GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2398

***Interim Report* 2016**

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

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the first half of 2016, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 756 units, 7,502 units and 662 units respectively (2015 comparative figures: 842 units, 7,168 units and 845 units). The mainstream product of the Group CNC machine tools focus mainly on the China market, with the major customers being those automobile parts and mechanical manufacturers. According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) grew by a year-on-year rate of 6.7% in the first half of 2016, which was the lowest growth rate since 1990. It shows that China's economy is facing continued and relatively large downward pressure. Despite that, sales revenue of the Group's CNC machine tools business still recorded growth during the period under review. For the six months ended 30 June 2016, sales revenue of CNC machine tools amounted to approximately RMB398.48 million, representing an increase when compared to corresponding period in 2015.

Despite being affected by the slowdown of China's economic growth, the Group's high-end CNC machine tools products still recorded satisfactory sales revenue during the period under review. Sales revenue of high-end CNC machine tools products (manufactured by vendors in Germany and Italy) during the period under review amounted to approximately RMB53.20 million, and accounted for approximately 13.4% of sales revenue of the Group's CNC machine tools business. These high-end products could optimise the product portfolio of the Group, and strengthen its core competitiveness.

Financial Review

Revenue

For the six months ended 30 June 2016, the Group recorded revenue of approximately RMB534.55 million, representing an increase of approximately 4.1% as compared to the corresponding period in 2015. CNC machine tools remained the major source of the Group's revenue. During the period under review, sales revenue of CNC machine tools business amounted to approximately RMB398.48 million, representing an increase of 13.6% as compared to the corresponding period in last year. Revenue of CNC machine tools accounted for approximately 74.5% of the Group's total revenue. On the other hand, sales revenue of the Group's forklift trucks business during the period under review was decreased by 23.9%, as compared to corresponding period in last year, to approximately RMB39.86 million and approximately 7.5% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB96.21 million during the period under review, representing a decrease of approximately 12.8% as compared to corresponding period in last year and accounted for approximately 18.0% of the total revenue.

Gross profit and margin

During the period under review, gross profit of the Group amounted to approximately RMB142.28 million. Overall gross profit margin was approximately 26.6%, compared to 26.9% for the corresponding period in last year. The gross profit margin of CNC machine tools (the Group's major product) during the period under review remained at approximately 29.6%. As a result, the overall gross profit margin for the period under review remaining fairly stable when compared to corresponding period in last year.

Distribution and selling expenses

Distribution and selling expenses for the six months ended 30 June 2016 amounted to approximately RMB62.61 million, remaining fairly stable when compared to corresponding period in last year. This was mainly attributable to the stringent control of the corresponding expenses by the management. During the period under review, distribution and selling expenses as a percentage of the Group's revenue was approximately 11.7%, compared to 12.1% for the corresponding period in last year.

Administrative expenses

Administrative expenses increased by approximately 5.3% to approximately RMB53.37 million during the period under review. This was mainly attributable to the increase of the staff costs in Mainland China.

Share of profit (loss) of associates

For the six months ended 30 June 2016, share of profit of associates amounted to approximately RMB0.15 million (2015 comparative figures: share of loss of approximately RMB1.21 million). The amount represented the Group's share of results of the associates located in Germany and Italy, for the period under review.

Profit attributable to the equity holders of the Company

For the six months ended 30 June 2016, profit attributable to the equity holders of the Company amounted to approximately RMB18.54 million, representing a decrease of approximately 30.9% as compared to the same period last year.

Prospects

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

Looking ahead, with the current complex economic environment, the Group will continue to strengthen its business foundation under a consistent cautious manner under tough market environment, in order to weather against the volatility and uncertainty of the market condition ahead. On the other hand, the management will continue to explore and capture various opportunities for development and strategic cooperation 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.

Liquidity and financial resources

The working capital of the Group was mainly financed by internal cash flows generated from its operation and its existing banking facilities. As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately RMB119.62 million (at 31 December 2015: RMB101.58 million). As at 30 June 2016, the Group had net current assets of approximately RMB173.19 million (at 31 December 2015: RMB154.91 million) and short-term bank borrowings of approximately RMB341.71 million (at 31 December 2015: RMB408.68 million). The current ratio (total current assets to total current liabilities) of the Group as at 30 June 2016 was approximately 1.2 (at 31 December 2015: 1.2). The gearing ratio as at 30 June 2016 (total interest bearing liabilities to total assets) was approximately 22.0% (at 31 December 2015: 24.6%), indicated that the Group's overall financial position remained solid.

Capital structure

The share capital of the Company as at 30 June 2016 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2015: HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each).

Staff and remuneration policies

As at 30 June 2016, the Group employed a total of approximately 1,270 full time employees (31 December 2015: 1,320) in Hong Kong and the PRC. The Group's emolument policies are formulated on the basis of market trends, future plans and the performance of individuals, which will be reviewed periodically. Apart from provident fund scheme and state-managed social welfare scheme, share options (if any) will also be awarded to employees according to assessment of individuals' performance.

Capital commitments and contingencies

As at 30 June 2016, the Group had no capital expenditure commitments mainly for property, plant and equipment which were contracted but not provided in the financial statements (at 31 December 2015: RMB0.63 million); whilst the Group had capital commitments for capital contribution to an associate of approximately RMB70.06 million (31 December 2015: RMB67.40 million). The Group had no material contingent liabilities as at 30 June 2016 (at 31 December 2015: Nil).

Charges on the group's assets

As at 30 June 2016, the Group had restricted bank deposits with an amount of approximately RMB57.53 million (at 31 December 2015: RMB172.61 million) which mainly represented deposits placed in banks for guarantees issued for finance facilities used by the Group.

Subsidiaries of the Company had pledged their land use rights and building with an aggregate carrying amount of RMB13.01 million (31 December 2015: RMB15.26 million) as at 30 June 2016 in order to secure banking facilities granted to the Group.

DISCLOSURE OF INTERESTS

Directors' interest in shares

As at 30 June 2016, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

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

(a) Interests in the Company

Name of Director	Nature of interest	Number and class of securities	Approximate percentage of the issued shares as at 30 June 2016
Mr. Chu Chih-Yaung ("Mr. Chu")	Corporate interest	20,000,000 *(Note)*	4.96%

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

(b) Interests in the associated corporations of the Company

Name of Director	Name of associated corporations	Nature of interest	Number and class of securities	Approximate percentage of shareholdings as at 30 Jun 2016
Mr. Chu	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, held 2.67% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

(2) Fair Fine (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 30 June 2016, none of the Directors or chief executive of the Company had any interest of long position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

   As at 30 June 2016, none of the Directors or chief executive of the Company, had any interest of short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

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

Share option scheme

The share option scheme which was adopted by the Company on 22 December 2005 had expired on 21 December 2015. Thereafter, no further option would be granted under such share option scheme and there was no outstanding option.

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

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

Substantial shareholders

As at 30 June 2016, 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 issued shares as at 30 June 2016
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Beneficial owner	232,000,000 shares *(Note)*	57.54%
Taiwan FF	Interest of controlled corporation	232,086,000 shares *(Note)*	57.56%

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2016.

OTHER INFORMATION

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

The Company is not aware of change of information of directors of the Company since the 2015 Annual Report which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Interim dividend

In order to retain resources for the Group's future business development, the Board resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015 interim dividend: Nil).

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2016.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the period under review.

Corporate governance

The Company has complied with the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2016 except the following.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Chu, was unable to attend the annual general meeting of the Company held on 2 June 2016 due to business trip. Mr. Chen Hsiang-Jung, an executive Director of the Company, took the chair of the annual general meeting pursuant to the Articles of the Association of the Company.

Audit committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code which comprises three independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the unaudited financial information of the Group for the six months ended 30 June 2016. The Company's external auditor, Deloitte Touche Tohmatsu, has conducted a review of the interim financial information of the Group for the six months ended 30 June 2016 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Nomination committee

The Company established a nomination committee (the "Nomination Committee"), with written terms of reference in compliance with the CG Code and consists of 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.

Remuneration committee

The Company established a remuneration committee (the "Remuneration Committee"), with written terms of reference in compliance with the CG Code and consists of 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.

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

Hong Kong, 31 August 2016

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE MEMBERS OF
GOOD FRIEND INTERNATIONAL HOLDINGS INC.
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 38, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	6	534,545	513,531
Cost of revenue		(392,266)	(375,571)
Gross profit		142,279	137,960
Other income	7	13,034	16,928
Distribution and selling expenses		(62,610)	(62,166)
Administrative expenses		(53,366)	(50,702)
Other operating expenses		(728)	(745)
Operating profit		38,609	41,275
Finance costs		(5,764)	(4,190)
Share of loss of joint ventures	15	(503)	(674)
Share of profit (loss) of associates	16	154	(1,207)
Profit before income tax	8	32,496	35,204
Income tax expense	9	(13,958)	(8,361)
Profit attributable to equity holders of the Company		18,538	26,843
Other comprehensive loss:			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive loss of associates	16	(16,949)	–
Items that may be subsequently reclassified to profit or loss:			
Share of other comprehensive loss of associates	16	(9,247)	–
Currency translation difference		8,454	87
Total comprehensive income attributable to equity holders of the Company		796	26,930
Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	10	0.05	0.07

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	12	204,638	216,383
Prepaid lease payments – non-current	13	35,186	35,658
Intangible assets	14	2,889	3,251
Investments in joint ventures	15	16,467	16,970
Investments in associates	16	293,371	310,959
Deferred tax assets	17	7,397	6,310
		559,948	589,531
Current assets			
Inventories		219,354	250,076
Debtors, deposits and prepayments	18	479,325	449,745
Prepaid lease payments – current	13	940	940
Amounts due from customers for contract work		63,922	36,717
Amounts due from fellow subsidiaries and an associate of ultimate holding company	23	1,224	1,277
Amounts due from joint ventures	23	975	717
Amounts due from associates and subsidiaries of an associate	23	52,491	60,841
Restricted bank deposits		57,528	172,613
Cash and cash equivalents		119,617	101,583
		995,376	1,074,509

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Current liabilities			
Creditors, other payables and accrued charges	19	422,046	447,313
Amounts due to customers for contract work		24,847	15,576
Amount due to ultimate holding company	23	1,091	160
Amount due to immediate holding company	23	1,626	1,856
Amounts due to a fellow subsidiary and an associate of ultimate holding company	23	6,983	21,664
Amounts due to an associate and subsidiaries of an associate	23	7,619	10,389
Amounts due to joint ventures	23	159	317
Current income tax liabilities		10,552	7,858
Warranty provision		5,554	5,791
Bank borrowings	20	341,708	408,677
		822,185	919,601
Net current assets		173,191	154,908
Total assets less current liabilities		733,139	744,439
Net assets		733,139	744,439
Capital and Reserves			
Share capital	21	4,022	4,022
Share premium		82,281	82,281
Capital reserves		77,338	77,338
Other reserves		48,127	48,905
Retained earnings		521,371	531,893
Total equity		733,139	744,439

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
At 1 January 2015 (Audited)	4,022	82,281	77,338	53,066	509,988	726,695
Profit for the period	–	–	–	–	26,843	26,843
Other comprehensive income						
Currency translation differences	–	–	–	87	–	87
Total comprehensive income	–	–	–	87	26,843	26,930
Dividends paid	–	–	–	–	(24,192)	(24,192)
At 30 June 2015 (Unaudited)	4,022	82,281	77,338	53,153	512,639	729,433
At 1 January 2016 (Audited)	**4,022**	**82,281**	**77,338**	**48,905**	**531,893**	**744,439**
Profit for the period	**–**	**–**	**–**	**–**	**18,538**	**18,538**
Other comprehensive income						
Transfer to other reserves	**–**	**–**	**–**	**15**	**(15)**	**–**
Share of other comprehensive loss of associates *(note 16)*	**–**	**–**	**–**	**(9,247)**	**(16,949)**	**(26,196)**
Currency translation differences	**–**	**–**	**–**	**8,454**	**–**	**8,454**
Total comprehensive income	**–**	**–**	**–**	**(778)**	**1,574**	**796**
Dividends paid	**–**	**–**	**–**	**–**	**(12,096)**	**(12,096)**
At 30 June 2016 (Unaudited)	**4,022**	**82,281**	**77,338**	**48,127**	**521,371**	**733,139**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 *RMB'000* (Unaudited)	2015 *RMB'000* (Unaudited)
Cash flows from operating activities		
Cash used in operations	(3,179)	(57,812)
Income tax and withholding tax paid	(12,352)	(14,618)
Net cash used in operating activities	(15,531)	(72,430)
Cash flows from investing activities		
– acquisition of property, plant and equipment and intangible assets	(1,670)	(2,842)
– proceeds from disposal of property, plant and equipment	11	192
– interest received	4,735	–
– decrease (increase) in restricted bank deposit	115,085	(58,034)
– decrease in term deposits with initial term of over three months	–	73,000
Net cash generated from investing activities	118,161	12,316
Cash flows from financing activities		
– proceeds from bank borrowings	1,087,774	203,986
– repayments of bank borrowings	(1,154,743)	(130,907)
– dividends paid to equity holders	(12,096)	(24,192)
– interest paid	(5,764)	(4,190)
Net cash (used in) generated from financing activities	(84,829)	44,697
Net increase (decrease) in cash and cash equivalents	17,801	(15,417)
Cash and cash equivalents at the beginning of the period	101,583	262,751
Effect of foreign exchange rate changes	233	–
Cash and cash equivalents at end of the period	119,617	247,334

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

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

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 11 January 2006. The Company's 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.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 31 August 2016.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the current interim period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated financial statements for the six months ended 30 June 2016 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, other significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in risk management policies during the six months period ended 30 June 2016.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 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. There have been no changes in liquidity risk management policies during the six months period ended 30 June 2016.

5.3 Fair value estimation

As at 30 June 2016, the Group had no financial instrument which had been stated at fair value.

The carrying amounts less impairment provision of receivables and payables are a reasonable approximation of their fair values due to their short-term maturities.

6. 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, which is consistent with that in the condensed consolidated financial information.

6. 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 for each reportable segment and total assets for each reportable segment.

Six months ended 30 June 2016 (Unaudited)	Machine Tools *RMB'000*	Parking Garage Structures *RMB'000*	Forklift Trucks *RMB'000*	Total Group *RMB'000*
Revenue (all from external sales)	398,480	96,210	39,855	534,545
Cost of revenue	(280,709)	(75,247)	(36,310)	(392,266)
Segment profit	117,771	20,963	3,545	142,279

Six months ended 30 June 2015 (Unaudited)	Machine Tools *RMB'000*	Parking Garage Structures *RMB'000*	Forklift Trucks *RMB'000*	Total Group *RMB'000*
Revenue (all from external sales)	350,796	110,358	52,377	513,531
Cost of revenue	(238,180)	(90,759)	(46,632)	(375,571)
Segment profit	112,616	19,599	5,745	137,960

Majority of the Group's operations and assets are located in the PRC and the Group mainly sells to the PRC market.

6. SEGMENT INFORMATION (Continued)

Revenue from customers contributing over 10% of the total revenue of the Group for each of the reporting periods is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Customer A	69,983	N/A*

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the period concerned.

7. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	4,735	10,410
Sales of materials	3,264	669
Repair income	4,511	2,666
Government subsidies*	9,022	706
Rental income	113	129
Net gain on disposal of property, plant and equipment	–	50
Net exchange (loss) gain	(11,512)	578
Others	2,901	1,720
	13,034	16,928

* Government subsidies mainly represent the refund of value-added tax in relation to software embedded in the sales of machine tools and parking garage structures. The Group recognised the government subsidies in the consolidated statement of profit or loss and other comprehensive income when it has fulfilled all the conditions specified in the subsidy notice or relevant law and regulations.

8. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	Six months ended 30 June	
	2016 *RMB'000* (Unaudited)	2015 *RMB'000* (Unaudited)
Cost of inventories recognised as an expense	346,999	336,727
Allowance for bad and doubtful debts, net	3,500	4,398
Amortisation of intangible assets	644	395
Amortisation of prepaid lease payment	472	471
Depreciation of property, plant and equipment	12,959	13,796
Allowance for inventories, net	851	3,132
Research and development costs recognised as expense*	16,285	16,146
Net loss on disposal of property, plant and equipment	163	–
Provision for warranty	2,104	3,150
Direct operating expenses incurred for rental income	1,047	1,078

* The amount disclosed above does not include depreciation of property, plant and equipment and amortisation of intangible assets charged to research and development cost recognised as expense amounting to RMB713,000 and RMB60,000 (six months period ended 30 June 2015: RMB825,000 and RMB88,000) respectively. Such expenses are included in their corresponding headings within this note.

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 *RMB'000* (Unaudited)	2015 *RMB'000* (Unaudited)
Current Enterprise income tax ("EIT")	9,502	8,613
PRC withholding tax	5,543	–
Deferred tax	(1,087)	(252)
	13,958	8,361

9. INCOME TAX EXPENSE (Continued)

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 periods.

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

EIT is provided at 25% for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). Hangzhou Good Friend renewed its New and High-Tech Enterprise status in 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 for the six months ended 30 June 2016 is 15% (2015: 15%).

In according to Detailed Implementation Regulations for implementation of the EIT law of PRC issued on 6 December 2007, dividends paid out by the companies established in the PRC to their then foreign investors is subject to 10% withholding tax from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%. The PRC withholding tax recognised by the Group represents the 5% withholding tax levied on the dividends declared by Hangzhou Good Friend during this six months period ended 30 June 2016. The directors of the Company have assessed that no dividends will be declared by any of the PRC subsidiaries in the foreseeable future so it is concluded that no additional withholding tax shall be accrued on the retained earnings of the PRC subsidiaries as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences would not be reversed in foreseeable future.

10. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB18,538,000 (six months period ended 30 June 2015: RMB26,843,000) by the number of ordinary shares in issue during the year of 403,200,000 (2015: 403,200,000).

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
Basic and diluted earnings per share *(RMB per share)*	0.05	0.07

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

11. DIVIDENDS

During the current interim period, a final dividend of RMB0.03 per share in respect of the year ended 31 December 2015 (2015: RMB0.06 per share in respect of the year ended 31 December 2014) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB12,096,000 (2015: RMB24,192,000).

At a meeting of the board of directors held on 31 August 2016, the directors of the Company resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015: Nil).

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and equipment with an aggregate carrying amount of RMB174,000 (six months ended 30 June 2015: RMB142,000) for proceeds of RMB11,000 (six months ended 30 June 2015: RMB192,000), resulting in a loss on disposal of RMB163,000 (six months ended 30 June 2015: net gain on disposal RMB50,000). In addition, the Group spent RMB1,388,000 (six months ended 30 June 2015: RMB2,316,000) on additions to plant and equipment.

13. PREPAID LEASE PAYMENTS

Prepaid lease payments represent the land use rights which are released to profit or loss on a straight-line basis over the periods of the land use right certificate which is 50 years. During the current interim period, prepaid lease payments released to profit or loss amounted to RMB472,000 (six months ended 30 June 2015: RMB471,000). The amount to be amortised within one year is presented as current portion of prepaid lease payments.

14. INTANGIBLE ASSETS

During the current interim period, the Group spent RMB282,000 (six months ended 30 June 2015: RMB1,377,000) on additions to intangible assets.

15. INVESTMENTS IN JOINT VENTURES

	As at	
	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Cost of unlisted investments in joint ventures	27,666	27,666
Share post-acquisition loss and other comprehensive income	(11,199)	(10,696)
	16,467	16,970

16. INVESTMENTS IN ASSOCIATES

	As at	
	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Cost of unlisted investments in associates	346,072	346,072
Share post-acquisition loss and other comprehensive loss	(61,312)	(35,270)
Currency translation difference	8,611	157
	293,371	310,959

16. INVESTMENTS IN ASSOCIATES (Continued)

The Group's share of the results in associates for the six months ended 30 June 2016 and the aggregate assets and liabilities of the associates as at 30 June 2016 are shown below:

	RMB'000
Assets	6,068,355
Liabilities	5,410,884
Revenue	2,152,405
Share of profit	154
Share of other comprehensive loss (*)	(26,196)

* The share of other comprehensive loss represents the aggregate of the share of exchange differences on translation of foreign operations of RMB9,247,000 and the re-measurement losses on defined benefit plans of RMB16,949,000 of the associates.

17. DEFERRED TAX ASSETS

	Allowance for doubtful receivables *RMB'000*	Allowance for inventories *RMB'000*	Warranty provision *RMB'000*	Sales commission *RMB'000*	Total *RMB'000*
At 1 January 2015 (Audited)	4,720	612	812	–	6,144
Credit to profit or loss	143	63	46	–	252
At 30 June 2015 (Unaudited)	4,863	675	858	–	6,396
(Charge) credit to profit or loss	(341)	359	(104)	–	(86)
At 31 December 2015 (Audited)	4,452	1,034	824	–	6,310
Credit (charge) to profit or loss	266	20	(32)	833	1,087
At 30 June 2016 (Unaudited)	4,718	1,054	792	833	7,397

18. DEBTORS, DEPOSITS AND PREPAYMENTS

	As at	
	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade debtors and bills receivables	479,285	444,978
Less: provision for impairment of trade receivables	(38,691)	(36,512)
Trade debtors and bills receivables – net	440,594	408,466
Prepayments	15,622	16,033
Others	23,109	25,246
Total debtors, deposits and prepayments	479,325	449,745

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.

The ageing analysis of gross trade debtors and bills receivables based on due date were as follows:

	As at	
	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current – 30 days	347,246	341,202
31 – 60 days	11,133	8,465
61 – 90 days	4,135	9,079
91 – 180 days	21,167	14,038
Over 180 days	95,604	72,194
Trade debtors and bills receivables	479,285	444,978

19. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

	As at	
	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Trade creditors	193,251	177,863
Advance deposits from customers	155,222	184,316
Other payables	35,717	40,782
Accrued expenses	37,856	44,352
Total creditors, other payables and accrued charges	422,046	447,313

The Group is normally granted credit terms of 30 to 60 days. The ageing analysis of the trade creditors is as follows:

	As at	
	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Current – 30 days	121,938	119,353
31 – 60 days	41,211	34,725
61 – 90 days	6,667	3,979
91 – 180 days	8,271	4,921
Over 180 days	15,164	14,885
	193,251	177,863

20. BANK BORROWINGS

	As at	
	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Within one year – unsecured	**341,708**	408,677

Note:

(a) The borrowings bear interest at market rates ranging from 1.50% to 4.50% per annum (30 June 2015: 1.75% to 5.60% per annum).

(b) The Group has pledged its prepaid lease payments with carrying amount of approximately RMB3,497,000 as at 30 June 2016 (31 December 2015: RMB5,131,000) and buildings with carrying amounts of approximately RMB9,515,000 (31 December 2015: RMB10,131,000) in order to secure the general banking facilities granted to the Group. As at 30 June 2016, the Group has not utilised such secured bank facilities (31 December 2015: Nil).

(c) As at 30 June 2016, the Company's bank borrowings of RMB239,754,000 (31 December 2015: RMB242,350,000) were guaranteed by irrevocable standby letter of credits issued by banks of which RMB21,858,000 (31 December 2015: RMB120,601,000) has been utilised.

(d) As at 30 June 2016, cross guarantees between subsidiaries of RMB161,000,000 (31 December 2015: RMB176,000,000) have been provided to secure the bank borrowings of which RMB2,525,000 balance has been utilised (31 December 2015: RMB3,969,000).

(e) As at 30 June 2016, a personal guarantee was provided by a director of the Company and a related party of the Group in respect of the Group's bank borrowings of RMB66,312,000 (31 December 2015: RMB64,936,000).

21. SHARE CAPITAL

	Number of shares *'000*	Nominal value *RMB'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 30 June 2016 (Unaudited) and 31 December 2015 (Audited)	1,000,000	10,211
Issued and fully paid:		
At 30 June 2016 (Unaudited) and 31 December 2015 (Audited)	403,200	4,022

22. CAPITAL COMMITMENTS

	As at 30 June 2016 *RMB'000* (Unaudited)	As at 31 December 2015 *RMB'000* (Audited)
Capital expenditure contracted for but not provided in respect of		
– Construction of buildings	–	625
– Capital contribution to an associate	70,063	67,404
	70,063	68,029

23. RELATED PARTY TRANSACTIONS

(1) Transaction and balances

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

Transactions

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2016 *RMB'000* (Unaudited)	2015 *RMB'000* (Unaudited)
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	51	1,325
		Purchases of goods	12,299	2,653
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	9,126	18,646
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Sales of goods	–	763
		Purchase of goods	791	28
		Sales of service	92	–
		Rental income	1	–
Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine")	Fellow subsidiary	Sales of goods	1	–
		Sales of service	372	376
		Rental income	254	–
AIF	Joint venture	Purchases of goods	232	36
		Sales of service	570	97
		Rental income	9	–
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	–	1
Sanco Machine & Tools Corporation ("SANCO")	Fellow subsidiary	Purchases of goods	7,101	4,715
		Purchase of service	480	–
Hangzhou Feeler Mectron Machinery Co., Ltd. ("Feeler Mectron")	Joint venture	Sales of goods	45	26
		Purchases of goods	974	2,825

23. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Transactions (Continued)

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2016 RMB'000 (Unaudited)	Six months ended 30 June 2015 RMB'000 (Unaudited)
Hangzhou Union Friend Machinery Co., Ltd ("UFM")	Joint venture	Sales of goods	17	23
		Purchase of goods	347	175
		Sales of service	18	–
Hangzhou Nippon Cable Feeler Corporation	Joint venture	Sales of goods	–	4
		Purchase of goods	–	87
		Purchase of service	38	–
		Sales of service	10	–
FFG Werke GmbH	Associate	Purchase of goods	27,340	–
SMS Holding Co.,INC.	Subsidiary of an associate of the Group	Sales of goods	1,135	–
FFG DMC Co.,Ltd	Fellow subsidiary	Purchase of goods	1,128	–
Jobs Automazione S.p.A	Subsidiary of an associate of the Group	Purchase of goods	18,972	–

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

23. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances

Name of company	Relationship	Nature of balances	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Fair Friend	Ultimate holding company	Trade payable *(note (b))*	(1,091)	(160)
Fair Fine	Fellow subsidiary	Other receivable *(note (b))*	185	222
SANCO	Fellow subsidiary	Trade payable *(note (b))*	(5,787)	(6,204)
		Other receivable *(note (b))*	682	1,009
Feeler Takamatsu	Associate of ultimate holding company	Trade receivable *(note (a))*	–	1
		Trade payable *(note (b))*	(925)	–
		Other receivable *(note (b))*	29	32
Best Friend	Associate of ultimate holding company	Trade receivable *(note (a))*	2	13
Hong Kong GF	Immediate holding company	Trade payable *(note (b))*	(1,626)	(1,856)
AIF	Joint venture	Trade receivable *(note (a))*	200	228
		Trade payable *(note (b))*	(6)	(206)
		Other payable *(note (b))*	–	(3)
Feeler Mectron	Joint venture	Trade receivable *(note (a))*	62	48
		Other receivable *(note (b))*	105	78
UFM	Joint venture	Trade payable *(note (b))*	(153)	(108)
		Other receivable *(note (b))*	588	363
		Trade receivable *(note (a))*	20	–
Jobs Automazione S.p.A	Subsidiary of an associate of the Group	Other receivable *(note (b))*	10,306	18,641
		Trade payable *(note (b))*	(5,306)	(9,837)
		Shareholder loan *(note (b))*	–	5,469
SIGMA Technology S.r.l	Subsidiary of an associate of the Group	Trade receivable *(note (a))*	2,127	2,127
		Trade payable *(note (b))*	–	(182)

23. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Name of company	Relationship	Nature of balances	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
SIGMA Machinery Co., Ltd	Subsidiary of an associate of the Group	Trade payable *(note (b))*	(71)	(72)
FFG Werke	Associate	Advance to *(note (b))*	24,503	28,020
		Trade payable *(note (b))*	(2,242)	(298)
		Shareholder loan *(note (b))*	5,313	5,041
Golden Friendship	Fellow subsidiary	Other payable *(note (b))*	–	(15,460)
FFG Europe	Associate	Other receivable *(note (b))*	325	1,543
Sky Thrive Rambaudi S.r.l	Subsidiary of an associate of the Group	Other receivable *(note (b))*	8,742	–
EQUIPTOP HITECH CORP.	Fellow subsidiary	Trade receivable *(note (a))*	326	–
		Trade payable *(note (b))*	(271)	–
SMS HOLDING CO.,INC.	Subsidiary of an associate of the Group	Trade receivable *(note (a))*	1,175	–

(a) The Group allows a normal credit period of 90 days for sales made to the fellow subsidiaries, the ultimate holding company and its associates, and subsidiaries of associated company. Balances are unsecured and interest free. As of 30 June 2016 and 31 December 2015, the ageing of above balances was mostly within 6 to 12 months.

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

23. RELATED PARTY TRANSACTIONS (Continued)

(2) Compensation of directors and key management personnel

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries	1,402	1,515
Performance related bonuses	392	485
Retirement benefits scheme contributions	53	74
	1,847	2,074

24. PLEDGE OF ASSETS

	As at	
	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepaid lease payments	3,497	5,131
Property, plant and equipment	9,515	10,131
Pledged bank deposits	57,528	172,613
	70,540	187,875

The Group has pledged its prepaid lease payments and buildings in order to secure the general banking facilities granted to the Group.

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

25. 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 RMB368,750,000) 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 30 June 2016, the Company has not drawn down any loan from aforesaid facility letter, while FFG Werke has drawn down a total amount of Euro50,000,000.

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 RMB78,175,000). As at 30 June 2016, Sky Thrive has arranged the aforesaid bank guarantees of total amount of Euro2,500,000 (equivalent RMB18,437,500).

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 interim period.

26. COMPARATIVE FIGURES

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