# 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 2015

# Contents

# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors*

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

*Independent Non-Executive Directors*

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

## COMPANY SECRETARY

LO Tai On

## AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
CHIU Rung-Hsien

## LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*
CHIANG Chun-Te
CHEN Hsiang-Jung

## NOMINATION COMMITTEE

KOO Fook Sun, Louis *(Chairman of the Committee)*
CHIANG Chun-Te
CHEN Hsiang-Jung

## AUDITOR

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

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

# Corporate Information

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

Bank of China
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
KGI Bank
Mega International Commercial Bank
Yuanta Commercial Bank
BNP Paribas

## STOCK CODE

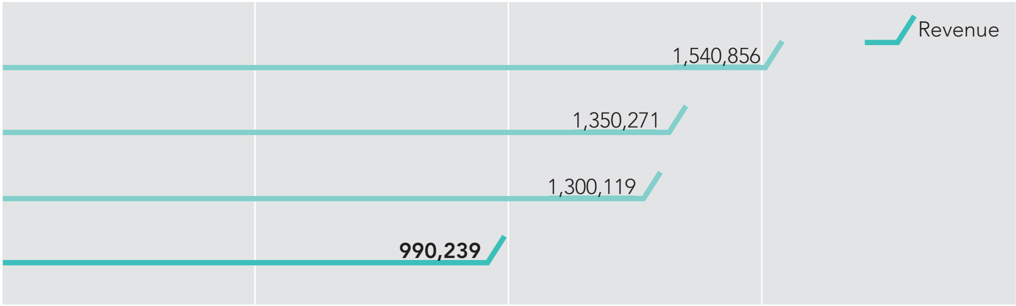
2398

## WEBSITE

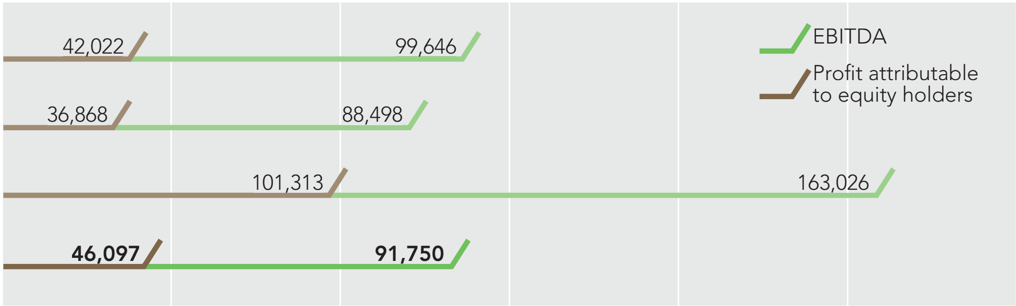
http://www.goodfriend.hk

# Financial Highlights

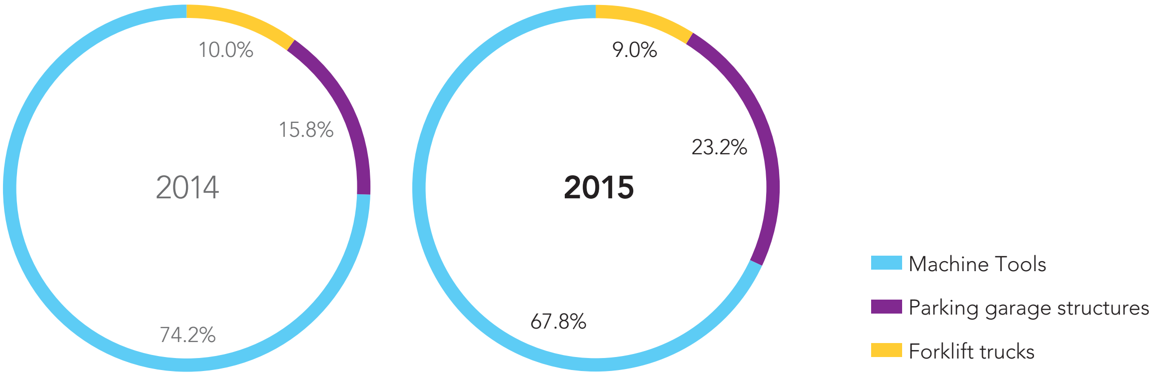
## REVENUE (RMB'000)




## PROFIT (RMB'000)




## BUSINESS SEGMENTS (In terms of revenue)



# Financial Highlights

## TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

| | **2015 RMB'000** | 2014 RMB'000 | Change (%) |
|---|---|---|---|
| Revenue | **990,239** | 1,300,119 | -23.8% |
| Gross profit | **267,925** | 344,894 | -22.3% |
| EBITDA | **91,750** | 163,026 | -43.7% |
| Profit attributable to equity holders | **46,097** | 101,313 | -54.5% |
| Shareholders' equity | **744,439** | 726,695 | 2.4% |
| Total assets | **1,664,040** | 1,628,064 | 2.2% |
| Earnings per share – basic (RMB) | **0.11** | 0.25 | -56.0% |

## SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

| | **2015** | 2014 | Change (%) |
|---|---|---|---|
| Gross profit margin *Note 1* | **27.1%** | 26.5% | 2.3% |
| Net profit margin *Note 2* | **4.7%** | 7.8% | -39.7% |
| Inventory turnover days *Note 3* | **126.4** | 98.3 | 28.6% |
| Debtors' turnover days *Note 4* | **150.6** | 130.2 | 15.7% |
| Creditors' turnover days *Note 5* | **89.9** | 78.3 | 14.8% |
| Current ratio (Times) *Note 6* | **1.2** | 1.5 | -20.0% |
| Quick ratio (Times) *Note 7* | **0.9** | 1.2 | -25.0% |
| Gearing ratio (%) *Note 8* | **24.6%** | 24.7% | -0.4% |
| EBITDA/Finance costs (Times) *Note 9* | **10.5** | 17.8 | -41.0% |
| Return on equity (%) *Note 10* | **6.2%** | 13.9% | -55.4% |

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

*Note 2:* Net profit margin is calculated as profit attributable to equity holders 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 sales 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:* EBITDA/Finance costs is calculated as earnings before finance costs, taxation, depreciation and amortization divided by finance costs for the year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

*Note 10:* Return on equity is calculated as profit attributable to equity holders divided by total shareholders' equity at the end of the corresponding year.

# Chairman's Statement

**Chu Chih-Yaung**
*Chairman*

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 2015 (the "year").

## FINANCIAL PERFORMANCE

For the year ended 31 December 2015, the Group recorded revenue of approximately RMB990.24 million, representing a decrease of approximately 23.8% compared to the previous year. Whilst profit attributable to equity holders for the year amounted to approximately RMB46.10 million, representing a decrease of approximately 54.5% compared to RMB101.31 million in 2014.

## FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company, a final dividend of RMB0.03 (equivalent to approximately HK$0.0360 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 31 March 2016) per ordinary share for the year ended 31 December 2015, amounting to RMB12.10 million (equivalent to approximately HK$14.52 million), according to number of existing issued ordinary shares, payable to shareholders whose names appear on the register of members of the Company on Thursday, 2 June 2016. The payment date of the final dividend is expected to be around end of June 2016.

## BUSINESS REVIEW

The downward pressure on China's economy increased in 2015. According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product ("GDP") growth slowed down to 6.8% in the fourth quarter of 2015. The GDP for the whole year of 2015 grew by 6.9%, which was the lowest growth rate since 1990. The mainstream product of the Group CNC machine tools focus mainly on the China market, sales orders of CNC machine tools business were also affected by that. For the year ended 31 December 2015, sales volume and sales revenue of CNC machine tools amounted to 1,587 units and approximately RMB671.86 million respectively, both representing a decrease when compared to 2014. Nevertheless, the gross profit margin of CNC machine tools business maintained at approximately 30.2% during the year. This was attributable to the stable raw material prices during the year.

During the year, the Group continued to offer high-end CNC machine tools products to the customers. These high-end products could optimise the product portfolio of the Group, and strengthen its core competitiveness. Moreover, the Group has incorporated a wholly-owned entity at the China (Shanghai) Pilot Free Trade Zone. The activities of this Shanghai entity is mainly to exploring and selling the high-end machine tools brands (including "Huller Hille") of FFG Werke GmbH ("FFG Werke", an entity incorporated in Germany) to customers in China.

In August 2015, the Group entered into a sale and purchase agreement for the acquisition of an aggregate of 25.5% equity interest in FFG Werke from the other shareholders, with the aggregate consideration amounted to Euro 2.34 million. The Group currently holds 39.0% equity interest in FFG Werke after completion of this transaction. The management are confident of the business development prospects of FFG Werke. It is believed that the increase of equity interest in FFG Werke would be beneficial to the future business development and results of the Group.

In November 2015, the Group entered into a contribution agreement with the other JV partners to establish FFG European Holding GmbH ("FFG European", an entity incorporated in Germany) and to inject capital in the total amount of Euro 110 million. The Group holds 45.0% interests in FFG European with the relevant capital injection amount being Euro 49.5 million. FFG European has also successfully acquired 100% shareholding interests in MAG Group (including MAG IAS GmbH and MAG Automotive LLC) by the end of 2015. MAG Group is a well-established machine tools manufacturer in operation for more than 10 years, owning leading brands in high-end machine tools favoured by renowned automobile manufacturers, with market presence in Europe, worldwide recognition and 5 production sites in Europe and the United States with more than a thousand employees. The acquisition of MAG Group by FFG European would have positive effect on the Group's product portfolio, allowing it with access to a richer and further diversifying range of products and enhance its investment portfolio overseas.

# Chairman's Statement


FFG EUROPE

VDF BOEHRINGER

HÜLLER HILLE DIEDESHEIM

HESSAPP

Honsberg

MODUL

WITZIG & FRANK

## PROSPECTS

China's economy continued to sail on against the wind. Heading into 2016, which marks the first year of its "13th Five-Year" Planning, China's economy will still face challenges. However, China is the largest machine tools consuming country. It is anticipated that the demand of machine tools from the industries of high-speed railway, transit rails, aerospace, and energy in China, especially demand of those high-end CNC machine tools, would still be great. This in turn will benefit the Group's CNC machine tools business. The Group will continue to explore and sell those high-end CNC machine tools products (production of such primarily from Italy and Germany) to the customers. The management believes that with its extensive sales network and comprehensive after-sales service, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continue to strengthen its market position.

Looking ahead, with the current complex economic environment, the Group will continue to strengthen its business foundation under a consistent cautions manner under tough market environment, in order to weather against the volatility and uncertainty of the market condition ahead. On the other hand, the management will continue to look for appropriate investing projects or acquisition activities so as to increase the competitive edge of the Group. The Group is committed to becoming an international CNC machine tools manufacturer. The management is optimistic on the long-term development prospects of the Group.

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

## ACKNOWLEDGEMENT

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

**Chu Chih-Yaung**
*Chairman*
Hong Kong, 31 March 2016

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2015, the Group recorded revenue of approximately RMB990.24 million, representing a decrease of approximately 23.8% as compared to 2014. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,587 units, 15,368 units and 1,492 units respectively (2014 comparative figures: 2,102 units, 13,215 units and 1,997 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 RMB671.86 million, representing a decrease of approximately 30.4% as compared to 2014. Revenue of CNC machine tools accounted for approximately 67.8% of the Group's total revenue. On the other hand, sales revenue of forklift trucks amounted to approximately RMB88.77 million during the year, representing a decrease of approximately 31.5% as compared to 2014 and accounted for approximately 9.0% of the total revenue. Moreover, sales revenue of the Group's parking garage structures business during the year was increased by approximately 11.6%, as compared to 2014, to approximately RMB229.61 million and approximately 23.2% of the Group's total revenue.

### Gross profit and margin

For the year ended 31 December 2015, gross profit of the Group amounted to approximately RMB267.93 million. Overall gross profit margin was approximately 27.1%, compared to 26.5% for 2014. The gross profit margin of CNC machine tools (the Group's major product) during the year remained at 30.2%. As a result, the overall gross profit margin for the year remained fairly stable as compared to 2014.

### Distribution and selling expenses

Distribution and selling expenses amounted to approximately RMB122.49 million for the year ended 31 December 2015 representing a decrease of 5.4% as compared to last year. This was mainly attributable to the stringent control of the corresponding expenses by the management. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 12.4%, compared to approximately 10.0% for 2014.

### Administrative expenses

Administrative expenses for the year ended 31 December 2015 increased by approximately 16.4% as compared to 2014. This was mainly attributable to the increase of the exchange loss and the increase of the relevant administrative expenses arising from the incorporation of the new entity at the Shanghai Pilot Free Trade Zone.

### Finance costs

During the year, finance costs decreased to approximately RMB8.73 million. The decrease was primarily due to the decrease of average bank borrowings of the Group during 2015.

### Share of profit of associates

For the year ended 31 December 2015, share of profit of associates amounted to approximately RMB0.10 million. The amount represented the Group's share of operating results of the associate "FFG Europe", (located in Italy), the associate "FFG European and American" (located in Germany), and the associate "FFG Werke" (located in Germany), during the year.

### Profit attributable to the equity holders of the Company

For the year ended 31 December 2015, profit attributable to the equity holders of the Company amounted to approximately RMB46.1 million, representing a decrease of approximately 54.5% as compared to 2014.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had net current assets of approximately RMB154.91 million (2014: RMB433.32 million), shareholders' fund of approximately RMB744.44 million (2014: RMB726.70 million) and short-term bank borrowings of approximately RMB408.68 million (2014: RMB402.08 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Cash and cash equivalents as at 31 December 2015 amounted to approximately RMB101.58 million (2014: RMB262.75 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.2 times (2014: 1.5 times). The gearing ratio (ratio of total debts to total assets) was approximately 24.6% (2014: 24.7%), indicating that the Group continued to maintain solid financial position.

*Management Discussion and Analysis*

## CAPITAL STRUCTURE AND TREASURY POLICIES

The share capital of the Company as at 31 December 2015 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2014: HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As of 31 December 2015, the total outstanding short-term borrowings stood at approximately RMB408.68 million (2014: RMB402.08 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 2015.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2015.

## SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2015 are set out in note 5 to the consolidated financial statements.

## STAFF AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed a total of 1,320 (2014: 1,450) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB142.99 million (2014: RMB130.14 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

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

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year under review, the Group contributed approximately RMB4.92 million (2014: RMB4.23 million) to the said schemes.

## CAPITAL COMMITMENTS AND CONTINGENCIES

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB0.63 million (2014: RMB0.74 million) which are contracted but not provided in the financial statements and for capital contribution to an associate of approximately RMB67.40 million (2014: Nil). The Group had no material contingent liabilities as at 31 December 2015 (2014: Nil).

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2015, restricted bank deposits with an amount of approximately RMB172.61 million (2014: RMB134.68 million) represented mainly deposits placed in banks for guarantees issued for finance facilities used by the Group.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB15.26 million (2014: RMB15.94 million) to secure general banking facilities granted to them. As at 31 December 2015, the subsidiaries have not utilised such secured bank facilities (2014: RMB2.90 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 2015. 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 2015, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen 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. Foreign exchange risks arising from fluctuation of exchange rates of foreign currencies are managed by the Group using foreign exchange forward contracts when necessary.

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 69, was appointed as an executive Director in September 2005 and Chairman of the Board. He is 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 Hsiang-Jung（陳向榮先生）**, aged 70, was appointed as an executive Director in December 2005 and chief executive officer. He is also a member of the remuneration committee and the nomination committee of the Company. He is responsible for general management of the Group. Mr. Chen has more than 30 years of experience in the mechanics, manufacturing and 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. Mr. Chen joined the Group in 1993.

**Mr. Chen Min-Ho（陳明河先生）**, aged 65, was appointed as an executive Director in December 2005. He is responsible for the overall business operation of the Group. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend Precision Machinery Co., Ltd., Rich Friend (Shanghai) Precision Machinery Co., Ltd., Hangzhou Glory Friend Machinery Technology Co., Ltd and Huller Hille (Shanghai) Machinery Co., Ltd. He joined the Group in 1993.

**Mr. Wen Chi-Tang（溫吉堂先生）**, aged 51, 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 30 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.

*Biographical Details of Directors and Senior Management*

**Mr. Chiu Rung-Hsien (邱榮賢先生)**, aged 58, was appointed as an executive Director in December 2005. He was the manager of the parking garage structures division of Hangzhou Good Friend Precision Machinery Co., Ltd. and then was promoted as the senior manager with effect from 1 January 2011. He is responsible for the production and operation of this division. Mr. Chiu has more than 31 years of experience in the mechanics and manufacturing industry. He joined the Group in 2001.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Koo Fook Sun, Louis (顧福身先生)**, aged 59, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He is the founder and managing director of Hercules Capital Limited, a corporate finance advisory firm. He has more than 20 years of experience in investment banking and professional accounting. Mr. Koo currently act as an independent non-executive director of Li Ning Company Limited, Midland Holdings 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 is a certified public accountant.

**Mr. Chiang Chun-Te, (江俊德先生)** aged 55, was appointed as an independent non-executive Director in December 2005. He is also a member of the audit committee, the remuneration and the nomination committee of the Company. He is the general manager of Istra Corporation and is also served as the president with effect from 2000.

He is the director of Long Chen Paper Co., Ltd. He is also a director of Chinatrust Commercial Bank.

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

# Biographical Details of Directors and Senior Management

**Mr. Yu Yu-Tang (余玉堂先生)**, aged 79, was appointed as an independent non-executive Director in December 2005 and is a member of the audit 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.

## SENIOR MANAGEMENT

**Mr. Chiang Chia-Shin (強家鑫先生)**, aged 57, 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 30 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 54, 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 31 years of experience in the machine tools industry.

**Mr. Yeh Ming-Pin (葉明彬先生)**, aged 48, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Yeh graduated from Tamkang University, Taiwan (台灣淡江大學) in 1994 with a degree in Accounting. Before he joined the Group in January 2007, Mr. Yeh worked in TNS CPA firm in Taiwan from 1994 to 1998 and has over 18 years of experience in the fields of auditing, accounting and finance.

**Mr. Yip Sai Keung, Esmond (葉世強先生)**, aged 50, 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 over 20 years of experience in the fields of corporate finance, auditing and accounting.

# Report of the Directors

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

## 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 2015 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 9 and pages 10 to 13 respectively of this Annual Report.

## PRINCIPAL RISKS AND UNCERTAINTIES FOCUSING THE COMPANY

A description of possible risks and uncertainties that the Group may be facing are set out in the Chairman's Statement on pages 6 to 9 of this annual report. The financial risk management objectives and policies of the Group are set out in note 3 to the consolidated financial statements.

## ENVIRONMENTAL POLICY

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

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

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

# Report of the Directors

## KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

## IMPORTANT EVENT THAT HAVE OCCURRED SINCE ENDING OF THE FINANCIAL YEAR

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

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2015 is set out in note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 47 to 121.

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company, a final dividend of RMB0.03 (equivalent to approximately HK$0.0360 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 31 March 2016) per ordinary share for the year ended 31 December 2015, amounting to RMB12.10 million (equivalent to approximately HK$14.52 million), according to number of existing issued ordinary shares.

The dates of closure of register of members, record date and payment date of the proposed final dividend will be announced later. It is expected that the proposed final dividend, if approval, will be payable around end of June 2016.

## RESERVES

Movements in the reserves of the Company during the year are set out in note 35 to the consolidated financial statements.

## ANNUAL GENERAL MEETING

The 2016 annual general meeting will be held on Thursday, 2 June 2016. Details of the 2016 annual general meeting, notice of annual general meeting and proxy form are set out in the circular of the Company dated 29 April 2016 which will be despatched to shareholders of the Company together with the 2015 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 2015 are set out in note 26 to the consolidated financial statements.

## BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2015 are set out in note 29 to the consolidated financial statements.

## DIRECTORS

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

### Executive Directors

Mr. Chu Chih-Yaung *(Chairman)*
Mr. Chen Hsiang-Jung *(Chief Executive Officer)*
Mr. Chen Min-Ho
Mr. Wen Chi-Tang
Mr. Chiu Rung-Hsien

### Independent Non-Executive Directors

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

In accordance with article 87(1) of the articles of association of the Company (the "Articles"), Messrs. Chen Hsiang-Jung, Chen Min-Ho and Chiu Rung-Hsien, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## INDEPENDENCE CONFIRMATION

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

*Report of the Directors*

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme of the Company adopted on 22 December 2005, 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 2015 with the Company for a term of three years commencing from 11 January 2015 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 2016, and may be terminated by not less than three months' notice in writing served by either party to the other.

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2015, 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 22 December 2005. The purpose of the Scheme is to motivate eligible persons to optimise their future contributions to the Group, to reward them for their past contributions, to attract and maintain on-going relationships with such eligible persons who contribute to the performance, growth or success of the Group. Eligible persons of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entity that provides research, development or other technological support to the Group, any minority shareholder in the Company's subsidiaries, and adviser to business development of the Group and an associate of any of the foregoing persons. The Scheme had been valid and effective for a period of ten years ended on 21 December 2015, after which no-further options would be granted.

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 schemes of the Group must not exceed 10% of issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange, i.e. 11 January 2006 (which were 280,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

Prior to the expiry of the Scheme on 21 December 2015, as no option had been granted under the Scheme, the Company had the capacity to grant options to subscribe for a maximum of 28,000,000 shares in aggregate, which was the total unutilised mandate limit under the Scheme and represented 10% of the issued shares as at the date of listing of the Company's shares on the Stock Exchange and 6.9% of the issued shares of the Company as at the financial year end date.

(b) The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued shares from time to time.

(c) The subscription price for the shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than 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 an option, which must be a business day ("Offer Date"); (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 Offer Date; and (iii) the nominal value of the Company's shares.

*Report of the Directors*

(d) An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme ("Commencement Date") and expiring on such date of the expiry of the option as the Board of Directors may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

(e) Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

(f) The Scheme was valid and effective for a period of ten years commencing on the date of adoption of the Scheme, i.e. 22 December 2005 and had expired on 21 December 2015.

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

## DIRECTORS' INTEREST IN SHARES

As at 31 December 2015, 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 | Taiwan FF | Beneficial owner | 15,720,255 ordinary shares | 15.35% |
| | Taiwan FF | Spouse interest *(Note 1)* | 2,733,926 ordinary shares | 2.67% |
| | Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 2)* | Beneficial owner | 750 ordinary shares | 0.03% |
| Mr. Chen Hsiang-Jung | Taiwan FF | Beneficial owner | 1,948,553 ordinary shares | 1.90% |
| | Fair Fine (Hongzhou) 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 2.67% 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 (Hongzhou) 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 2015, 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.

*Report of the Directors*

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

   As at 31 December 2015, 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 2015, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are set out below:

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

| Name of shareholder | Nature of interest | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Good Friend (H.K.) Corporation Limited ("Hong Kong GF") | Beneficial owner | 232,000,000 shares *(Note)* | 57.54% |
| Taiwan FF | Interest of controlled corporation | 232,000,000 shares *(Note)* | 57.54% |

*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 2015.

## 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 2015, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

## EMOLUMENT POLICY

A remuneration committee has been set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

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

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 8 to the consolidated financial statements.

## RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details on related party transactions for the year are set out in note 34 to the consolidated financial statements. Details of any related party transactions which also constitute connected transactions or continuing connected transactions not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below. The Group has complied with the requirements in accordance with Chapter 14A of the Listing Rules in respect of such transactions.

### Non-exempt connected transaction(s)

1. As disclosed in the announcement of the Company dated 5 November 2015 and the circular of the Company dated 4 December 2015, Sky Thrive Hong Kong Enterprise Limited ("**Sky Thrive**"), a wholly-owned subsidiary of the Company, Mega Grant Limited, Golden Wealth Inc Limited, Full Alliance Investment Limited, Taiwan FF and Leadwell CNC Machines Mfg., Corp (collectively, the "**JV Partners**") had on 5 November 2015 entered into a contribution agreement (the "**Contribution Agreement**"), pursuant to which the JV Partners agreed to establish a joint venture company named FFG European Holding GmbH ("**FFG European**") (with 45% equity interest of which held by Sky Thrive) by paying an aggregate amount of Euro 28,000 pro rata to the JV Partners' shareholding percentages for its initial nominal share capital and incorporation agent fee and to provide further capital in the total amount of Euro 110,000,000 pro rata to the JV Partners' shareholding percentages in cash to FFG

European on or before 30 November 2016 (or such later date as the JV Partners may agree) on a pro rata basis (i.e. Sky Thrive, which is interested in 45% of the issued share capital of FFG European, will further inject Euro 49,500,000 into FFG European pursuant to the Contribution Agreement).

FFG European was established by the JV Partners to pool together their respective resources, capabilities and industry expertise to evaluate the potential future acquisition of suitable machine tools manufacturers. FFG European has successfully acquired 100% shareholding interest in MAG Group, details of which are set out in the "Business Review" section of the Chairman's Statement and note 18 to the consolidated financial statements.

As Taiwan FF is the holding company of Hong Kong GF, the controlling shareholder of the Company, Taiwan FF is therefore a connected person of the Company under the Listing Rules. The transactions under the Contribution Agreement constituted connected transactions of the Company, and were subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The resolution approving the Contribution Agreement and the transactions contemplated thereunder was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 21 December 2015.

As at the date of this report, Euro 40,000,000 has been injected into FFG European by Sky Thrive. The remaining Euro 9,500,000 will be injected into FFG European by Sky Thrive on or before 30 November 2016.

2. As disclosed in the announcement of the Company dated 25 September 2015 and the circular of the Company dated 28 October 2015, the Company, FFG Werke GmbH ("**FFG Werke**") and BNP Paribas had on 25 September 2015 entered into an engagement letter (the "**Engagement Letter**"), pursuant to which BNP Paribas (and other independent financial institutions to be engaged) will, during the period from 14 November 2015 to the date falling one month before the date immediately preceding the expiry of 24 months thereafter (unless extended to the expiry of 36 months with the consent of the relevant lender), make available an unsecured revolving loan facility for the maximum principal amount of Euro 50,000,000 to the Company and FFG Werke on a joint and several basis (the "**Facility**"), with the interest rate being 1.9% plus the Euro interbank offered rate administered by the Banking Federation of the European Union per annum. The Facility was provided by the lenders as general working capital of FFG Werke, and the joint and several borrowing arrangement between the Company and FFG Werke in essence works as if a guarantee by the Company in favour of the lenders in respect of FFG Werke's obligations under the Facility.

As at 25 September 2015, Taiwan FF was indirectly holding approximately 57.54% of the entire issued share capital of the Company and the Company was, through Sky Thrive, holding 39% interest in FFG Werke. Taiwan FF, through its wholly-owned subsidiary Golden Friendship International Limited ("**Golden Friendship**"), held 10% in FFG Werke. Accordingly, FFG Werke was a commonly held entity for the purpose of Rule 14A.27 of the Listing Rules. As the Facility is available to the Company and FFG Werke on a joint and several basis, each of the Company and FFG Werke would be liable for the indebtedness incurred by the other under the Facility. Accordingly, the Facility constitutes a connected transaction involving provision of financial assistance to a commonly held entity by the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The resolution approving the Engagement Letter and the transactions contemplated thereunder was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 13 November 2015.

As at the date of this report, an aggregate amount of Euro 38,000,000 has been drawn down by FFG Werke from the Facility.

3. As disclosed in the announcement of the Company dated 17 August 2015 and the circular of the Company dated 7 September 2015, Golden Friendship, World Ten Limited ("**World Ten**") and Sky Thrive had on 17 August 2015 entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which Golden Friendship and World Ten agreed to sell and Sky thrive agreed to acquire from them an aggregate of 127,500 shares of FFG Werke, representing approximately 25.5% equity interest in FFG Werke, for the aggregate consideration of Euro 2,340,000 (the "**Acquisition**"). The Acquisition was completed on 23 September 2015 and as at the date of this report, Euro 161,000 and Euro 2,179,000 were paid in cash by Sky Thrive to World Ten and Golden Friendship respectively.

*Report of the Directors*

As Golden Friendship is a wholly-owned subsidiary of Taiwan FF which in turn is the holding company of Hong Kong GF, the controlling shareholder of the Company, Golden Friendship is therefore a connected person of the Company under the Listing Rules. The Acquisition constituted a connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 23 September 2015.

Non-exempt continuing connected transaction(s)

1. As disclosed in the announcement of the Company dated 22 May 2014 and the circular of the Company dated 6 June 2014, the Company had on 22 May 2014 entered into: (a) a components agreement (the "**Components Agreement**") with Taiwan FF, pursuant to which the Company (and/or its permitted designates) (the "**GF Parties**") will supply CKD components to Taiwan FF (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 27 June 2014; and (b) a machine tools agreement (the "**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 such machine tools in the PRC, Hong Kong and Macau Special Administrative Region (the "**Sales Region**") on an exclusive basis, and at the request of the GF Parties, the FF Parties will supply such machine tools to and authorize the GF Parties to sell such machine tools in the Sales Region on an exclusive basis for a period of three years from 27 June 2014.

   As Taiwan FF is the holding company of Hong Kong GF, the controlling shareholder of the Company, Taiwan FF is therefore a connected person of the Company under the Listing Rules. The transactions under the Components Agreement and the 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 Components Agreement and the 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 27 June 2014. 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 2015 to 31 December 2015 under the Components Agreement were RMB3.26 million and RMB129.05 million respectively and the actual supply amount and purchase amount of the period were RMB1.55 million and RMB43.45 million respectively. The annual cap for the purchase of the designated CNC machine tools from the FF Parties by the GF Parties for the period from 1 January 2015 to 31 December 2015 under the Machine Tools Agreement was RMB138.93 million and the actual purchase amount of the period was RMB33.82 million.

2. As disclosed in the announcement of the Company dated 9 July 2014 and the circular of the Company dated 22 July 2014, FFG Werke and Sky Thrive had on 9 July 2014 entered into a guarantee procurement deed (the "**Guarantee Procurement Deed**"), pursuant to which FFG Werke may, during the period from 6 August 2014 to the date immediately preceding the expiry of 12 months thereafter, request Sky Thrive to (at the absolute discretion of Sky Thrive) procure the issuance of bank guarantees in respect of manufacturing and/or sales contracts between any member of FFG Werke and its subsidiaries (the "**FFG Werke Group**") and the customer(s) of the FFG Werke Group in favour of such customers for a maximum aggregate amount of Euro 10.6 million.

   As FFG Werke is an associate of Taiwan FF, which in turn is the holding company of Hong Kong GF, the controlling shareholder of the Company, FFG Werke is therefore a connected person of the Company under the Listing Rules. The transactions under the Guarantee Procurement Deed 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 resolution approving the Guarantee Procurement Deed and the transactions contemplated thereunder was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 6 August 2014.

*Report of the Directors*

As at 31 December 2015, bank guarantees in the aggregate amount of Euro 10.6 million has been issued by licensed banks in favour of customers of the FFG Werke Group, as procured pursuant to the Guarantee Procurement Deed.

The independent non-executive Directors have reviewed the Components Agreement, the Machine Tools Agreement and the Guarantee Procurement Deed 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 Components Agreement, the Machine Tools Agreement and the Guarantee Procurement Deed and on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

## 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 of the Company.

## 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 2015.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 10.55% of the Group's total turnover for the year and the largest customer accounted for approximately 2.74% of the Group's total turnover. The five largest suppliers accounted for approximately 28.21% of the Group's total purchases for the year and the largest supplier accounted for approximately 15.07% 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 and Taiwan FF were among the aforesaid five largest suppliers of the Group, to the knowledge of the Directors, none of the shareholders owning more than 5% of the Company's shares had any interest in the aforesaid customers and suppliers of the Group during the year.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PERMITTED INDEMNITY

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

## EQUITY-LINKED AGREEMENTS

Save as disclosed in this Annual Report, 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 34 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, its parent company, its subsidiaries or fellow subsidiaries were a party and in which a director of the Company or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

*Report of the Directors*

## 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 CG Code") as set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2015.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 33 to 44.

## 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 122.

## AUDITOR

Deloitte Touche Tohmatsu ("Deloitte") has been appointed as auditor of the Company by the Board with effect from 27 November 2015 to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers on 25 November 2015 and to hold office until the conclusion of the forthcoming annual general meeting ("AGM"). A resolution will be proposed at the forthcoming AGM to re-appoint Deloitte as auditor of the Company.

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

The consolidated financial statements for the year ended 31 December 2015 have been audited by Deloitte.

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

Hong Kong, 31 March 2016

# 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and has reviewed and updated regularly to follow the latest practices in corporate governance. During the year under review, the Company has complied with the code provisions set out in the CG Code except for the following deviation.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting.

The chairman of the Board was unable to attend the annual general meeting held on 29 May 2015 due to his business trip and Mr. Chen Hsiang-Jung, an executive Director, took the chair of the annual general meeting pursuant to the articles of association of the Company ("the Articles").

## 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 2015, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

*Corporate Governance Report*

## 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 consists of eight Directors including five executive Directors and three independent non-executive Directors:

### Executive Directors

Mr. CHU Chih-Yaung *(Chairman)*
Mr. CHEN Hsiang-Jung *(Chief Executive Officer)*
Mr. CHEN Min-Ho
Mr. WEN Chi-Tang
Mr. CHIU Rung-Hsien

### Independent Non-Executive Directors

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

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

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

### Chairman and Chief Executive Officer

The positions and roles of Chairman of the Board and Chief Executive Officer of the Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman, being Mr. CHU Chih-Yaung, is in-charge of the leadership of the Board and strategies planning of the Group. The Chief Executive Officer, being Mr. CHEN Hsiang-Jung, is responsible for the day-to-day management of the Group's business.

### 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 the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

### Corporate Governance Functions

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

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

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

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

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

*Corporate Governance Report*

5. review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The Board had attended to the above matters during the year.

### Directors' training

Based on the training records provided to the Company by the directors and the Company's record, the directors have participated in the following training during 2015:

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

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

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

### 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 financial year ended 31 December 2015, 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 | 3/4 |
| Mr. CHEN Hsiang-Jung | 4/4 |
| Mr. CHEN Min-Ho | 3/4 |
| Mr. WEN Chi-Tang | 3/4 |
| Mr. CHIU Rung-Hsien | 4/4 |
| Mr. KOO Fook Sun, Louis | 3/4 |
| Mr. CHIANG Chun-Te | 4/4 |
| Mr. YU Yu-Tang | 3/4 |

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

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

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

## AUDIT COMMITTEE

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

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

The chief responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment 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 internal control system 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 2015. The audited financial statements of the Company for the year ended 31 December 2015 has also been reviewed by the Audit Committee.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, Certified Public Accountants (who had been appointed as the auditor of the Group on 27 November 2015 to fill the casual vacancy arising from the resignation of Pricewaterhouse Coopers), be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

### Frequency of Meetings and Attendance

During the year 2015, the Audit Committee met three times, during which the management of the Company and the external auditor were also in attendance, if appropriate. Details of the attendance by members of the Audit Committee of such meetings are as follows:

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

## NOMINATION OF DIRECTORS

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

# Corporate Governance Report

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

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

During the year and prior to the date of this report, there were no changes of the Directors. The Nomination Committee considered the current Board size as adequate for the Company's present operations. In addition, the Committee has reviewed and satisfied with the independence of all independent non-executive Directors.

In accordance with the Articles, at least one-third of the Directors will retire from office at the forthcoming annual general meeting. In accordance with the Articles 87(1) of the Articles, Mr. Chen Hsiang-Jung, Mr. Chen Min-Ho and Mr. Chiu Rung-Hsien will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

### Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2015 and details of the attendance of its meeting are as follows:

| Name of members | Number of attendance |
|---|---|
| Mr. KOO Fook Sun, Louis | 1/1 |
| Mr. CHIANG Chun-Te | 1/1 |
| Mr. CHEN Hsiang-Jung | 1/1 |

### Board Diversity Policy

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

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

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

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

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

## 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 two independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman) and Mr. CHIANG Chun-Te, and one executive Director, namely Mr. CHEN Hsiang-Jung.

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 2015 to review the existing remuneration packages of each of the Directors and senior management of the Company and details of the attendance of its meeting are as follows:

| Name of members | Number of attendance |
|---|---|
| Mr. KOO Fook Sun, Louis | 1/1 |
| Mr. CHIANG Chun-Te | 1/1 |
| Mr. CHEN Hsiang-Jung | 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. In addition, each of the executive Directors may receive a discretionary bonus as the Board may suggest, the amount of which shall not exceed 2% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee. Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements.

The Company had adopted a share option scheme on 22 December 2005 which was effective for a period of 10 years until 21 December 2015. 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 performance and efficiency 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 2015 is set out below:

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

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

## OTHER BOARD COMMITTEES

During the year, an independent board committee comprising all the three independent non-executive directors was formed for discloseable and connected transaction involving acquisition of 25.5% equity interest in FFG Werke GmbH. Details of this discloseable and connected transaction were set out in a circular of the Company dated 7 September 2015.

Another independent board committee comprising all the three independent non-executive directors was formed for the major and connected transaction involving provision of financial assistance. Details of this major and connected transaction were set out in a circular of the Company dated 28 October 2015.

Another independent board committee comprising all the three independent non-executive directors was formed for the major transaction and connected transaction involving formation of joint venture and capital injection. Details of this major transaction and connected transaction were set out in a circular of the Company dated 4 December 2015.

A total of three committee meetings were held to approve respectively the above transactions with the presence of all the committee members.

## COMPANY SECRETARY

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

## CONSTITUTIONAL DOCUMENTS

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

## AUDITOR'S REMUNERATION

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

| **Services rendered to the Group** | **Fee paid/payable** |
|---|---|
| | HK$'000 |
| Audit services | 1,300 |
| Non-audit services | – |

## INTERNAL CONTROL SYSTEM

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls, etc.. The Board is committed to implementing an effective and sound internal control system to safeguard the interests of the shareholders and the Group's assets. During the year, the Company has engaged a professional firm to assist the board in conducting a review of certain key parts of the internal control system of the Group. The Board also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. The report and findings of the review, had been submitted to the Board and follow up plan had been adopted. The review did not find any material deficiencies in the internal control system of the Group.

## 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 2015, 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 of the Company (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 29 May 2015 (the "2015 AGM"). A notice convening the 2015 AGM contained in the circular dated 27 April 2015 was dispatched to the Shareholders together with the 2014 Annual Report. Mr. Chen Hsiang-Jung, the Executive Director and Mr. Koo Fook Sun, Louis, the Chairman of the committees of the Board, attended the 2015 AGM to answer the questions from the Shareholders. Other directors were unable to attend the 2015 AGM due to their other business commitment.

Besides, extraordinary general meetings of the Company were held on 23 September 2015, 13 November 2015 and 21 December 2015, respectively (the "EGMs") to approve, respectively, (i) discloseable and connected transaction; (ii) major and connected transaction and (iii) major transaction and connected transaction of the Company etc. Mr. Chen Hsiang-Jung and Mr. Koo Fook Sun, Louis attended the EGMs. Other Directors were unable to attend the EGMs due to their other business commitment.

The Chairman of the 2015 AGM and EGMs explained detailed procedures for conduction a poll. All the resolutions proposed at the 2015 AGM and EGMs were passed separately by the Shareholders by way of poll. The results of the poll were published on the websites of the Stock Exchange and the Company after the meetings.

The forthcoming annual general meeting of the Company will be held on 2 June 2016 (the "2016 AGM"). A notice convening 2016 AGM will be published on the websites of the Stock Exchange and the Company and dispatched together with the 2015 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 registrars 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 of the Company 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 2015.

Hong Kong, 31 March 2016

# Independent Auditor's Report

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

**Deloitte Touche Tohmatsu**
35/F One Pacific Place
88 Queensway
Hong Kong

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 121, which comprise the consolidated statement of financial position as at 31 December 2015 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 a summary of significant accounting policies and other explanatory information.

## DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## OTHER MATTER

The consolidated statement of financial position as at 31 December 2014 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 were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2015.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
31 March 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | NOTES | FOR THE YEAR ENDED 31 DECEMBER 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **990,239** | 1,300,119 |
| Cost of revenue | 5 | **(722,314)** | (955,225) |
| **Gross profit** | | **267,925** | 344,894 |
| Other income | 6 | **39,797** | 33,520 |
| Distribution and selling expenses | | **(122,494)** | (129,480) |
| Administrative expenses | | **(115,895)** | (99,528) |
| Other operating expenses | | **(4,023)** | (4,144) |
| Finance costs | 9 | **(8,734)** | (9,174) |
| Share of loss of joint ventures | 17 | **(1,387)** | (2,458) |
| Share of profit (loss) of associates | 18 | **101** | (8,559) |
| Gain on deemed disposal of available-for-sale financial asset | 18 | **662** | – |
| **Profit before income tax** | 7 | **55,952** | 125,071 |
| Income tax expense | 10 | **(9,855)** | (23,758) |
| **Profit attributable to equity holders of the Company** | | **46,097** | 101,313 |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Share of other comprehensive loss of an associate | | **(4,318)** | – |
| Currency translation differences | | **157** | (3,266) |
| **Total comprehensive income for the year, attributable to equity holders of the Company** | | **41,936** | 98,047 |
| **Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)** | 11 | | |
| **– Basic and diluted earnings per share** | | **0.11** | 0.25 |
| Dividends | 12 | **24,192** | 44,352 |

# Consolidated Statement of Financial Position

| | | AT 31 DECEMBER | |
|---|---|---|---|
| | NOTES | **2015 RMB'000** | 2014 RMB'000 |
| **Non-current assets** | | | |
| Prepaid lease payments-non-current | 13 | **35,658** | 36,598 |
| Property, plant and equipment | 14 | **216,383** | 236,867 |
| Intangible assets | 15 | **3,251** | 1,696 |
| Investments in joint ventures | 17 | **16,970** | 18,357 |
| Investments in associates | 18 | **310,959** | 1,207 |
| Available-for-sale financial asset | 21 | **–** | 8,623 |
| Deferred tax assets | 30 | **6,310** | 6,144 |
| | | **589,531** | 309,492 |
| **Current assets** | | | |
| Inventories | 22 | **250,076** | 257,257 |
| Debtors, deposits and prepayments | 20 | **449,745** | 513,983 |
| Prepaid lease payments-current | 13 | **940** | 940 |
| Amount due from an investee | 21 | **–** | 4,473 |
| Amounts due from customers for contract work | 23 | **36,717** | 32,494 |
| Amount due from ultimate holding company | 34 | **–** | 532 |
| Amounts due from fellow subsidiaries and an associate of ultimate holding company | 34 | **1,277** | 296 |
| Amounts due from joint ventures | 34 | **717** | 891 |
| Amounts due from associates and subsidiaries of an associate | 34 | **60,841** | 12,274 |
| Restricted bank deposits | 24 | **172,613** | 134,681 |
| Term deposits with initial term of over three months | 25 | **–** | 98,000 |
| Cash and cash equivalents | 25 | **101,583** | 262,751 |
| | | **1,074,509** | 1,318,572 |

# Consolidated Statement of Financial Position

| | | AT 31 DECEMBER | |
|---|---|---|---|
| | | **2015** | 2014 |
| | NOTES | **RMB'000** | RMB'000 |
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 23 | **15,576** | 42,800 |
| Creditors, other payables and accrued charges | 27 | **447,313** | 410,211 |
| Amount due to ultimate holding company | 34 | **160** | 1,716 |
| Amount due to immediate holding company | 34 | **1,856** | 3,447 |
| Amounts due to a fellow subsidiary and an associate of ultimate holding company | 34 | **21,664** | 784 |
| Amounts due to an associate and subsidiaries of an associate | 34 | **10,389** | 1,128 |
| Amounts due to joint ventures | 34 | **317** | 76 |
| Current income tax liabilities | | **7,858** | 16,681 |
| Bank borrowings | 29 | **408,677** | 402,079 |
| Warranty provision | 28 | **5,791** | 6,329 |
| | | **919,601** | 885,251 |
| **Net current assets** | | **154,908** | 433,321 |
| **Total assets less current liabilities** | | **744,439** | 742,813 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 30 | **–** | 16,118 |
| **Net assets** | | **744,439** | 726,695 |
| **Capital and Reserves** | | | |
| Share capital | 26 | **4,022** | 4,022 |
| Share premium | | **82,281** | 82,281 |
| Capital reserves | | **77,338** | 77,338 |
| Other reserves | | **48,905** | 53,066 |
| Retained earnings | | **531,893** | 509,988 |
| **Total equity** | | **744,439** | 726,695 |

The consolidated financial statements on pages 47 to 121 were approved and authorised for issue by the Board of Directors on 31 March 2016 and are signed on its behalf by:

| | |
|---|---|
| **Chu Chih-Yaung** | **Chen Hsiang-Jung** |
| *DIRECTOR* | *DIRECTOR* |

# Consolidated Statement of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Share capital RMB'000 | Share premium RMB'000 (note a) | Capital reserves RMB'000 (note b) | Other reserves RMB'000 (note c) | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2014 | 4,022 | 82,281 | 77,338 | 56,332 | 453,027 | 673,000 |
| Profit for the year | – | – | – | – | 101,313 | 101,313 |
| **Other comprehensive income** | | | | | | |
| Currency translation differences | – | – | – | (3,266) | – | (3,266) |
| **Total comprehensive income** | – | – | – | (3,266) | 101,313 | 98,047 |
| **Dividends paid** | – | – | – | – | (44,352) | (44,352) |
| At 31 December 2014 | 4,022 | 82,281 | 77,338 | 53,066 | 509,988 | 726,695 |
| Profit for the year | – | – | – | – | 46,097 | 46,097 |
| **Other comprehensive income** | | | | | | |
| Share of other comprehensive loss of an associate | – | – | – | (4,318) | – | (4,318) |
| Currency translation differences | – | – | – | 157 | – | 157 |
| **Total comprehensive income** | – | – | – | (4,161) | 46,097 | 41,936 |
| **Dividends paid** | – | – | – | – | (24,192) | (24,192) |
| At 31 December 2015 | 4,022 | 82,281 | 77,338 | 48,905 | 531,893 | 744,439 |

Note:

a. Share premium

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

b. Capital reserves

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

c. Other reserves

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

# Consolidated Statement of Cash Flows

| | | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|---|
| | | **2015** | 2014 |
| | NOTES | **RMB'000** | RMB'000 |
| **Operating activities** | | | |
| Cash generated from operations | 31 | **128,851** | 242,636 |
| Income tax and withholding tax paid | | **(34,962)** | (26,049) |
| Net cash generated from operating activities | | **93,889** | 216,587 |
| **Investing activities** | | | |
| Investment in a joint venture | | **–** | (3,239) |
| Investment in associates | | **(289,067)** | – |
| Placement of shareholder loan | | **(6,037)** | – |
| Purchases of property, plant and equipment ("PPE") | | **(5,818)** | (4,221) |
| Proceeds from sale of PPE | | **20** | 567 |
| Purchases of intangible assets | | **(2,538)** | (939) |
| Interest received | | **14,193** | 9,995 |
| Withdrawal of restricted bank deposits | | **134,681** | 60,167 |
| Placement of restricted bank deposits | | **(172,613)** | (134,681) |
| Decrease (increase) in term deposits with initial term of over three months | | **98,000** | (74,000) |
| Net cash used in investing activities | | **(229,179)** | (146,351) |
| **Financing activities** | | | |
| Proceeds from bank borrowings | | **1,837,670** | 192,455 |
| Repayments of bank borrowings | | **(1,831,072)** | (158,128) |
| Dividends paid to equity holders | | **(24,192)** | (44,352) |
| Interest paid | | **(8,734)** | (9,174) |
| Net cash used in financing activities | | **(26,328)** | (19,199) |
| **Net (decrease) increase in cash and cash equivalents** | | **(161,618)** | 51,037 |
| Cash and cash equivalents at beginning of the year | | **262,751** | 211,829 |
| Effect of foreign exchange rate changes | | **450** | (115) |
| **Cash and cash equivalents at end of the year** | | **101,583** | 262,751 |

# Notes to the Consolidated Financial Statements

## 1. GENERAL

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

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

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

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

The consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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 4.

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

The following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

| | |
|---|---|
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contribution |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010-2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle |

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

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

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[2] |
| Amendments to HKAS 1 | Disclosure Initiative[2] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[2] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[2] |

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2016.

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

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

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

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

*Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors anticipate that the application of these amendments to HKFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

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

*Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The directors anticipate that the application of these amendments to HKFRS 10 and HKAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Except as described above, the directors anticipate that the application of other new and revised HKFRSs in issue but not effective will have no material effect on the Group's consolidated financial statements.

### 2.2 Subsidiaries

#### *2.2.1 Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### *2.2.1 Consolidation (Continued)*

*Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss and other comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### *2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in an associate are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount as part of the carrying amount of the investment in the associate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Associates *(Continued)*

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in an associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in an associate are recognised in the consolidated statement of profit or loss and other comprehensive income.

### 2.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Foreign currency translation

*(a) 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 RMB, which is the Company's functional and the Group's presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

Exchange differences arising on monetary items are recognised in profit or loss in the period in which they arise.

*(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each consolidated statement of financial position presented are translated at the rate of exchange prevailing at the end of each reporting period;

(ii) income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average exchange rate 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 rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

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 rate of exchange prevailing at the end of each reporting period. Currency translation differences are recognised in the other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

#### *(d) Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associate or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.7 Prepaid lease payments

Upfront prepayments made for the land use rights are initially recognised in the consolidated statement of financial position as lease payments and are expensed in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the periods of the land use right certificate which is 50 years.

### 2.8 Property, plant and equipment

Property, plant and equipment (other than construction in progress) is stated at historical cost less subsequent accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Property, plant and equipment *(Continued)*

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of profit or loss and other comprehensive income.

Construction in progress represents property in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

### 2.9 Intangible assets

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.

### 2.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a 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 fair value through profit or loss) 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 fair value through profit or loss 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 continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

### 2.12 Financial assets

#### *2.12.1 Classification*

The Group classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets at FVTPL of the Group comprise those designated as at FVTPL upon initial recognition.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Financial assets *(Continued)*

#### *2.12.1 Classification (Continued)*

*(a) Financial assets at fair value through profit or loss ("FVTPL") (Continued)*

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's receivables comprise 'Debtors, deposits and prepayments', 'Amount due from an investee', 'Amount due from ultimate holding company', 'Amounts due from fellow subsidiaries and an associate of ultimate holding company', 'Amounts due from joint ventures', 'Amounts due from associates and subsidiaries of an associate', 'Restricted bank deposits', 'Term deposits with initial term of over three months' and 'Cash and cash equivalents' in the consolidated statement of financial position.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Financial assets *(Continued)*

#### *2.12.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date, i.e. the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value, except that its fair value cannot be measured reliably. Unlisted equity financial assets are stated at cost less impairment because the range of reasonable fair value estimates is so significant that the fair value cannot be measured reliably. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

*Effective interest method*

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

### 2.13 Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or equity according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by group entities are recorded at the proceeds received, net of direct issue costs.

*Effective interest methods*

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

Interest expense is recognized on an effective interest basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Financial liabilities and equity instruments *(Continued)*

*Financial liabilities*

Financial liabilities including creditors, other payables and accrued charges, amount due to ultimate holding company, amount due to immediate holding company, amounts due to a fellow subsidiary and associate of ultimate holding company, amounts due to an associate and subsidiaries of an associate, amounts due to joint ventures and bank borrowings are subsequently measured at amortized cost, using the effective interest method.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or those designated as at FVTPL on initial recognition.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

### 2.14 Impairment of financial assets

*(a) Asset carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.14 Impairment of financial assets *(Continued)*

#### *(b) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through profit or loss.

### 2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes bank borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash at bank and on hand, and short-term bank deposits with original maturities of three months or less.

### 2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.20 Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss and other comprehensive income over the period of the bank borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Bank 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 end of the reporting period.

### 2.21 Bank borrowing costs

General and specific bank borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

### 2.22 Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of the reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 Employee benefits

*Pension obligations*

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

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

### 2.24 Government grants

Government grants are recognised at their fair values where there is reasonable assurance that grant will be received and all attaching conditions will be complied with. Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss and other comprehensive income over the period necessary to match them with the cost that they are intended to compensate.

### 2.25 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.26 Revenue recognition and other income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of machine tools and forklift trucks are recognised when goods are delivered and title has been passed.

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

(c) Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

(d) Repair income is recognised when service are rendered.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.27 Parking garage structures contracts

Where the outcome of a parking garage structures construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, measured by the proportion of contract costs incurred for work performed to date as compared to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

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

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

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

### 2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

### 2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders or directors where appropriate.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

*(a) Foreign exchange risk*

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

At 31 December 2015, if RMB had strengthened/weakened by 5% (2014: 5%) against the Hong Kong dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB1,863,000 higher/lower (2014: approximately RMB3,382,000 higher/lower).

At 31 December 2015, if RMB had strengthened/weakened by 5% (2014: 5%) against the United States dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB6,532,000 higher/lower (2014: approximately RMB13,444,000 higher/lower).

At 31 December 2015, if RMB had strengthened/weakened by 5% (2014: 5%) against Euro with all other variables held constant, the Group's profit for the year would have been approximately RMB6,545,000 higher/lower (2014: approximately RMB1,200,000 higher/lower).

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.

During the year ended 31 December 2015, the Group entered into a forward foreign exchange contract under which the Group could cover RMB/USD payments and receipts within a target redemption forward purchased from a bank with the maximum notional amount of USD70,000,000. Each USD5,000,000 within the notional amount shall be matured at a fixed settlement date, with 5 fixed settlement dates expired during the year ended 31 December 2015 and the last settlement date of the entire forward foreign exchange contract to be 22 July 2016. The strike price of the forward contract is 6.1840 (the "Strike Price") and the European Knock In is 6.5700 (the "EKI") which means the Group is entitled to the right of selling US dollar to the bank at USD/RMB rate of 6.1840 when the actual exchange rate of USD/RMB falls below the Strike Price, while the bank is entitled to the right of requiring the Company to sell US dollar at USD/RMB rate of 6.1840 when the actual exchange rate of USD/RMB goes up above the EKI.

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

*(a) Foreign exchange risk (Continued)*

As at 31 December 2015, the notional amount of value of the outstanding forward foreign exchange contract was USD45,000,000, while the fair value of the forward contract was insignificance, as the expected exchange rate of USD/RMB for the pre-determined reference dates of the forward foreign exchange contract does not expect to exceed the range of the Strike Price and EKI.

The fair value of the Company's forward foreign exchange contract as at 31 December 2015 is measured based on the Level 2 of fair value measurement.

*(b) Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest bearing assets and liabilities except for the deposits in banks and certain bank loans.

At 31 December 2015, if interest rates had been 50 basis points higher/lower with all other variables held constant, the Group's post-tax profit for the year would have been RMB1,520,000 (2014: RMB73,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings.

*(c) Credit risk*

As at 31 December 2015, the Group's maximum exposure to credit risk arises from debtors, deposits, amounts due from ultimate holding company, fellow subsidiaries and an associate of ultimate holding company, joint ventures, associates and their subsidiaries as well as restricted bank deposits, term deposits with initial term of over three months, cash and cash equivalents as stated in the consolidated statement of financial position, and the contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 32.

In order to minimise the credit risk, management of the Group has delegated a team of personnel responsible for determination of credit limits, credit approvals and implementation of monitoring procedures to ensure follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount due from each individual trade customer at each reporting date in order to provide for impairment losses for irrecoverable amounts.

The credit risk on cash and cash equivalents is considered insignificant because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(d) 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 | 1 year to 5 years RMB'000 | More than 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | |
| Creditors and other payables | 218,645 | – | – | 218,645 | 218,645 |
| Bank borrowings | 408,677 | – | – | 408,677 | 408,677 |
| Amount due to ultimate holding company | 160 | – | – | 160 | 160 |
| Amount due to immediate holding company | 1,856 | – | – | 1,856 | 1,856 |
| Amounts due to a fellow subsidiary and an associate of ultimate holding company | 21,664 | – | – | 21,664 | 21,664 |
| Amounts due to an associate and subsidiaries of an associate | 10,389 | – | – | 10,389 | 10,389 |
| Amounts due to joint ventures | 317 | – | – | 317 | 317 |
| | 661,708 | – | – | 661,708 | 661,708 |

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(d) Liquidity risk (Continued)*

| | Repayable on demand or less than 1 year RMB'000 | 1 year to 5 years RMB'000 | More than 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2014** | | | | | |
| Creditors and other payables | 246,632 | – | – | 246,632 | 246,632 |
| Bank borrowings | 402,079 | – | – | 402,079 | 402,079 |
| Amount due to ultimate holding company | 1,716 | – | – | 1,716 | 1,716 |
| Amount due to immediate holding company | 3,447 | – | – | 3,447 | 3,447 |
| Amounts due to a fellow subsidiary and an associate of ultimate holding company | 784 | – | – | 784 | 784 |
| Amounts due to an associate and subsidiaries of an associate | 1,128 | – | – | 1,128 | 1,128 |
| Amounts due to joint ventures | 76 | – | – | 76 | 76 |
| | 655,862 | – | – | 655,862 | 655,862 |

In addition, the Group may be required to settle the financial guarantees issued by the Group as detailed in Note 32 within one year from each reporting date should the guarantees be crystallised.

### 3.2 Capital risk management

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

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Capital risk management *(Continued)*

The capital structure of the Group consists of net debts, which includes bank borrowings net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising share capital, share premium and reserves.

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

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Total bank borrowings | **408,677** | 402,079 |
| Less: cash and cash equivalents | **(101,583)** | (262,751) |
| Net debt | **307,094** | 139,328 |
| Total equity | **744,439** | 726,695 |
| Net capital | **1,051,533** | 866,023 |
| Gearing ratio | **29%** | 16% |

The increase in the gearing ratio during 2015 was mainly due to decrease in cash and cash equivalents.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(a) Revenue from construction of parking garage structures*

When the outcome of a parking garage structures construction contract can be estimated reliably, the Group recognises the related revenue based on the percentage-of-completion method, which is measured by the proportion of contract costs incurred for work performed to date to the estimated total contract costs. Estimated total costs to be incurred under each contract are regularly reviewed during the whole term of the contract. Recognition of this revenue is made based on performance measurement. It involves an estimation process and is subject to risks and uncertainties inherent in projecting future events. A number of internal and external factors can affect our estimates, including different cost components applied to different parking garage structures being constructed; and efficiency of the Group's employees undertaking the construction. Recognised revenue and profit are subject to revisions as the respective contract progress to completion. Revisions in profit estimates are charged to the consolidated statement of profit or loss and other comprehensive income in the period in which the revision becomes known. Accordingly, any changes in the Group's estimates would impact the Group's future operating results.

*(b) Estimated impairment of trade debtors*

The Group makes provision for impairment of trade debtors based on an estimate of the recoverability of the debtors. Provisions are applied to debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of debtors requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying amount of the debtors and provision for impairment losses in the year in which such estimate has been changed.

As at 31 December 2015, provision for impairment of trade debtors amounting to approximately RMB36,512,000 (2014: RMB36,544,000) had been recognised.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.1 Critical accounting estimates and assumptions *(Continued)*

#### *(c) Estimated useful lives and impairment of property, plant and equipment*

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

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

#### *(d) Provision for impairment of inventories*

The Group reviews the carrying value 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, management identifies, using their judgement, inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market price for similar items.

#### *(e) Income taxes*

Most of the subsidiaries of the Group are subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the financial period in which such determination is made.

#### *(f) Warranty provision*

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.1 Critical accounting estimates and assumptions *(Continued)*

*(g) Impairment of goodwill recognised in investments in associates acquired*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2015, no impairment loss in respect of goodwill recognised in investments in associates was recognised by the Group.

*(h) Contingent liability arising from financial guarantee contracts*

The Group has provided financial guarantees to an associate in respect of borrowings, the details of which is disclosed in Note 32. Management estimates that the default risk of the associate is remote, thus the exposure to contingent liability arising from these financial guarantees is remote and immaterial, and as a result, no contingent liability has been recognised in current year. Management will review the exposure to such guaranty liability on an ongoing basis and revise its estimate where appropriate.

*(i) Fair value of forward foreign exchange contracts*

When the fair value of forward foreign exchange contracts cannot be derived from active markets, their fair value is determined using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. The alternate market data or inputs to these valuation techniques are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as applied forward foreign exchange rate. Changes in assumptions about the factor could affect the fair value of forward foreign exchange contracts.

## 5. SEGMENT INFORMATION

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

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

The Executive Directors assess the performance of the operating segments based on their respective gross profit.

## 5. SEGMENT INFORMATION *(Continued)*

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

| | **Machine Tools RMB'000** | **Parking Garage Structures RMB'000** | **Forklift Trucks RMB'000** | **Total Group RMB'000** |
|---|---|---|---|---|
| **For the year ended 31 December 2015** | | | | |
| Revenue (all from external sales) | **671,863** | **229,610** | **88,766** | **990,239** |
| Cost of revenue | **(468,722)** | **(172,511)** | **(81,081)** | **(722,314)** |
| Segment profit | **203,141** | **57,099** | **7,685** | **267,925** |

| | Machine Tools RMB'000 | Parking Garage structures RMB'000 | Forklift Trucks RMB'000 | Total Group RMB'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2014** | | | | |
| Revenue (all from external sales) | 964,771 | 205,808 | 129,540 | 1,300,119 |
| Cost of revenue | (670,124) | (167,124) | (117,977) | (955,225) |
| Segment profit | 294,647 | 38,684 | 11,563 | 344,894 |

Majority of the Group's operations and assets are located in the PRC and the Group mainly sells to the PRC market. No customers contributed over 10% of total revenue for each of the years.

## 6. OTHER INCOME

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Sale of scrap materials | **3,865** | 7,542 |
| Government subsidies | **5,487** | 1,550 |
| Repair income | **8,201** | 6,646 |
| Rental income | **3,412** | 2,108 |
| Interest income | **14,193** | 9,995 |
| Others | **4,639** | 5,679 |
| | **39,797** | 33,520 |

## 7. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Directors and chief executives' remuneration | **2,128** | 2,054 |
| Other staff costs | **135,950** | 123,854 |
| Other staff's retirement benefits scheme contributions | **4,915** | 4,232 |
| Total staff costs | **142,993** | 130,140 |
| Auditor's remuneration | **1,408** | 1,410 |
| Cost of inventories recognised as an expense | **627,647** | 868,176 |
| Depreciation of property, plant and equipment | **26,081** | 28,080 |
| Amortisation of intangible assets | **983** | 701 |
| Allowance for inventories, net | **7,791** | 7,009 |
| Provision for warranty | **5,121** | 6,766 |
| Direct operating expenses incurred for rental income | **1,947** | 1,938 |
| Loss on disposal of property, plant and equipment | **201** | 296 |
| Net exchange loss | **19,196** | 2,849 |
| Research and development costs recognised as expense* | **17,253** | 23,275 |

* The amount disclosed above does not include depreciation of property, plant and equipment, amortisation of intangible assets and staff costs charged to research and development cost recognised as expense amounting to RMB1,183,000, RMB224,000 and RMB13,722,000 (2014: RMB1,898,000, RMB286,000 and RMB11,232,000) respectively. Such expenses are included in their corresponding headings within this note.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

The remuneration of each director and chief executive is set out below:

*Executive directors*

| | Chu Chih Yaung# RMB'000 | Chen Hsiang-Jung* RMB'000 | Chiu Chen Min-Ho RMB'000 | Wen Chi-Tang RMB'000 | Rung-Hsien RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2015** | | | | | | |
| Salaries | **180** | **180** | **144** | **144** | **144** | **792** |
| Performance related bonuses | **500** | **500** | **–** | **–** | **–** | **1,000** |
| Total | **680** | **680** | **144** | **144** | **144** | **1,792** |
| Year ended 31 December 2014 | | | | | | |
| Salaries | 180 | 180 | 144 | 144 | 144 | 792 |
| Performance related bonuses | 473 | 473 | – | – | – | 946 |
| Total | 653 | 653 | 144 | 144 | 144 | 1,738 |

# Chairman

* Chief executive officer

*Independent non-executive directors*

| | Koo Fook Sun, Louis RMB'000 | Chiang Chun-Te RMB'000 | Yu Yu-Tang RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2015** | | | | |
| Fees | **168** | **84** | **84** | **336** |
| Total | **168** | **84** | **84** | **336** |
| Year ended 31 December 2014 | | | | |
| Fees | 158 | 79 | 79 | 316 |
| Total | 158 | 79 | 79 | 316 |

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

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

The executive directors and chief executives' 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-executives' emoluments shown above were mainly for their services as directors.

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

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2014: none) were directors of the Company. The emoluments of the remaining three (2014: five) individuals were as follows:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Basic salaries and allowances | **2,158** | 1,926 |
| Bonus | **745** | 2,130 |
| Pension costs – defined contribution plans | **77** | 191 |
| | **2,980** | 4,247 |

The emoluments of the five highest paid individuals fell within the following bands:

| | **2015** | 2014 |
|---|---|---|
| Emoluments bands (in HKD) | | |
| Less than HKD1,000,000 | **3** | 3 |
| HKD1,000,001 to HKD1,500,000 | **2** | 1 |
| HKD1,500,001 to HKD2,000,000 | **–** | 1 |

During the years ended 31 December 2014 and 2015, none of the directors of the Company and the five highest paid individuals of the Group (i) received any emolument from the Group as an inducement to join or upon joining the Group; (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

## 9. FINANCE COSTS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Interest expense: | | |
| – Bank borrowings | **8,734** | 9,174 |

## 10. INCOME TAX EXPENSE

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Current tax | | |
| – Current year | **16,301** | 25,382 |
| – Overprovision in prior years | **(6,280)** | – |
| | **10,021** | 25,382 |
| Deferred tax credit | **(166)** | (1,624) |
| | **9,855** | 23,758 |

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

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

Enterprise income tax ("EIT") is provided at 25% for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). Hangzhou Good Friend renewed its New and High-Tech Enterprise status in 2014, which has been approved by the relevant government authorities, and it is entitled to a reduced tax rate of 15% for a three-year period commencing 2014. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2015 is 15% (2014: 15%).

## 10. INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of principal operating entity of the Group as follows:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit before income tax | **55,952** | 125,071 |
| Add: Share of loss of joint ventures and associates, net | **1,286** | 11,017 |
| | **57,238** | 136,088 |
| Tax calculated at tax rates applicable to the principal operating entity of the Group (15%) | **8,586** | 20,413 |
| Tax effect of: | | |
| Expenses not deductible for tax purpose | **2,518** | 1,055 |
| Utilisation of previously unrecognised tax losses | **(234)** | (1,152) |
| Tax losses for which no deferred income tax asset was recognised | **6,501** | 1,907 |
| Unrecognised temporary differences | **669** | 2,820 |
| Income not taxable for tax purpose | **(99)** | – |
| Different tax rates of subsidiaries | **(94)** | 957 |
| Tax concession granted to PRC subsidiaries | **(1,712)** | (2,242) |
| Over-provision in prior years | **(6,280)** | – |
| Tax charge | **9,855** | 23,758 |

## 11. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB46,097,000 (2014: RMB101,313,000) by the number of ordinary shares in issue during the year of 403,200,000 (2014: 403,200,000).

| | **2015** | 2014 |
|---|---|---|
| Basic and diluted earnings per share (RMB per share) | **0.11** | 0.25 |

There were no potential dilutive shares in issue for both years.

## 12. DIVIDENDS

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Dividends for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2015 interim – Nil (2014: 2014 interim dividend RMB0.06) per ordinary share | **–** | 24,192 |
| 2014 final – RMB0.06 (2014: 2013 final dividend RMB0.05) per ordinary share | **24,192** | 20,160 |
| | **24,192** | 44,352 |

At a meeting of the board of directors held on 31 March 2016, the directors resolved to recommend a final dividend of RMB0.03 (2014: RMB0.06) per ordinary share for the year ended 31 December 2015. The proposed final dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2015.

## 13. PREPAID LEASE PAYMENTS

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Carrying values | | |
| At beginning of the year | **37,538** | 38,481 |
| Released to profit or loss | **(940)** | (943) |
| At end of the year | **36,598** | 37,538 |
| Less: Amount to be amortised within one year | **(940)** | (940) |
| Non-current portion | **35,658** | 36,598 |

The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB5,131,000 as at 31 December 2015 (2014: RMB5,262,000) to secure the general banking facilities granted to the Group. As at 31 December 2015, the Group has not utilised such secured bank facilities (2014: RMB2,896,000).

Notes to the Consolidated Financial Statements

## 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 2014 | 202,127 | 156,191 | 29,851 | 19,211 | 12,375 | 419,755 |
| Additions | 35 | 3,774 | 674 | 3,597 | 1,381 | 9,461 |
| Transfers | – | 1,773 | 939 | – | (2,712) | – |
| Disposals | – | (1,545) | (1,386) | (1,242) | – | (4,173) |
| At 31 December 2014 | 202,162 | 160,193 | 30,078 | 21,566 | 11,044 | 425,043 |
| Additions | 580 | 494 | 1,446 | 442 | 2,856 | 5,818 |
| Transfers | – | 10,225 | – | – | (10,225) | – |
| Disposals | – | (817) | (279) | (942) | – | (2,038) |
| At 31 December 2015 | 202,742 | 170,095 | 31,245 | 21,066 | 3,675 | 428,823 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2014 | 48,878 | 81,121 | 19,849 | 13,558 | – | 163,406 |
| Provided for the year | 9,301 | 12,922 | 2,351 | 3,506 | – | 28,080 |
| Disposals | – | (942) | (1,249) | (1,119) | – | (3,310) |
| At 31 December 2014 | 58,179 | 93,101 | 20,951 | 15,945 | – | 188,176 |
| Provided for the year | 9,308 | 11,832 | 2,127 | 2,814 | – | 26,081 |
| Disposals | – | (713) | (257) | (847) | – | (1,817) |
| At 31 December 2015 | 67,487 | 104,220 | 22,821 | 17,912 | – | 212,440 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2015 | 135,255 | 65,875 | 8,424 | 3,154 | 3,675 | 216,383 |
| At 31 December 2014 | 143,983 | 67,092 | 9,127 | 5,621 | 11,044 | 236,867 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group has pledged its buildings with carrying amounts of approximately RMB10,131,000 as at 31 December 2015 (2014: RMB10,674,000) to secure the general banking facilities granted to the Group. As at 31 December 2015, the Group has not utilised such secured bank facilities (2014: RMB2,896,000).

As at 31 December 2015, the Group is in the process of applying the building ownership certificate of certain buildings with the aggregated cost accounted to RMB37,405,000 (2014: RMB99,338,000).

## 15. INTANGIBLE ASSETS

| | **Softwares**<br>RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2014 | 9,592 |
| Additions | 939 |
| At 31 December 2014 | 10,531 |
| Additions | 2,538 |
| At 31 December 2015 | 13,069 |
| **Amortisation** | |
| At 1 January 2014 | 8,134 |
| Charge for the year | 701 |
| At 31 December 2014 | 8,835 |
| Charge for the year | 983 |
| At 31 December 2015 | 9,818 |
| **CARRYING VALUES** | |
| At 31 December 2015 | 3,251 |
| At 31 December 2014 | 1,696 |

## 16. DETAILS OF SUBSIDIARIES

The following is a list of subsidiaries of the Group at 31 December 2015 and 2014:

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

## 16. DETAILS OF SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ operation | Principal activities | Issued and fully paid-up share capital/ registered capital | Interest held |
|---|---|---|---|---|
| Hangzhou Good Friend Precision Machinery Co Ltd | PRC | Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structure | Registered Capital USD11,000,000 | 100% |
| Hangzhou Global Friend Precision Machinery Co Ltd | PRC | Design and assembling of forklift trucks | Registered Capital USD10,000,000 | 100% |
| Hangzhou Ever Friend Precision Machinery Co Ltd | PRC | Design and production of computer numerical control machine tools | Registered Capital USD3,000,000 | 100% |
| Hangzhou Glory Friend Machinery Technology Co., Ltd | PRC | Processing of computer numerical control machine tools | Registered Capital USD15,000,000 | 100% |
| Rich Friend (Shanghai) Precision Machinery Co Ltd | PRC | Trading of computer numerical control machine tools | Registered Capital USD200,000 | 100% |
| Huller Hille (Shanghai) Machinery Co., Ltd. | PRC | Trading of high-end machine tools | Registered Capital USD1,000,000 | 100% |

## 17. INVESTMENTS IN JOINT VENTURES

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Cost of unlisted investments in joint ventures | **27,666** | 27,666 |
| Share post-acquisition loss and other comprehensive income | **(10,696)** | (9,309) |
| | **16,970** | 18,357 |

As at 31 December 2015, the Company had direct interests in the following joint ventures:

| Name | Date of incorporation | Attributable equity interest 2015 | Attributable equity interest 2014 | Registered capital | Principal activities/ place of incorporation and operation |
|---|---|---|---|---|---|
| Anest Iwata Feeler Corporation ("AIF") | 23 November 2009 | **35%** | 35% | USD9,000,000 | Manufacture and sales of air compressor and parts, PRC |
| Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler") | 20 October 2010 | **50%** | 50% | USD100,000 | Wholesale and export of parking garage structures, PRC |
| Hangzhou Feeler Mectron Machinery Co., Ltd ("Feeler Mectron") | 14 April 2011 | **45%** | 45% | USD1,110,000 | Manufacture and sales of machine tools and related products, PRC |
| Hangzhou Union Friend Machinery Co., Ltd. ("UFM") | 15 March 2013 | **55%** | 55% | USD1,000,000 | Manufacture and sales of machine tools and related products, PRC |

Note:

According to the respective articles of associations of the above four entities, each share in the above entities confers one vote, and the resolution of relevant activities and variable return shall be passed by more than two-thirds of the votes of shareholders. As such, in each of the above four entities, the shareholders contractually agreed to share the control of each entity. Therefore they are all joint ventures of the Group.

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

Summarised statement of financial position

| | AIF | | Nippon Cable Feeler | | Feeler Mectron | | UFM | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| **Current** | | | | | | | | | | |
| Cash | **4,175** | 3,971 | **941** | 869 | **579** | 998 | **53** | 377 | **5,748** | 6,215 |
| Other current assets | **16,588** | 12,979 | **2** | 1 | **5,987** | 5,551 | **1,350** | 279 | **23,927** | 18,810 |
| Total current assets | **20,763** | 16,950 | **943** | 870 | **6,566** | 6,549 | **1,403** | 656 | **29,675** | 25,025 |
| Short term bank borrowings | **(6,443)** | (6,084) | **–** | – | **–** | – | **–** | – | **(6,443)** | (6,084) |
| Other financial liabilities (including trade payable) | **(6,482)** | (4,180) | **(7)** | (12) | **(2,143)** | (1,885) | **(97)** | 418 | **(8,729)** | (5,659) |
| Total current liabilities | **(12,925)** | (10,264) | **(7)** | (12) | **(2,143)** | (1,885) | **(97)** | 418 | **(15,172)** | (11,743) |
| **Non-current** | | | | | | | | | | |
| Assets | **34,431** | 37,666 | **–** | – | **417** | 511 | **1,972** | 2,944 | **36,820** | 41,121 |
| Liabilities | **(6,494)** | (6,097) | **–** | – | **–** | – | **–** | – | **(6,494)** | (6,097) |
| **Net assets** | **35,775** | 38,255 | **936** | 858 | **4,840** | 5,175 | **3,278** | 4,018 | **44,829** | 48,306 |

Summarised statement of profit or loss and other comprehensive income

| | AIF | | Nippon Cable Feeler | | Feeler Mectron | | UFM | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| Revenue | **39,716** | 33,169 | **155** | 129 | **3,453** | 6,449 | **579** | 310 | **43,903** | 40,057 |
| Cost of revenue | **(38,933)** | (36,153) | **–** | (4) | **(2,829)** | (5,918) | **(747)** | (872) | **(42,509)** | (42,947) |
| Other expenses | **(3,263)** | (2,799) | **(68)** | (59) | **(959)** | (155) | **(572)** | (580) | **(4,862)** | (3,593) |
| **Profit (loss) before tax** | **(2,480)** | (5,783) | **87** | 66 | **(335)** | 376 | **(740)** | (1,142) | **(3,468)** | (6,483) |
| Income tax expense | **–** | – | **(9)** | (16) | **–** | – | **–** | – | **(9)** | (16) |
| **Profit (loss) for the year** | **(2,480)** | (5,783) | **78** | 50 | **(335)** | 376 | **(740)** | (1,142) | **(3,477)** | (6,499) |
| Share of profit/(loss) of joint ventures | **(868)** | (2,024) | **39** | 25 | **(151)** | 169 | **(407)** | (628) | **(1,387)** | (2,458) |

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

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

| | AIF | | Nippon Cable Feeler | | Feeler Mectron | | UFM | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| Opening net assets as at 1 January | **38,255** | 34,784 | **858** | 808 | **5,175** | 4,799 | **4,018** | 5,160 | **48,306** | 45,551 |
| Capital injection | **–** | 9,254 | **–** | – | **–** | – | **–** | – | **–** | 9,254 |
| Profit (loss) for the year | **(2,480)** | (5,783) | **78** | 50 | **(335)** | 376 | **(740)** | (1,142) | **(3,477)** | (6,499) |
| Closing net assets as at 31 December | **35,775** | 38,255 | **936** | 858 | **4,840** | 5,175 | **3,278** | 4,018 | **44,829** | 48,306 |
| Equity interest | **35%** | 35% | **50%** | 50% | **45%** | 45% | **55%** | 55% | **–** | – |
| Carrying value as at 31 December | **12,521** | 13,389 | **468** | 429 | **2,178** | 2,329 | **1,803** | 2,210 | **16,970** | 18,357 |

## 18. INVESTMENTS IN ASSOCIATES

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Cost of unlisted investments in associates | **346,072** | 32,260 |
| Share of post-acquisition loss and other comprehensive income | **(35,270)** | (31,053) |
| Currency translation difference | **157** | – |
| | **310,959** | 1,207 |

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

As at 31 December 2015, the Group has interests in the following associate:

| Name | Date of incorporation | Attributable equity interest 2015 | Attributable equity interest 2014 | Registered capital | Principal activities/ place of incorporation and operation |
|---|---|---|---|---|---|
| FFG Europe S.p.A. ("FFG Europe") | 1 January 2013 | **30.16%** | 30.16% | Euro11,205,000 | Manufacture and sales of machine tools and related products, Italy |
| FFG Werke GmbH ("FFG Werke") | 17 October 2013 | **39%** | 13.5% | Euro500,000 | Manufacture and distribution of machine tools, spare parts and accessories; providing training and maintenance service for machine tools and products, Germany |
| FFG European and American Holdings GmbH ("FFG EA") | 14 September 2015 | **81.37%** | – | Euro25,000 | Investment holding company, Germany |

### FFG Europe

FFG Europe is owned approximately as to 30.16% by Sky Thrive Hong Kong Enterprise Limited ("Sky Thrive") (a subsidiary of the Company), 22.08% by Golden Friendship International Limited ("Golden Friendship") (a wholly owned subsidiary of the Company's ultimate holding company, and not forming part of the Group), 21.70% by World Ten Limited ("World Ten") (15.58% of its issued share capital held by the Company's ultimate holding company, an independent third party), and 26.06% by Alma S.r.l (an independent third party).

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

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

FFG Werke

FFG Werke was originally owned approximately as to 43.75% by World Ten, 33.75% by Golden Friendship, 13.50% by Sky Thrive and 9.00% by Golden Wealth Inc. Limited ("Golden Wealth") (an independent third party) as at 31 December 2014. The Group accounted for the investment as available-for-sale financial asset as at 31 December 2014 and the investment was stated at cost less impairment (see note 21).

On 17 August 2015, Sky Thrive entered into a sale and purchase agreement with Golden Friendship and World Ten, pursuant to which Golden Friendship and World Ten agreed to sell and Sky Thrive has conditionally agreed to acquire an aggregate of 25.5% equity interest in FFG Werke for the aggregate consideration of Euro2,340,000 (equivalent to RMB16,756,000). The acquisition of 25.5% equity interest in FFG Werke was approved by the shareholders of the Company on 23 September 2015. Sky Thrive is able to exercise significant influence over FFG Werke thereafter. Accordingly, the Group accounted for such investment as an associate in the financial statements. The amount of fair value of the net assets in FFG Werke at the date of completion of the acquisition was approximately RMB68,778,000, and the Company recognised the gain on deemed disposal of available-for-sale financial asset of RMB662,000.

FFG EA

FFG EA was incorporated in Germany on 14 September 2015 as an investment holding and is owned approximately as to 81.37% by Sky Thrive, 12.12% by Leadwell CNC Machines Mfg. Corp. (an independent third party), and 6.51% by the Company's ultimate holding company as at 31 December 2015.

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. Thus, the Company's ultimate holding company and via its control in the Company, has two voting rights in the shareholding committee so can control FFG EA. The Group is able to exercise significant influence over FFG EA thereafter. Accordingly, the Group accounted for such investment as an associate in the financial statements.

The principal investment of FFG EA is a 55.3% equity interest in FFG European Holding GmbH ("FFG European"), an investment company incorporated in Germany, which in turn effectively acquired a 100% equity interest in MAG Global Holding GmbH and its subsidiaries (the "MAG Group") by the end of 2015 for a total consideration of Euro 110,000,000. The remaining 44.70% equity interest in FFG European is owned as to 18.7% by Mega Grant Limited ("Mega Grant") (an independent third party), 17% by Full Alliance Investment Limited ("Full Alliance") (an independent third party), and 9% by Golden Wealth. The principal activities of MAG Group are production of machine tools and production systems in Germany and USA.

The Group's obligation to the capital contribution to FFG EA is Euro49,500,000. The Group has paid Euro40,000,000 during the year ended 31 December 2015 and the outstanding Euro9,500,000 is disclosed as capital commitment (see note 33(a)).

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

Summarised statement of financial position prepared under IFRS

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000 (note a)** | 2014 RMB'000 (note a) | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| **Current** | | | | | | | | |
| Cash | **32,008** | 32,989 | **82,354** | N/A | **266,368** | N/A | **380,730** | 32,989 |
| Other current assets | **454,496** | 408,868 | **534,332** | N/A | **2,000,946** | N/A | **2,989,774** | 408,868 |
| Total current assets | **486,504** | 441,857 | **616,686** | N/A | **2,267,314** | N/A | **3,370,504** | 441,857 |
| Short term bank borrowings | **(129,656)** | (182,729) | **(284,624)** | N/A | **(71,115)** | N/A | **(485,395)** | (182,729) |
| Other financial liabilities (including trade payable) | **(412,243)** | (331,876) | **(233,758)** | N/A | **(2,192,041)** | N/A | **(2,838,042)** | (331,876) |
| Total current liabilities | **(541,899)** | (514,605) | **(518,382)** | N/A | **(2,263,156)** | N/A | **(3,323,437)** | (514,605) |
| **Non-current** | | | | | | | | |
| Assets | **139,805** | 153,369 | **290,409** | N/A | **1,445,789** | N/A | **1,876,003** | 153,369 |
| Liabilities | **(72,134)** | (76,618) | **(351,056)** | N/A | **(833,104)** | N/A | **(1,256,294)** | (76,618) |
| **Net assets** | **12,276** | 4,003 | **37,657** | N/A | **616,843** | N/A | **666,776** | 4,003 |
| Less: non-controlling interests | **–** | – | **–** | N/A | **343,754** | N/A | **343,754** | – |
| Net assets attributed to the owners of the associates | **12,276** | 4,003 | **37,657** | N/A | **273,089** | N/A | **323,022** | 4,003 |

Summarised statement of profit or loss and other comprehensive income prepared under IFRS

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 | **2015 RMB'000 (note a)** | 2014 RMB'000 (note a) | **2015 RMB'000 (note d)** | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| Revenue | **497,254** | 521,112 | **366,966** | N/A | **–** | N/A | **864,220** | 521,112 |
| Cost of revenue | **(263,817)** | (268,077) | **(245,253)** | N/A | **–** | N/A | **(509,070)** | (268,077) |
| Other expenses | **(239,936)** | (285,602) | **(101,490)** | N/A | **(5,588)** | N/A | **(347,014)** | (285,602) |
| **(Loss) profit before tax** | **(6,499)** | (32,567) | **20,223** | N/A | **(5,588)** | N/A | **8,136** | (32,567) |
| Income tax credit (charge) | **324** | 4,189 | **(3,535)** | N/A | **–** | N/A | **(3,211)** | 4,189 |
| **(Loss) profit for the year** | **(6,175)** | (28,378) | **16,688** | N/A | **(5,588)** | N/A | **4,925** | (28,378) |
| Share of profit (loss) of associates | **(1,862)** | (8,559) | **6,508** | N/A | **(4,545)** | N/A | **101** | (8,559) |

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

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

Summarised financial information prepared under IFRS

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2015 RMB'000** (note c) | 2014 RMB'000 | **2015 RMB'000** (note a) | 2014 RMB'000 (note a) | **2015 RMB'000** (note c) | 2014 RMB'000 | **2015 RMB'000** | 2014 RMB'000 |
| Opening net assets | **4,003** | 31,844 | **–** | N/A | **–** | N/A | **4,003** | 31,844 |
| Capital injection and transfer from available-for-sale financial asset | **13,926** | – | **21,021** | N/A | **283,984** | N/A | **318,931** | – |
| Other reserves | **522** | 537 | **(52)** | N/A | **(5,307)** | N/A | **(4,837)** | 537 |
| Profit (loss) for the year | **(6,175)** | (28,378) | **16,688** | N/A | **(5,588)** | N/A | **4,925** | (28,378) |
| Closing net assets attributed to the owners of the associates as at 31 December | **12,276** | 4,003 | **37,657** | N/A | **273,089** | N/A | **323,022** | 4,003 |
| Equity interest | **30.16%** | 30.16% | **39%** | N/A | **81.37%** | N/A | **–** | – |
| Share of net assets | **3,703** | 1,207 | **14,686** | N/A | **222,211** | N/A | **240,600** | 1,207 |
| Goodwill (note a) | **–** | – | **8,907** | N/A | **–** | N/A | **8,907** | – |
| Effect of fair value adjustment at acquisition (note a) | **–** | – | **8,544** | N/A | **–** | N/A | **8,544** | – |
| Other adjustment (note b) | **–** | – | **–** | – | **52,908** | N/A | **52,908** | – |
| Carrying value as at 31 December | **3,703** | 1,207 | **32,137** | N/A | **275,119** | N/A | **310,959** | 1,207 |

Note:

a. In late September 2015, the Group acquired further 25.5% equity interest in FFG Werke for the consideration of Euro2,340,000. Goodwill of RMB8,907,000 and effect of fair value adjustment at acquisition of RMB8,544,000 was recognised in respect of this further acquisition of equity interest. The Group held 13.5% equity interest in FFG Werke as at 31 December 2014 and accounted for the investment as available-for-sale using cost method, thus the financial position as at 31 December 2014 and financial performance for the year then ended are not presented. In addition, the profit and loss presented in the statement of profit or loss and other comprehensive income of FFG Werke for the year ended 31 December 2015 represents the results of FFG Werke arised from post-acquisition date to 31 December 2015.

b. Other adjustment of FFG EA represents the effect of unfunded capital contribution from the then shareholders which does not form part of the Group's investment in FFG EA.

c. In July 2015, the Group contributed Euro600,000 (equivalent to RMB4,200,000) as additional share capital in FFG Europe, together with other shareholders on pro rate basis. In December 2015, the Group contributed Euro40,024,000 (equivalent to RMB283,984,000) to FFG EA.

d. The profit and loss presented in the statement of profit or loss and other comprehensive income of FFG EA for the year ended 31 December 2015 represents the results of FFG EA arised from post-acquisition date to 31 December 2015.

## 19. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per consolidated statement of financial position

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Debtors and deposits excluding prepayments | **433,712** | 488,316 |
| Available-for-sale financial asset | **–** | 8,623 |
| Amounts due from fellow subsidiaries and an associate of ultimate holding company | **1,277** | 296 |
| Amount due from an investee | **–** | 4,473 |
| Amount due from ultimate holding company | **–** | 532 |
| Amounts due from joint ventures | **717** | 891 |
| Amounts due from associates and subsidiaries of an associate | **60,841** | 12,274 |
| Restricted bank deposits | **172,613** | 134,681 |
| Cash and cash equivalents | **101,583** | 262,751 |
| Term deposits with initial term of over three months | **–** | 98,000 |
| Total | **770,743** | 1,010,837 |

Liabilities as per consolidated statement of financial position

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Creditors and other payables | **218,645** | 246,632 |
| Amount due to ultimate holding company | **160** | 1,716 |
| Amount due to immediate holding company | **1,856** | 3,447 |
| Amounts due to a fellow subsidiary and an associate of ultimate holding company | **21,664** | 784 |
| Amounts due to an associate and subsidiaries of an associate | **10,389** | 1,128 |
| Amounts due to joint ventures | **317** | 76 |
| Bank borrowings | **408,677** | 402,079 |
| | **661,708** | 655,862 |

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Trade debtors and bills receivables | **444,978** | 500,438 |
| Less: provision for impairment of trade receivables | **(36,512)** | (36,544) |
| Trade debtors and bills receivables – net | **408,466** | 463,894 |
| Prepayments | **16,033** | 25,667 |
| Others | **25,246** | 24,422 |
| Total debtors, deposits and prepayments | **449,745** | 513,983 |

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 for a one or two-year warranty period of the products sold.

At 31 December 2015 and 2014, the ageing analysis of gross trade debtors and bills receivable based on due date was as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Current – 30 days | **341,202** | 383,483 |
| 31 – 60 days | **8,465** | 5,141 |
| 61 – 90 days | **9,079** | 11,542 |
| 91 – 180 days | **14,038** | 20,366 |
| Over 180 days | **72,194** | 79,906 |
| Trade debtors and bills receivables | **444,978** | 500,438 |

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB82,578,000 (2014: RMB108,229,000) which were past due as at 31 December 2015 but the Group had not provided for impairment loss. The Group does not hold any collateral over these balances. The directors, after considering the trade relationship, credit status and past settlement history of these individual trade debtors, had concluded that these outstanding balances would be recovered.

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an ageing analysis of gross trade debtors of the Group which are past due but not impaired:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| 0 – 30 days | **11,573** | 21,658 |
| 31 – 60 days | **7,486** | 5,141 |
| 61 – 90 days | **8,174** | 11,542 |
| 91 –180 days | **12,338** | 20,336 |
| Over 180 days | **43,007** | 49,552 |
| | **82,578** | 108,229 |

As of 31 December 2015, trade debtors of RMB36,512,000 (2014: RMB36,544,000) of the Group were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpected financial difficulties. The ageing of these receivables based on due date is as follows:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| 0 – 30 days | **4,884** | 641 |
| 31 – 60 days | **748** | – |
| 61 – 90 days | **931** | – |
| 91 –180 days | **1,411** | 30 |
| Over 180 days | **28,538** | 35,873 |
| | **36,512** | 36,544 |

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

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| At 1 January | **36,544** | 21,795 |
| Provision for receivables impairment | **2,016** | 15,306 |
| Receivables written off during the year when proved to be uncollectible | **(2,048)** | (557) |
| At 31 December | **36,512** | 36,544 |

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

Trade receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the trade receivables, the estimated future cash flows of the trade receivables have been affected. The creation and release of provision for impaired receivables have been included in 'Administration expenses' in the consolidated statement of profit or loss and other comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The carrying amounts of debtors, deposits and prepayments are denominated in the following currencies:

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| RMB | **427,844** | 479,582 |
| USD | **9,909** | 17,980 |
| Euro | **11,147** | 11,329 |
| Other currencies | **845** | 5,092 |
| | **449,745** | 513,983 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSET/AMOUNT DUE FROM AN INVESTEE

| | **2015** | 2014 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **8,623** | 8,623 |
| Transferred as investments in associates | **(8,623)** | – |
| At 31 December | **–** | 8,623 |
| Investment in shares of an unlisted company | **–** | 8,623 |
| Amount due from an investee | **–** | 4,473 |

The available-for-sale financial asset as at 31 December 2014 is 13.5% equity interest in FFG Werke. The Group acquired further 25.5% equity share in FFG Werke in late September 2015 and thereafter the Company exercise significant influence over FFG Werke. Accordingly, the investment is accounted for as investments in associates as presented in Note 18.

## 22. INVENTORIES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Raw materials | **79,263** | 103,419 |
| Work in progress | **61,901** | 68,470 |
| Finished goods | **134,399** | 103,064 |
| | **275,563** | 274,953 |
| Provision | **(25,487)** | (17,696) |
| | **250,076** | 257,257 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **615,251** | 549,812 |
| Less: Progress billings | **(594,110)** | (560,118) |
| | **21,141** | (10,306) |

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Amounts due from contract customers | **36,717** | 32,494 |
| Amounts due to contract customers | **(15,576)** | (42,800) |
| Net amounts due from(to)customers for contract work | **21,141** | (10,306) |

As at 31 December 2015, retention money held by customers for contract work included in debtors amounted to RMB6,994,000 (2014: RMB12,325,000).

## 24. RESTRICTED BANK DEPOSITS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Restricted bank deposits | **172,613** | 134,681 |

The amounts mainly represent deposits placed in banks for guarantees issued for trade finance facilities used by the Group. The deposits have maturity periods within one year which carry fixed rate interest at 0.4% (2014: 0.4%) per annum.

## 25. CASH AND BANK BALANCES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Cash at bank and on hand | **53,983** | 33,251 |
| Short-term bank deposits | **47,600** | 229,500 |
| Cash and cash equivalents | **101,583** | 262,751 |
| Term deposits with initial term of over three months | **–** | 98,000 |
| | **101,583** | 360,751 |

(a) The cash at bank and on hand, short-term bank deposits and term deposits with initial term of over three months are denominated in the following currencies:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| RMB | **73,379** | 357,423 |
| US dollar | **15,290** | 1,887 |
| Euro | **10,866** | 957 |
| Other currencies | **2,048** | 484 |
| | **101,583** | 360,751 |

## 25. CASH AND BANK BALANCES *(Continued)*

(b) The effective interest rate on short-term bank deposits ranged from 2.70% to 4.00% (2014: 2.35%) per annum. These deposits have maturities ranging from one to three months.

(c) Term deposits with initial term of over three months as at 31 December 2015 is Nil (2014: RMB98,000,000). The effective interest rate on term deposits with initial term of over three months ranged from 2.35% to 2.75% per annum as at 31 December 2014.

## 26. SHARE CAPITAL

| | **Number of shares** '000 | **Share Capital** RMB'000 |
|---|---|---|
| **Ordinary share of HKD0.01 each** | | |
| **Authorised:** | | |
| At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015 | 1,000,000 | 10,211 |
| **Issued and fully paid:** | | |
| At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015 | 403,200 | 4,022 |

## 27. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Trade creditors | **177,863** | 204,785 |
| Advance deposits from customers | **184,316** | 118,682 |
| Other payables | **40,782** | 41,847 |
| Accrued expenses | **44,352** | 44,897 |
| Total creditors, other payables and accrued charges | **447,313** | 410,211 |

## 27. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES *(Continued)*

The Group normally receives credit terms of 30 to 60 days. At 31 December 2015 and 2014, the ageing analysis of the trade payables was as follows:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Current – 30 days | **119,353** | 116,788 |
| 31 – 60 days | **34,725** | 57,515 |
| 61 – 90 days | **3,979** | 4,657 |
| 91 –180 days | **4,921** | 9,853 |
| Over 180 days | **14,885** | 15,972 |
| | **177,863** | 204,785 |

Creditors, other payables and accrued charges are dominated in the following currencies:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| RMB | **398,800** | 388,246 |
| USD | **6,620** | 11,029 |
| Euro | **38,191** | 6,368 |
| HKD | **3,702** | 4,568 |
| | **447,313** | 410,211 |

## 28. WARRANTY PROVISION

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| At 1 January | **6,329** | 6,774 |
| Provision for the year | **5,121** | 6,766 |
| Utilisation of provision | **(5,659)** | (7,211) |
| At 31 December | **5,791** | 6,329 |

## 29. BANK BORROWINGS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Current | | |
| – Secured | **–** | 2,896 |
| – Unsecured | **408,677** | 399,183 |
| Total bank borrowings | **408,677** | 402,079 |

The range of effective interest rates of the Group's borrowing is as follows:

| | 2015 | 2014 |
|---|---|---|
| Effective interest rate | **1.09% to 4.50% per annum** | 1.83% to 6.72% per annum |

The Group's bank borrowings were repayable as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 1 year | **408,677** | 402,079 |

The carrying amounts of short-term bank borrowings approximate their fair values.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| HKD | **43,068** | 78,949 |
| USD | **176,221** | 323,130 |
| Euro | **164,198** | – |
| RMB | **25,190** | – |
| | **408,677** | 402,079 |

## 29. BANK BORROWINGS *(Continued)*

Note:

(a) The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB5,131,000 (2014: RMB5,262,000) and buildings with carrying amounts of approximately RMB10,131,000(2014: RMB10,674,000) as at 31 December 2015 to secure the general banking facilities granted to it. As at 31 December 2015, the Group has not utilised such secured bank facilities (2014: RMB2,896,000).

(b) As at 31 December 2015, the Group's bank borrowings of RMB242,350,000 (2014: RMB152,975,000) were guaranteed by irrevocable standby letter of credits issued by banks of which RMB120,601,000 (2014: RMB122,435,000) has been utilised.

(c) As at 31 December 2015, cross guarantees between subsidiaries of RMB176,000,000 (2014: RMB220,000,000) have been provided to guarantee the bank borrowings of which RMB3,969,000 has been utilised (2014: RMB6,211,000).

(d) As at 31 December 2015, personal guarantees were provided by a director and a related party of the Group in respect of the Group's bank borrowings of RMB64,936,000 (2014: RMB31,135,000).

## 30. DEFERRED TAXATION

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Deferred tax assets | **6,310** | 6,144 |
| Deferred tax liabilities | **–** | 16,118 |

## 30. DEFERRED TAXATION *(Continued)*

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

| | Allowance for doubtful receivables RMB'000 | Allowance for inventories RMB'000 | Warranty provision RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2014 | 3,225 | 388 | 907 | 4,520 |
| (Charge) credit to profit or loss | 1,495 | 224 | (95) | 1,624 |
| At 31 December 2014 | 4,720 | 612 | 812 | 6,144 |
| (Charge) credit to profit or loss | (268) | 422 | 12 | 166 |
| At 31 December 2015 | 4,452 | 1,034 | 824 | 6,310 |

The gross movements in deferred tax liabilities during the year are analysed as follows:

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| At 1 January | **16,118** | 18,775 |
| Withholding tax paid | **(16,118)** | (2,657) |
| At 31 December | **–** | 16,118 |

Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, withholding income tax of 10% shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes at the rate of 5% on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

## 30. DEFERRED TAXATION *(Continued)*

As described in Note 12, the directors resolved to recommend a final dividend of RMB0.03 per ordinary share for the year ended 31 December 2015 (2014: RMB0.06 per ordinary share). The directors present that the dividend will be paid out of the Company's share premium account and the retained profits of the PRC subsidiaries as of December 31, 2015 will be set aside for expansion of operations, and therefore the Group has not provided for the deferred tax liabilities in respect of withholding tax on the retained profits of the Group's PRC entities 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.

As at 31 December 2015, the Group had unutilised tax losses of approximately RMB72,967,000 (2014: RMB47,024,000) available for offsetting against future profits. No deferred tax asset had been recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised. Included in unrecognised tax losses are losses of RMB66,781,000 (2014:RMB46,982,000) with expiry dates.

The expiry dates of these tax losses are as follows:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| With expiry in: | | |
| 2015 | **–** | 1,590 |
| 2016 | **16,755** | 16,755 |
| 2017 | **13,043** | 13,043 |
| 2018 | **6,472** | 6,946 |
| 2019 | **8,185** | 8,648 |
| 2020 | **22,326** | – |
| | **66,781** | 46,982 |

## 31. CASH GENERATED FROM OPERATIONS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Profit before income tax: | **55,952** | 125,071 |
| Adjustments for: | | |
| – Amortisation of prepaid lease payments | **940** | 943 |
| – Depreciation of property, plant and equipment | **26,081** | 28,080 |
| – Amortisation of intangible assets | **983** | 701 |
| – Share of loss of joint ventures | **1,387** | 2,458 |
| – Share of loss (profit) of associates | **(101)** | 8,559 |
| – Gain on deemed disposal of available-for-sale financial asset | **(662)** | – |
| – Loss on disposal of property, plant and equipment | **201** | 296 |
| – Interest income | **(14,193)** | (9,995) |
| – Interest expense | **8,734** | 9,174 |
| – Warranty provision | **(538)** | (445) |
| Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation): | | |
| – Inventories | **7,181** | 21,759 |
| – Debtors, deposits and prepayments | **64,238** | 109,177 |
| – Amounts due from customers for contract work | **(4,223)** | (7,843) |
| – Amount due from ultimate holding company | **532** | 1,380 |
| – Amounts due from joint ventures, fellow subsidiaries and associates of ultimate holding company | **(38,864)** | 1,490 |
| – Creditors, other payables and accrued charges | **36,652** | (45,915) |
| – Amounts due to customers for contract work | **(27,224)** | (7,159) |
| – Amount due to ultimate holding company | **(1,556)** | 687 |
| – Amount due to immediate holding company | **(1,591)** | 1,291 |
| – Amounts due to joint ventures | **241** | (55) |
| – Amounts due to an associate and subsidiaries of an associate | **9,261** | 2,519 |
| – Amounts due to a fellow subsidiary and an associate of ultimate holding company | **5,420** | 463 |
| Cash generated from operations | **128,851** | 242,636 |

## 31. CASH GENERATED FROM OPERATIONS *(Continued)*

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

| Group | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Carrying value: | 221 | 863 |
| Loss on disposal of property, plant and equipment | (201) | (296) |
| Proceeds from disposal of property, plant and equipment | 20 | 567 |

## 32. CONTINGENT LIABILITY

On 25 September 2015, the Company, FFG Werke and a bank ("the Bank") entered into an agreement, pursuant to which the Bank will arrange the facility for the maximum principal amount of Euro50,000,000 (equivalent RMB354,500,000) to be available to the Company and FFG Werke on a joint and several basis, whereby each of the Company and FFG Werke is liable for the indebtedness incurred by the other under the facility. As at 31 December 2015, the Company has not drawn down any loan from aforesaid facility letter, while FFG Werke has drawn down a total amount of Euro6,000,000 (equivalent RMB42,517,000).

On 9 July 2014, FFG Werke and Sky Thrive entered into a guarantee procurement deed, pursuant to which Sky Thrive agreed to procure the issuance of the bank guarantees for the business operation of FFG Werke with maximum aggregate amount not exceeding Euro10,600,000 (equivalent RMB79,030,000). As at 31 December 2015, Sky Thrive has arranged the aforesaid bank guarantees of total amount of Euro4,605,000 (equivalent RMB32,675,000) (2014: Euro226,000 (equivalent RMB1,680,000)).

Management estimates that the default risk of FFG Werke is remote, thus the exposure to guaranty liability arising from these financial guarantees is immaterial and no guaranty liability has been recognised in current year.

## 33. COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is analysed as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – Construction of buildings | 625 | 743 |
| – Capital contribution to an associate | 67,404 | – |
| | 68,029 | 743 |

### (b) Operating lease commitments

*The Group as lessee*

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year | 10,241 | 9,102 |

At the reporting date, the Group had commitments for future minimum lease payments relating to office rental under non-cancellable operating leases as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| No later than 1 year | 6,788 | 4,090 |
| Later than 1 year and no later than 5 years | 5,672 | 241 |
| | 12,460 | 4,331 |

## 34. RELATED PARTY TRANSACTIONS

Save as disclosed in Note 29 and Note 32, the Group also had the following transactions with its related parties during the year:

(a) Transactions

| Name of company | Relationship | Nature of transactions | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|---|
| Fair Friend Enterprise Company Limited ("Fair Friend") | Ultimate holding company | Sales of goods | **1,484** | 682 |
| | | Purchases of goods | **5,007** | 19,948 |
| Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu") | Associate of ultimate holding company | Sales of goods | **943** | 756 |
| | | Purchases of goods | **2,188** | 49 |
| | | Rental income | **9** | 15 |
| | | Rendering of services | **190** | – |
| Good Friend (H. K.) Corporation Limited ("Hong Kong GF") | Immediate holding company | Purchases of goods | **35,393** | 44,434 |
| Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine") | Fellow subsidiary | Sales of goods | **3** | 3 |
| | | Rental income | **641** | 653 |
| | | Rendering of services | **754** | – |
| AIF (controlled by Mr. Wen Chi-Tang) | Joint venture | Sales of goods | **8** | 90 |
| | | Purchases of goods | **377** | 421 |
| | | Rental income | **24** | 26 |
| | | Purchases of services | **11** | – |
| | | Rendering of services | **884** | – |

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions *(Continued)*

| Name of company | Relationship | Nature of transactions | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|---|
| Hangzhou Best Friend Technology Co., Ltd. ("Best Friend") | Associate of ultimate holding company | Sales of goods | **11** | 6 |
| SANCO Machine & Tools Co., Ltd. ("SANCO") | Fellow subsidiary | Purchases of goods | **5,171** | 20,885 |
| | | Purchases of services | **511** | – |
| Jobs Automazione S.p.A.("Jobs") | Subsidiary of an associate of the Group | Purchases of goods | **22,830** | 198 |
| FFG Werke | Associate | Purchase of goods | **3,012** | – |
| Feeler Mectron | Joint venture | Sales of goods | **–** | 37 |
| | | Purchases of goods | **3,121** | 1,051 |
| | | Rental income | **–** | 36 |
| UFM | Joint venture | Sales of goods | **10** | 24 |
| | | Purchases of goods | **381** | 170 |
| | | Rendering of services | **38** | – |
| Nippon Cable Feeler | Joint venture | Sales of goods | **–** | 4 |
| | | Purchases of goods | **–** | 129 |
| | | Rental income | **–** | 6 |
| Golden Friendship | Fellow subsidiary | Purchase of equity share | **15,460** | – |

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

### (a) Transactions *(Continued)*

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.

(c) The terms of the above purchase of equity share are governed based on sell and purchase agreement entered into between the Company and the respective related party.

### (b) Balances

| **Name of company** | **Relationship** | **Nature of balances** | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|---|---|
| Fair Friend | Ultimate holding company | Trade receivable (note (a)) | **–** | 532 |
| | | Trade payable (note (b)) | **(160)** | (1,716) |
| Hong Kong GF | Immediate holding company | Trade payable (note (b)) | **(1,856)** | (3,447) |
| Fair Fine (controlled by Mr. Chen Min-Ho) | Fellow subsidiary | Other receivable (note (b)) | **222** | 258 |
| SANCO | Fellow subsidiary | Trade payable (note (b)) | **(6,204)** | (776) |
| | | Other receivable (note (b)) | **1,009** | – |
| Best Friend | Associate of ultimate holding company | Trade receivables (note (a)) | **13** | 2 |

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of balances | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|---|
| Feeler Takamatsu | Associate of ultimate holding company | Other receivable (note (b)) | **32** | 36 |
| | | Trade payable (note (b)) | **–** | (8) |
| | | Trade receivable (note (a)) | **1** | – |
| AIF (controlled by Mr. Wen Chi-Tang) | Joint venture | Trade receivable (note (a)) | **228** | 470 |
| | | Trade payable (note (b)) | **(206)** | – |
| | | Other payable (note (b)) | **(3)** | – |
| Feeler Mectron | Joint venture | Trade receivable (note (a)) | **48** | 421 |
| | | Other receivable (note (b)) | **78** | – |
| UFM | Joint venture | Trade payable (note (b)) | **(108)** | (76) |
| | | Other receivable (note (b)) | **363** | – |
| SIGMA Technology S.r.l | Subsidiary of an associate | Trade receivable (note (a)) | **2,127** | 2,275 |
| | | Trade payable (note (b)) | **(182)** | (200) |

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of balances | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|---|
| SIGMA Machinery Co., Ltd | Subsidiary of an associate | Trade payable (note (b)) | **(72)** | (67) |
| Jobs | Subsidiary of an associate | Trade receivable (note (a)) | **–** | 403 |
| | | Other receivable (note (b)) | **18,641** | 9,596 |
| | | Trade payable (note (b)) | **(9,837)** | (861) |
| | | Shareholder loan (note (b)) | **5,469** | – |
| FFG Werke | Associate | Advance to (note (b)) | **28,020** | – |
| | | Trade payable (note (b)) | **(298)** | – |
| | | Shareholder loan (note (b)) | **5,041** | – |
| Golden Friendship | Fellow subsidiary | Other payable (note (b)) | **(15,460)** | – |
| FFG Europe | Associate | Other receivable (note (b)) | **1,543** | – |

Notes:

(a) The Group allowed a normal credit period of 90 days for sales made to the fellow subsidiaries, the ultimate holding company and its associate companies, and subsidiaries of associated company. Balances are unsecured and interest free. As of 31 December 2015 and 2014, the ageing of above balances was mostly within 6 to 12 months.

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

## 34. RELATED PARTY TRANSACTIONS *(Continued)*

(c) **Key management compensation**

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Salaries | **2,817** | 2,711 |
| Performance related bonuses | **1,304** | 1,210 |
| Retirement benefits scheme contributions | **99** | 79 |
| | **4,220** | 4,000 |

## 35. INFORMATION OF FINANCIAL POSITION AND CHANGES IN EQUITY OF THE COMPANY

The statement of financial position of the Company as at 31 December 2015 is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **2** | 8 |
| Investments in subsidiaries | **52,837** | 52,837 |
| Investments in joint ventures | **27,666** | 27,666 |
| Amounts due from subsidiaries | **605,881** | 331,264 |
| | **686,386** | 411,775 |
| **Current assets** | | |
| Debtors, deposits and prepayments | **14,022** | 14,882 |
| Amounts due from associates and subsidiaries of an associate | **28,592** | – |
| Restricted bank deposits | **–** | 2,370 |
| Cash and cash equivalents | **35,301** | 1,784 |
| | **77,915** | 19,036 |

## 35. INFORMATION OF FINANCIAL POSITION AND CHANGES IN EQUITY OF THE COMPANY *(Continued)*

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Current liabilities** | | |
| Other payables and accrued charges | **11,641** | 13,934 |
| Amounts due to an associate and subsidiaries of an associate | **8,853** | – |
| Bank borrowings | **332,299** | 275,706 |
| | **352,793** | 289,640 |
| **Net current liabilities** | **(274,878)** | (270,604) |
| **Total assets less current liabilities** | **411,508** | 141,171 |
| **Capital and reserves** | | |
| Share capital | **4,022** | 4,022 |
| Share premium | **82,281** | 82,281 |
| Other reserves | **7,973** | 7,973 |
| Retained earnings | **317,232** | 46,895 |
| **Total equity** | **411,508** | 141,171 |

## 35. INFORMATION OF FINANCIAL POSITION AND CHANGES IN EQUITY OF THE COMPANY *(Continued)*

The statement of changes in equity of the Company for the year ended 31 December 2015 is as follows:

| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2014 | 4,022 | 82,281 | 7,632 | 47,374 | 141,309 |
| Profit for the year | – | – | – | 43,873 | 43,873 |
| **Other comprehensive income** | | | | | |
| Currency translation difference | – | – | 341 | – | 341 |
| **Total comprehensive income** | – | – | 341 | 43,873 | 44,214 |
| **Dividends paid** | – | – | – | (44,352) | (44,352) |
| At 31 December 2014 | 4,022 | 82,281 | 7,973 | 46,895 | 141,171 |
| Profit for the year | – | – | – | 294,529 | 294,529 |
| **Total comprehensive income** | – | – | – | 294,529 | 294,529 |
| **Dividends paid** | – | – | – | (24,192) | (24,192) |
| At 31 December 2015 | 4,022 | 82,281 | 7,973 | 317,232 | 411,508 |

## 36. COMPARATIVE FIGURES

Certain comparative figures are reclassified in order to conform with the current presentation.

## 37. EVENT AFTER THE REPORTING DATE

The Group has no significant events occurred after the reporting date.

# Five-Year Financial Summary

## OPERATING RESULTS

**For the year ended 31 December**

| | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | **2015**<br>**RMB'000** |
|---|---|---|---|---|---|
| Revenue | 1,884,132 | 1,540,856 | 1,350,271 | 1,300,119 | **990,239** |
| Gross profit | 439,216 | 308,947 | 309,771 | 344,894 | **267,925** |
| Profit before income tax | 197,032 | 60,440 | 54,388 | 125,071 | **55,952** |
| **Profit attributable to equity holders of the Company** | 153,690 | 42,022 | 36,868 | 101,313 | **46,097** |
| **Earnings per share – basic (RMB)** | 0.38 | 0.10 | 0.09 | 0.25 | **0.11** |

## ASSETS AND LIABILITIES

**As at 31 December**

| | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | **2015**<br>**RMB'000** |
|---|---|---|---|---|---|
| Non-current assets | 371,929 | 345,271 | 330,119 | 309,492 | **589,531** |
| Net current assets | 332,239 | 339,800 | 361,656 | 433,321 | **154,908** |
| Non-current liabilities | (21,800) | (23,180) | (18,775) | (16,118) | **–** |
| **Net assets** | 682,368 | 661,891 | 673,000 | 726,695 | **744,439** |
| Share capital | 4,022 | 4,022 | 4,022 | 4,022 | **4,022** |
| Reserves | 678,346 | 657,869 | 668,978 | 722,673 | **740,417** |
| **Shareholders' equity** | 682,368 | 661,891 | 673,000 | 726,695 | **744,439** |