRICTED BANK BALANCES

	2020 RMB'000	2019 RMB'000
Restricted bank balances arising from		
– Trade finance facilities	**72,585**	43,728
– Litigation claim (note 35)	**66,841**	62,605
	139,426	106,333

Restricted bank balances from trade finance facilities represent the amounts placed in banks as guarantees issued for trade finance facilities granted to the Group as set out in note 41 to the consolidated financial statements.

Breaches in meeting the financial covenants would permit the bank to immediate call for repayment. There have been no breaches in the financial covenants of any borrowings for the years ended 31 December 2019 and 2020.

25. BANK AND CASH BALANCES

Bank balances carry interest at market rates which range from 0.05% to 3% (31 December 2019: 0.01% to 1%) per annum.

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

	2020 RMB'000	2019 RMB'000
USD	**4,917**	11,969
EUR	**13,695**	13,070
Others	**3,327**	6,051

As at 31 December 2020, the bank and cash balances and restricted bank balances of the Group denominated in RMB amounted to RMB221,501,000 (2019: RMB150,103,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Registrations and Administration of Settlement, Sales and Payment of Foreign Exchange Registrations.

26. SHARE CAPITAL

	Number of shares '000	Amount HKD'000	Amount RMB'000
Ordinary share of HKD0.01 each			
Authorised:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**1,000,000**	10,000	10,211
Issued and fully paid:			
At 1 January 2019	**403,200**	4,032	4,022
Share repurchased and cancelled	**(126)**	(1)	(1)
At 31 December 2019, 1 January 2020 and 31 December 2020	**403,074**	4,031	4,021

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the bank borrowings.

The Group receives a report from the share registrars on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2020, over 25% (2019: over 25%) of the shares were in public hands.

27. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2020 RMB'000	2019 RMB'000
Trade payables	**154,431**	162,885
Bills payable	**233,382**	150,144
Other payables	**43,719**	32,152
Accrued expenses	**39,605**	44,119
	471,137	389,300

The following is an aging analysis of trade and bills payables presented based on the invoice date:

	2020 RMB'000	2019 RMB'000
0 – 30 days	**100,386**	54,647
31 – 60 days	**78,736**	47,414
61 – 90 days	**68,407**	45,400
91 – 180 days	**118,333**	73,700
Over 180 days	**21,951**	91,868
	387,813	313,029

The Group normally receives credit terms of 30 to 90 days from its suppliers (2019: 30 to 90 days).

The Group's trade payables denominated in currencies other than the functional currency of the relevant group entities is set out below:

	2020 RMB'000	2019 RMB'000
USD	**4,782**	10,582

28. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Billing in advance of revenue from:		
– Machine tools	**133,357**	87,904
– Parking garage structures	**126,873**	206,512
– Forklift trucks	**481**	5,920
	260,711	300,336

Contract liabilities relating to billing in advance of revenue from machine tools, parking garage structures and forklift trucks are balances due to customers under sales contracts. These arise if billing is made in advance of the Group performance obligation of the sales contracts.

Contract liabilities that are expected to be settled within the Group's normal operating cycle are classified as current liabilities. There were no significant changes in the contract liabilities balances during the reporting period.

Movements in contract liabilities:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	**300,336**	358,751
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	**(160,988)**	(169,415)
Increase in contract liabilities as a result of billing in advance of revenue from:		
– Machine tools	**110,780**	53,936
– Parking garage structures	**10,960**	53,318
– Forklift trucks	**111**	3,746
Other movements	**(488)**	–
Balance at 31 December	**260,711**	300,336

29. WARRANTY PROVISION

	2020 RMB'000	2019 RMB'000
At 1 January	**4,019**	5,311
Additional provision during the year	**3,631**	2,985
Utilisation of provision	**(4,159)**	(4,277)
Unused provision reversed	**(82)**	–
At 31 December	**3,409**	4,019

The warranty provision represents the Group's best estimate of the Group's liability under 1 to 2 years warranty granted to the Group's sale of machine tools, parking garage structures and forklift trucks based on prior experience and industry averages for defective products.

30. BANK AND OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank borrowings – variable interest rates	**423,814**	400,071
Other borrowings – interest free	**38,506**	36,760
	462,320	436,831
Secured	**38,506**	36,760
Unsecured	**423,814**	400,071
	462,320	436,831
Carrying amount repayable*		
Within one year	**423,814**	400,071
Within a period of more than two years but not exceeding five years	**38,506**	36,760
	462,320	436,831

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

The Group's bank borrowings carry interest with reference to Hong Kong Interbank Offered Rate/London Interbank Offered Rate/Taipei Interbank Offered Rate/European Interbank Offered Rate.

30. BANK AND OTHER BORROWINGS *(Continued)*

The Group's other borrowings are interest-free loan of RMB43,522,000 received from the PRC government. The loan is repayable in full in 2023. Using prevailing market interest rate for an equivalent loan of 4.75%, the fair value of the loan at inception is estimated at RMB34,510,000. The difference of RMB9,012,000 between the gross proceeds and the fair value of the other borrowings represents the benefit derived from the interest-free loan and is recognised as deferred income (note 32) and will be recognised in profit or loss on the same basis as depreciation for the related property, plant and equipment.

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

	2020	2019
Effective interest rate	**1.6% to 5.87% per annum**	0.9% to 5.87% per annum

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

	2020 RMB'000	2019 RMB'000
USD	**106,181**	87,367
EUR	**138,292**	42,790
HKD	**91,108**	179,777

Notes:

(a) As at 31 December 2020, 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 RMB123,973,000 (2019: RMB90,691,000).

(b) As at 31 December 2020, the Group's other borrowings of RMB38,506,000 (2019: RMB36,760,000) were secured by right-of-use assets with carrying amounts of approximately RMB80,631,000 (2019: RMB82,484,000).

31. DEFERRED TAX ASSETS

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

	Impairment on trade receivables and contract assets RMB'000	Impairment on inventories RMB'000	Warranty provision RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	4,744	1,195	766	15,295	5,520	27,520
Credit/(charge) to profit or loss	(478)	460	–	1,225	(736)	471
At 31 December 2019 and 1 January 2020	4,266	1,655	766	16,520	4,784	27,991
Credit/(charge) to profit or loss	564	185	(247)	(353)	411	560
At 31 December 2020	4,830	1,840	519	16,167	5,195	28,551

At the end of the reporting period, the Group has unused tax losses of approximately RMB92,974,000 (2019: RMB87,031,000) available for offsetting against future profits that will expire in five years. Others tax losses may be carried forward indefinitely. No deferred tax asset had been recognised due to the unpredictability of future profit streams.

Apart from unutilised tax losses as mentioned above, the Group had other deductible temporary differences of RMB177,068,000 (2019: RMB164,944,000) available to offset against future profits as at 31 December 2020. Deductible temporary differences of RMB144,463,000 (2019: RMB141,677,000) had been recognised in deferred tax assets as at 31 December 2020, while RMB32,605,000 (2019: RMB23,267,000) 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 INCOME

	2020 RMB'000	2019 RMB'000
Assets related government grants	**73,680**	75,090
Analysed as:		
Current liabilities	**1,410**	1,410
Non-current liabilities	**72,270**	73,680
	73,680	75,090

In November 2016 and July 2019, a wholly owned subsidiary of the Company, Fair Friend Henan received certain government subsidies and grants amounting to RMB61,180,000 and RMB8,647,000 respectively for its specified purpose of the usage of land. These grants will be recognised as other income in profit or loss over the lease term of the land.

Furthermore, in April 2018, Fair Friend Henan received an interest-free loan government grant with the benefit amounted to RMB9,012,000 (see note 30 for details). Up to the date of the approval of these consolidated financial statements, the related construction of the plant and equipment are still under construction and thus the deferred income is not yet recognised in profit or loss.

33. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Within one year	**2,800**	2,646	**2,623**	2,486
In the second to fifth years, inclusive	**2,566**	1,876	**2,489**	1,784
	5,366	4,522	**5,112**	4,270
Less: Future finance charges	**(254)**	(252)	**N/A**	N/A
Present value of lease obligations	**5,112**	4,270	**5,112**	4,270
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(2,623)**	(2,486)
Amount due for settlement after 12 months			**2,489**	1,784

The weighted average incremental borrowing rate applied to lease liabilities is 4.58% (2019: 5.35%) per annum.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both the cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2020 RMB'000	Cash flows RMB'000	Foreign exchange translation RMB'000	Interest expenses RMB'000	Amortisation RMB'000	Change in lease liabilities RMB'000	31 December 2020 RMB'000
Bank and other borrowings (note 30)	**436,831**	**14,118**	**(8,740)**	**20,111**	**–**	**–**	**462,320**
Deferred income (note 32)	**75,090**	**–**	**–**	**–**	**(1,410)**	**–**	**73,680**
Lease liabilities (note 33)	**4,270**	**(3,732)**	**–**	**270**	**–**	**4,304**	**5,112**
	516,191	**10,386**	**(8,740)**	**20,381**	**(1,410)**	**4,304**	**541,112**

	1 January 2019 RMB'000	Impact on initial application of HKFRS 16 RMB'000	Restated balance at 1 January 2019 RMB'000	Cash flows RMB'000	Foreign exchange translation RMB'000	Interest expenses RMB'000	Amortisation RMB'000	Change in lease liabilities RMB'000	31 December 2019 RMB'000
Bank and other borrowings (note 30)	598,332	–	598,332	(193,517)	5,776	26,240	–	–	436,831
Deferred income (note 32)	70,192	–	70,192	8,647	–	–	(3,749)	–	75,090
Lease liabilities (note 33)	–	3,322	3,322	(2,822)	–	171	–	3,599	4,270
	668,524	3,322	671,846	(187,692)	5,776	26,411	(3,749)	3,599	516,191

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.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2020 **RMB'000**	2019 RMB'000
Within operating cash flows	**5,385**	6,957

These amounts relate to the following:

	2020 **RMB'000**	2019 RMB'000
Lease rental paid	**1,653**	4,135
Payments for right-of-use assets	**3,732**	2,822
	5,385	6,957

35. PROVISION FOR LITIGATION CLAIM

(a) In September 2015, the Group's subsidiary, Huller Hille, entered into a sales contract with an independent third party (the Customer) to sell 7 sets of high-end CNC machine tools (the Machine Tools) to the Customer, which were originally procured from the 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 rounds 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. In 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 and obtained approval of second-instance. In April 2020, The Province Higher People's Court in Anhui issued the second-instance judgement in favour of 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 RMB195,777,000.

35. PROVISION FOR LITIGATION CLAIM *(Continued)*

(a) *(Continued)*

In May 2020, the Group filed an appeal to the Supreme People's Court. In December 2020, the Supreme People's Court issued the final appeal 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 RMB142,546,000.

After taking into account of the legal opinion of an independent PRC legal counsel and the judgement issued by the Supreme People's Court, the directors of the Company made their best estimation on the amount of refund to the Customer amounted to RMB106,211,000 (2019: 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 RMB36,335,000 (2019: RMB60,117,000) has been provided in the consolidated statement of financial position. A reversal of provision for litigation claim amounted to RMB23,782,000 (2019: Nil) has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020. In March 2021, refund liabilities of RMB106,211,000 and provision for litigation claim of RMB36,335,000 have been settled.

Furthermore, in March 2019, FFG Werke, an associate of the Group and the Group's supplier of the Machine Tool, has agreed to compensate the Group amounted RMB72,667,000 in respect of the litigation cost and claim raised by the Customer (note 7A). Such compensation income is guaranteed by the ultimate holding company and recorded as other income in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

(b) In August 2019, a construction contractor (the "Contractor"), an independent third party, raised to Fair Friend Henan, a wholly owned subsidiary of the Group, that the payment of outstanding balance of a construction project located in Henan should be borne collectively by Fair Friend Henan and two other contracted parties. The Contractor raised a litigation to the Intermediate People's Court in Zhengzhou. In August 2019, the Intermediate People's Court in Zhengzhou issued an order to freeze certain bank accounts of Fair Friend Henan and the two contracted parties up to an amount of RMB57,832,000. As at 31 December 2020, a bank balance of RMB500 (2019: RMB27,000) in Fair Friend Henan was being frozen by a bank with regard to litigation claim and such balance was included as restricted bank balances in the consolidated statement of financial position.

Subsequent to the year end and in February 2021, the Intermediate People's Court in Zhengzhou (the "Court") issued the judgement in favour of the Company. The Court considered that Fair Friend Henan has no contractual relationship with other contracted parties. In March 2021, the Contractor then filed an appeal to the High People's Court in Henan and obtained approval for second-instance.

After taking into account of the legal opinion of an independent PRC legal counsel and the current status of the litigation, the directors of the Company made their best estimation on the litigation and considered the probability of outflow of economic benefits will be required is remote as Fair Friend Henan is neither a contracted party nor a guarantor of the said construction project. Thus, no provision is made as at 31 December 2020. As at the date of approval of these consolidated financial statements, the second-instance is still in progress.

36. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Construction of plant	**24,246**	24,246

37. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, other price risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Foreign currency risk

The Group is mainly exposed to foreign exchange risk arising from HKD, USD and EUR against RMB. This foreign exchange risk arises from business transactions, assets and liabilities denominated in a currency that is not the Group's functional currency of RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

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

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Foreign currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in the functional currency of the relevant group entities against the foreign currency. 5% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates.

A positive/(negative) number below indicates an increase/(decrease) in post-tax profit and a decrease/(increase) in post-tax loss for the year where the functional currency of relevant group entities strengthening against the relevant foreign currency at 31 December 2020, 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.

	2020	2019
	RMB'000	RMB'000
USD	**3,249**	3,412
EUR	**(6,643)**	(1,146)
HKD	**3,711**	7,253

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.

(b) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed interest rate restricted bank balances and interest free other borrowings. The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group's exposure on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to variable interest rate bank borrowings, restricted bank balances and bank balances.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Interest rate risk *(Continued)*

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 (2019: 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 (2019: 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 2020 would (increase)/decrease by RMB1,777,000 (2019: post-tax profit for the year would increase/(decrease) by RMB1,677,000).

(c) Other price risk

The Group is exposed to other price risk through its receivables at FVTOCI. In the opinion of the directors of the Company, no sensitivity analysis is prepared for the other price risk since the impact to the Group's post-tax (loss)/profit for the year is insignificant as these receivables have short maturities.

(d) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables and contract assets) from its investing activities (primarily loans receivable) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Except for the financial guarantee issued by the Group as set out in note 40, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 40.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit risk *(Continued)*

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group assesses individually for debtors with significant balances or credit impaired and/or collectively using a provision matrix with appropriate grouping. For collective assessment, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. ECL is estimated based on historical credit loss experience based on the past default experience of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group writes off trade receivables and contract assets when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The credit rating information supplied by independent rating agencies will be referenced when required. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit risk *(Continued)*

Trade receivables and contract assets (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets excluding specific loss allowance for trade receivables as at 31 December 2020:

As at 31 December 2020

	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
ECL rate	–	0.01%	0.14%	0.22%	31.14%	3.02%
Total gross carrying amount	77,588	4,994	697	2,632	9,187	95,098
Loss allowance	(1)	–	(1)	(6)	(2,861)	(2,869)
	77,587	4,994	696	2,626	6,326	92,229

As at 31 December 2019

	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
ECL rate	–	–	–	1.71%	42.43%	10.10%
Total gross carrying amount	68,400	2,927	19	783	22,508	94,637
Loss allowance	–	–	–	(13)	(9,550)	(9,563)
	68,400	2,927	19	770	12,958	85,074

The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

Movements of impairment of trade receivables of the Group in 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	39,596	46,931
Impairment loss/(reversal of impairment loss)	13,204	(2,998)
Amount written off	(12,954)	(4,337)
At 31 December	39,846	39,596

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit risk *(Continued)*

Trade receivables and contract assets (Continued)

Movements of impairment of contract assets for the year ended 31 December 2020 and 2019 are as follow:

	2020 **RMB'000**	2019 RMB'000
At 1 January	**219**	230
Reversal of impairment loss	**(219)**	(11)
At 31 December	**–**	219

The following table shows the Group's credit risk grading framework in respect of financial assets other than trade receivables and contract assets:

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit risk *(Continued)*

Other receivables and loans receivable

For other receivables and loans receivable, the Group has applied the general approach in HKFRS 9 to measure the loss allowance approximate to such at 12-month ECL, since the directors of the Company did not expect any significant increase in credit risk. Thus, no loss allowance provision is recognised.

Bank balances, restricted bank balances and receivables at FVTOCI

The bank balances, restricted bank balances and receivables at FVTOCI are determined to have low risk at the end of the reporting period. The credit risk on bank balances, restricted bank balances, and receivables at FVTOCI are limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

Amounts due from related parties

With reference to the liquidity position and the historical settlement patterns from the Group's a related company, fellow subsidiaries, an associate of ultimate holding company, joint ventures, associates and subsidiaries of an associate, the Group has assessed that the ECL for amounts due from these related parties is insignificant. Thus, no loss allowance provision is recognised.

(e) Liquidity risk

In order to manage the liquidity risk, the Group monitors and maintains cash and cash equivalents and unused credit facilities at a level which is deemed to be adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period between the reporting date to the contractual maturity dates.

	Repayable 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 2020				
Trade and other payables and accrued expenses	471,137	–	471,137	471,137
Bank borrowings – variable interest rate	434,778	–	434,778	423,814
Other borrowings	–	43,522	43,522	38,506
Amount due to ultimate holding company	1,503	–	1,503	1,503
Amount due to immediate holding company	15,627	–	15,627	15,627
Amounts due to fellow subsidiaries	2,005	–	2,005	2,005
Amounts due to joint ventures	517	–	517	517
Amount due to an associate	24,111	–	24,111	24,111
Financial guarantee (Note)	2,658	–	2,658	–

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Liquidity risk

	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 2019				
Trade and other payables and accrued expenses	389,300	–	389,300	389,300
Bank borrowings – variable interest rate	415,721	–	415,721	400,071
Other borrowings	–	43,522	43,522	36,760
Amount due to ultimate holding company	157	–	157	157
Amount due to immediate holding company	815	–	815	815
Amounts due to fellow subsidiaries	2,457	–	2,457	2,457
Amounts due to joint ventures	380	–	380	380
Amount due to an associate	23,481	–	23,481	23,481
Financial guarantee (note)	13,091	–	13,091	–

Note:

The amount is categorised based on contractual term of repayment of the relevant underlying financial guarantee contracts guaranteed by the Group.

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(f) Categories of financial instruments at 31 December 2020

	2020 RMB'000	2019 RMB'000
Financial assets:		
Receivables at FVTOCI – Debt instruments	**120,105**	101,945
Financial assets measured at amortised cost	**849,188**	683,849
	969,293	785,794
Financial liabilities:		
Financial liabilities at amortised cost	**977,219**	853,421

37. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

(h) Transfers of financial assets

As at 31 December 2020, the Group had transferred to its suppliers by endorsing bills amounted to RMB39,239,000 (2019: RMB52,986,000).

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.

38. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

Disclosures of level in fair value hierarchy at 31 December 2020:

Recurring fair value measurements:

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31 December 2020	31 December 2019			
Receivables at FVTOCI	**Receivables at FVTOCI RMB120,105,000**	Receivables at FVTOCI RMB101,945,000	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

39. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group also had the following transactions with its related parties during the year:

(a) Transactions

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Ultimate holding company				
Fair Friend	Ultimate holding company	Purchases of goods	**18,697**	7,996
		Purchases of services	**–**	4,054
Immediate holding company				
Hong Kong GF	Immediate holding company	Purchases of goods	**42,853**	37,182
Related company, fellow subsidiaries and associate of ultimate holding company				
Hangzhou Best Friend Technology Co., Ltd. (Best Friend)	Related company	Sales of goods	**–**	4
		Interest income	**372**	70
Ikegai (Shanghai) Machinery & Equipment Co., Ltd.	Fellow subsidiary	Purchases of goods	**–**	433
FFG DMC Co.,Ltd. (FFG DMC)	Fellow subsidiary	Sales of goods	**–**	739
		Purchases of goods	**7,240**	3,683
SMS Holding Co., Inc. (SMS Holding)	Fellow subsidiary	Sales of goods	**209**	80
Hangzhou Feeler Takamatsu Machinery Co., Ltd. (Feeler Takamatsu)	Associate of ultimate holding company	Sales of goods	**1**	–
		Purchases of goods	**2,277**	–
		Rendering of services	**753**	1,568
		Rental income	**61**	82

39. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Joint ventures				
AIF	Joint venture	Sales of goods	**1**	27
		Purchases of goods	**1**	–
		Rendering of services	**1,000**	1,213
		Rental income	**46**	46
Feeler Mectron	Joint venture	Purchases of goods	**572**	–
		Rendering of services	**238**	362
		Rental income	**72**	53
Nippon Cable Feeler	Joint venture	Purchases of services	**29**	83
		Rendering of services	**21**	21
		Rental income	**8**	8
UFM	Joint venture	Sales of goods	**4**	3
		Purchases of goods	**2,082**	1,684
		Rendering of services	**88**	86
		Interest income	**16**	15
Associate and subsidiaries of an associate				
FFG Werke	Associate	Compensation income	**–**	72,667
Jobs Automazione S.p.A. (Jobs)	Subsidiary of an associate	Purchases of goods	**–**	3,696
FFG Europe & Americas (Shanghai) IAS Co., Ltd. (FFG (Shanghai))	Subsidiary of an associate	Purchases of services	**690**	–
		Interest income	**494**	397
MAG IAS GmbH (MAG IAS)	Subsidiary of an associate	Purchases of goods	**22,840**	–
MAG Automotive LLC	Subsidiary of an associate	Sales of goods	**126**	–

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.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Ultimate holding company				
Fair Friend	Ultimate holding company	Advance to (note (ii))	**1,008**	–
		Trade payables (note (ii))	**(1,503)**	(157)
Represented by:				
Amount due from ultimate holding company			**1,008**	–
Amount due to ultimate holding company			**(1,503)**	(157)
Immediate holding company				
Hong Kong GF	Immediate holding company	Other receivables (note (ii))	**8**	–
		Trade payables (note (ii))	**(3,556)**	(815)
		Advance from (note (ii))	**(12,071)**	–
Represented by:				
Amount due from immediate holding company			**8**	–
Amount due to immediate holding company			**(15,627)**	(815)

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Related company, fellow subsidiaries and associate of ultimate holding company				
Best Friend	Related company	Other receivables (note (iii))	**8,745**	2,950
Sanco Machine & Tools Corp.	Fellow subsidiary	Other receivables (note (ii))	**127**	–
		Trade payables (note (ii))	**(2,005)**	(2,144)
FFG DMC	Fellow subsidiary	Trade receivables (note (i))	**–**	160
		Other receivables (note (ii))	**–**	2,931
		Advance to (note (ii))	**18,955**	–
		Trade payables (note (ii))	**–**	(303)
		Advance from (note (ii))	**–**	(10)
SMS Holding	Fellow subsidiary	Trade receivables (note (i))	**–**	17
Feeler Takamatsu	Associate of ultimate holding company	Trade receivables (note (i))	**215**	151
		Other receivables (note (ii))	**45**	39
Represented by:				
Amounts due from a related company, fellow subsidiaries and an associate of ultimate holding company			**28,087**	6,248
Amounts due to fellow subsidiaries			**(2,005)**	(2,457)

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Joint ventures				
AIF	Joint venture	Other receivables (note (ii))	**248**	116
Feeler Mectron	Joint venture	Trade receivables (note (iii))	**75**	52
		Other receivables (note (ii))	**8**	19
UFM	Joint venture	Trade receivables (note (i))	**1**	–
		Other receivables (note (ii))	**312**	316
		Trade payables (note (ii))	**(515)**	(379)
Nippon Cable Feeler	Joint venture	Other receivables (note (ii))	**–**	9
		Other payables (note (ii))	**(2)**	(1)
Represented by:				
Amounts due from joint ventures			**644**	512
Amounts due to joint ventures			**(517)**	(380)

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Associates and subsidiaries of an associate				
FFG Werke	Associate	Other receivables (note (ii))	**1,357**	1,724
		Shareholder loan (note (iii))	**53,981**	38,893
		Compensation receivables (note (iii))	**72,667**	72,667
		Trade payables (note (ii))	**(24,111)**	(23,481)
FFG Europe	Associate	Other receivables (note (iii))	**766**	766
		Shareholder loan (note (iii))	**40,812**	38,073
FFG EA	Associate	Other receivables (note (ii))	**139,900**	7,683
Grinding technology S.r.l.	Subsidiary of an associate	Other receivables (note (ii))	**9,307**	9,531
Jobs	Subsidiary of an associate	Other receivables (note (iii))	**24,225**	23,365
MAG	Subsidiary of an associate	Other receivables (note (ii))	**575**	–
MAG IAS	Subsidiary of an associate	Other receivables (note (ii))	**–**	18,772
FFG (Shanghai)	Subsidiary of an associate	Other receivables (note (ii))	**17,734**	14,397

39. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

Name of company	Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Associates and subsidiaries of an associate *(Continued)*				
Sky Thrive Rambaudi S.r.l.	Subsidiary of an associate	Other receivables (note (iii))	**3,306**	3,227
		Shareholder loan (note (iii))	**6,219**	6,057
Represented by:				
Amounts due from associates and subsidiaries of an associate			**370,849**	235,155
Amount due to an associate			**(24,111)**	(23,481)

Notes:

(i) The Group allowed a normal credit period of 30 to 180 days for sales made to the above parties. Balances are unsecured and interest free.

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

(iii) Balances are unsecured, interest free and repayable on demand. The ultimate holding company has issued letter of guarantee to undertake for repayment of the outstanding balances to the Group should these related parties fail to meet the obligation as they fall due.

(c) Key management compensation

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

	2020 RMB'000	2019 RMB'000
Salaries and allowances	**2,111**	2,265
Discretionary performance related bonus	**1,444**	1,252
Retirement benefit scheme contributions	**87**	68
	3,642	3,585

40. FINANCIAL GUARANTEE CONTRACTS

In June 2019, the Company issued a guarantee to an independent third party for each of the payment obligations of certain associates of the Group, MAG IAS and FFG Werke under their respective purchase contracts with the independent third party with a maximum amount of EUR11,000,000 (equivalent to RMB85,971,000) and EUR2,000,000 (equivalent to RMB15,631,000) respectively. As at 31 December 2020, MAG IAS and FFG Werke have payment obligation to the independent third party with a total amount of EUR264,000 (equivalent to RMB2,117,000) (2019: EUR764,000 (equivalent to RMB5,971,000)) and EUR67,000 (equivalent to RMB541,000) (2019: EUR911,000 (equivalent to RMB7,120,000)) respectively.

The management of the Group estimates that the default risk of the abovementioned entities is low, thus the exposure to credit losses arising from these financial guarantees and their fair value is immaterial.

41. PLEDGE OF ASSETS

	2020	2019
	RMB'000	RMB'000
Right-of-use assets	**80,631**	82,484
Restricted bank balances for trade finance facilities	**72,585**	43,728
	153,216	126,212

The Group has pledged its right-of-use assets in order to secure other borrowings of the Group. The Group also has restricted bank balances which mainly represent deposits placed in banks for guarantees issued to secure bills payable and finance facilities of the Group.

42. EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 pandemic in early 2020 brought uncertainty in the Group's operating environment and impacted the Group's operations at the beginning of the reporting period. Nevertheless, the demand for CNC machine tools (the Group's major product) had been growing and hence the business performance of the Group notably recovered as from the second quarter of 2020. The net loss incurred for the year ended 31 December 2020 was solely attributable to the share of loss of the associate in Germany which was also hit hard by the pandemic. The management considers that the financial position of the Group remains solid. Moreover, the management will closely monitor the business and operation of its associates in Germany in which the COVID-19 pandemic still prevails.

After the reporting period and up to the date of this report, the Board was not aware of any significant events relating to the business or financial performance of the Group.

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

	2020 RMB'000	2019 RMB'000
Non-current assets		
Investments in subsidiaries	**52,840**	52,840
Investments in joint ventures	**27,666**	27,666
Amounts due from subsidiaries	**160,580**	290,890
	241,086	371,396
Current assets		
Trade and other receivables and prepayment	**1,783**	6,683
Amounts due from associates and subsidiaries of an associate	**345,578**	196,319
Bank balances and cash	**18,320**	27,453
	365,681	230,455
Current liabilities		
Other payables and accrued charges	**8,476**	8,317
Amounts due to subsidiaries	**443,751**	309,575
Amounts due to an associate and subsidiaries of an associate	**–**	–
Amounts due to immediate holding company	**12,063**	–
Bank borrowings	**318,458**	309,769
	782,748	627,661
Net current liabilities	**(417,067)**	(397,206)
Total assets less current liabilities	**(175,981)**	(25,810)

Approved by the Board of Directors on 14 May 2021 and are signed on its behalf by:

CHU Chih-Yaung	**WEN Chi-Tang**
Director	*Director*

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

	2020 RMB'000	2019 RMB'000
Capital and reserves		
Share capital	**4,021**	4,021
Share premium	**82,183**	82,183
Other reserves	**13,653**	59,647
Accumulated losses	**(275,838)**	(171,661)
Total equity	**(175,981)**	(25,810)

The movement of the Company's reserves for the year ended 31 December 2020 and 2019 is as follows:

	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2019	82,281	7,973	170,703	260,957
Total comprehensive income for the year	–	51,674	(342,364)	(290,690)
Share repurchased and cancelled	(98)	–	–	(98)
At 31 December 2019 and 1 January 2020	82,183	59,647	(171,661)	(29,831)
Total comprehensive income for the year	–	(45,994)	(104,177)	(150,171)
At 31 December 2020	**82,183**	**13,653**	**(275,838)**	**(180,002)**

Five-Year Financial Summary

OPERATING RESULTS

For the year ended 31 December

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Revenue	1,082,336	1,294,801	1,090,693	910,695	**875,318**
Gross profit	295,151	312,515	290,727	209,098	**196,471**
Profit/(loss) before income tax	87,650	85,066	(42,730)	34,228	**(232,371)**
Profit/(loss) attributable to owners of the Company	60,749	65,690	(57,724)	12,159	**(248,219)**
Earnings/(loss) per share – basic (RMB)	0.15	0.16	(0.14)	0.03	**(0.62)**

ASSETS AND LIABILITIES

As at 31 December

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Non-current assets	743,761	703,361	706,420	786,085	**466,482**
Net current assets	121,487	185,223	115,271	34,618	**89,652**
Non-current liabilities	(61,180)	(61,180)	(105,285)	(112,224)	**(113,265)**
Net assets	804,068	827,404	716,406	708,479	**442,869**
Share capital	4,022	4,022	4,022	4,021	**4,021**
Reserves	800,046	823,382	712,384	704,458	**438,848**
Shareholders' equity	804,068	827,404	716,406	708,479	**442,869**