# 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 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

## 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
Bank SinoPac
Bangkok Bank

## STOCK CODE

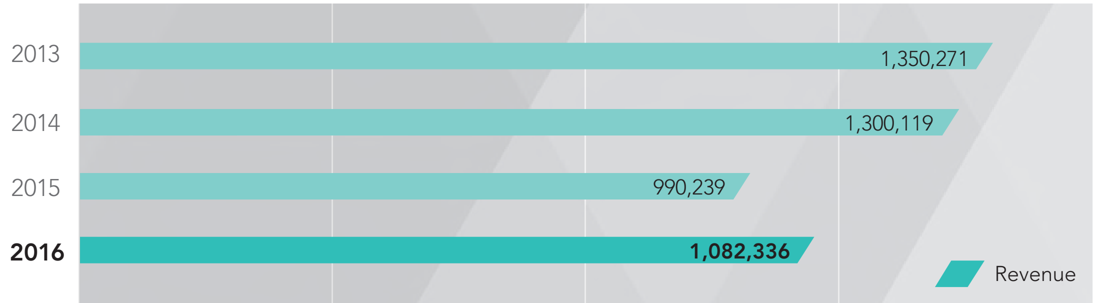
2398

## WEBSITE

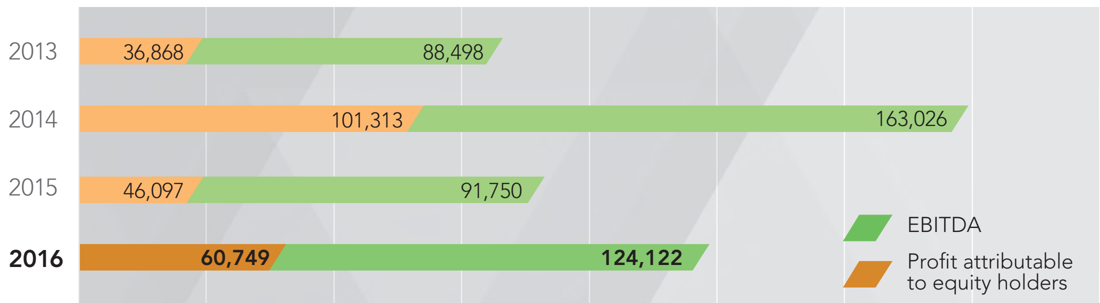
http://www.goodfriend.hk

# Financial Highlights

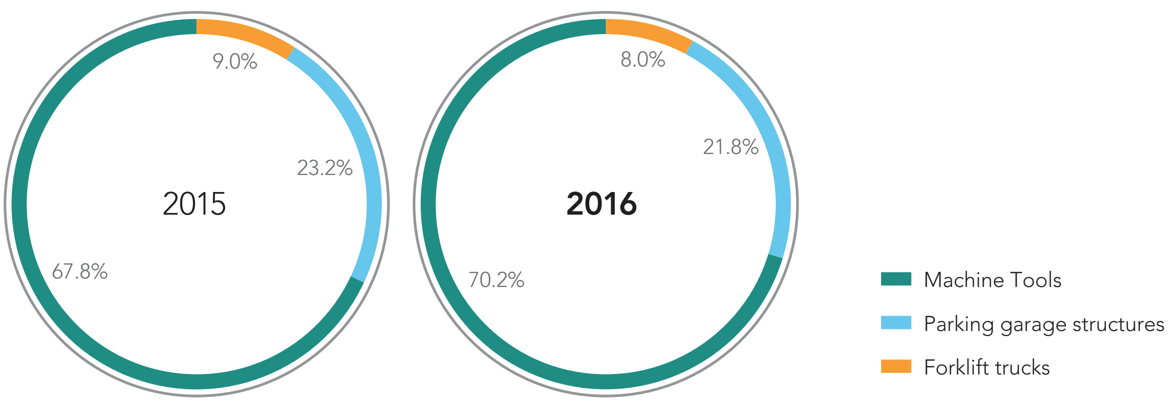
## REVENUE (RMB'000)




## PROFIT (RMB'000)




## BUSINESS SEGMENTS (In terms of revenue)



# *Financial Highlights*

## TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

| | **2016 RMB'000** | 2015 RMB'000 | Change (%) |
|---|---|---|---|
| Revenue | **1,082,336** | 990,239 | 9.3% |
| Gross profit | **295,151** | 267,925 | 10.2% |
| EBITDA | **124,122** | 91,750 | 35.3% |
| Profit attributable to equity holders | **60,749** | 46,097 | 31.8% |
| Shareholders' equity | **804,068** | 744,439 | 8.0% |
| Total assets | **1,787,359** | 1,664,040 | 7.4% |
| Earnings per share – basic (RMB) | **0.15** | 0.11 | 36.4% |

## SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

| | **2016** | 2015 | Change (%) |
|---|---|---|---|
| Gross profit margin *Note 1* | **27.3%** | 27.1% | 0.7% |
| Net profit margin *Note 2* | **5.6%** | 4.7% | 19.1% |
| Inventory turnover days *Note 3* | **94.0** | 126.4 | -25.6% |
| Debtors' turnover days *Note 4* | **152.1** | 150.6 | 1% |
| Creditors' turnover days *Note 5* | **94.4** | 89.9 | 5% |
| Current ratio (Times) *Note 6* | **1.1** | 1.2 | -8.3% |
| Quick ratio (Times) *Note 7* | **0.9** | 0.9 | – |
| Gearing ratio (%) *Note 8* | **19.6%** | 24.6% | -20.3% |
| EBITDA/Finance costs (Times) *Note 9* | **12.5** | 10.5 | 19.0% |
| Return on equity (%) *Note 10* | **7.6%** | 6.2% | 22.6% |

*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 2016 (the "year").

## FINANCIAL PERFORMANCE

For the year ended 31 December 2016, the Group recorded revenue of approximately RMB1,082.34 million, representing an increase of approximately 9.3% compared to the previous year. Whilst profit attributable to equity holders for the year amounted to approximately RMB60.75 million, representing an increase of approximately 31.8% compared to RMB46.10 million in 2015.

## FINAL DIVIDEND

The Board proposes to preserve cash for development of the Group and does not recommend a final dividend for the year ended 31 December 2016 (2015: RMB0.03 per ordinary share).

# Chairman's Statement

## BUSINESS REVIEW

The growth rate of China's economy further slowed down in 2016. According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product ("GDP") in 2016 grew by 6.5% when compared to 2015, and the economy is still in a period of deep adjustment. Despite that, sales orders of the mainstream product of the Group CNC machine tools were not affected by that. For the year ended 31 December 2016, sales volume and sales revenue of CNC machine tools amounted to 1,611 units and approximately RMB760.05 million respectively, both representing an increase when compared to 2015. Moreover, the gross profit margin of CNC machine tools business maintained at approximately 29.8% 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. Sales revenue of high-end CNC machine tools products (produced by German and Italian manufacturers) during the year amounted to approximately RMB 66.5 million, and accounted for approximately 8.7% 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.

## PROSPECTS

China's economy continued to sail on against the wind. 2017 marks the second year of China's "13th Five-Year" Planning. China remains as the growth engine to the world economy, China is the largest machine tools consuming country. It is anticipated that the demand of machine tools from the industries of high-speed railway, transit rails, aerospace, and energy in China, especially demand of those high-end CNC machine tools, would still be great. This in turn will benefit the Group's CNC machine tools business. The Group will continue to explore and sell those high-end CNC machine tools products (production of such primarily from Italy and Germany) to the customers. The management believes that with its extensive sales network and comprehensive after-sales service, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continue to strengthen its market position.

Looking ahead, with the current complex economic environment, the Group will continue to strengthen its business foundation under a consistent cautious manner under tough market environment, in order to weather against the volatility and uncertainty of the market condition ahead. 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.

# Chairman's Statement


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, 30 March 2017

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2016, the Group recorded revenue of approximately RMB1,082.34 million, representing an increase of approximately 9.3% as compared to 2015. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,611 units, 17,529 units and 1,433 units respectively (2015 comparative figures: 1,587 units, 15,368 units and 1,492 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 RMB760.05 million, representing an increase of approximately 13.1% as compared to 2015. Revenue of CNC machine tools accounted for approximately 70.2% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB236.05 million during the year, representing an increase of approximately 2.8% as compared to 2015 and accounted for approximately 21.8% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 2.8%, as compared to 2015, to approximately RMB86.24 million and approximately 8.0% of the Group's total revenue.

### Gross profit and margin

For the year ended 31 December 2016, gross profit of the Group amounted to approximately RMB295.15 million. Overall gross profit margin was approximately 27.3%, compared to 27.1% for 2015. The gross profit margin of CNC machine tools (the Group's major product) during the year remained at approximately 29.8%. As a result, the overall gross profit margin for the year remained fairly stable as compared to 2015.

### Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB122.40 million for the year ended 31 December 2016, remained fairly stable as compared to last year. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 11.3%, compared to approximately 12.4% for 2015.

### Administrative expenses

Administrative expenses for the year ended 31 December 2016 decreased by approximately 2.8% as compared to 2015. This was mainly attributable to the stringent control of the corresponding expenses by the management.

### Finance costs

During the year, finance costs increased to approximately RMB9.90 million. The increase was primarily due to the increase of average bank borrowings of the Group during 2016.

### Share of loss of associates

For the year ended 31 December 2016, share of loss of associates amounted to approximately RMB5.91 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 2016, profit attributable to the equity holders of the Company amounted to approximately RMB60.75 million, representing an increase of approximately 31.8% as compared to 2015.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had net current assets of approximately RMB121.49 million (2015: RMB154.91 million), shareholders' fund of approximately RMB804.07 million (2015: RMB744.44 million) and short-term bank borrowings of approximately RMB350.77 million (2015: RMB408.68 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 2016 amounted to approximately RMB177.95 million (2015: RMB101.58 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.1 times (2015: 1.2 times). The gearing ratio (ratio of total debts to total assets) was approximately 19.6% (2015: 24.6%), 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 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).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As at 31 December 2016, the total outstanding short-term borrowings stood at approximately RMB350.77 million (2015: RMB408.68 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 2016.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2016.

## SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2016 are set out in note 5 to the consolidated financial statements.

## STAFF AND REMUNERATION POLICIES

As at 31 December 2016, the Group employed a total of 1,300 (2015: 1,320) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB140.15 million (2015: RMB142.99 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 RMB4.61 million (2015: RMB4.92 million) to the said schemes.

## CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had made no capital expenditure commitments for property, plant and equipment (2015: RMB0.63 million) which are contracted but not provided in the financial statements and had no capital contribution commitments to any associates (2015: RMB67.40 million). The Group had no material contingent liabilities as at 31 December 2016 (2015: Nil).

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016, restricted bank deposits with an amount of approximately RMB33.16 million (2015: RMB172.61 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 RMB12.60 million (2015: RMB15.26 million) to secure general banking facilities granted to them. As at 31 December 2016, the subsidiaries have utilized such secured bank facilities of RMB1.83 million (2015: Nil).

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2016. 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 2016, 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 70, 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 71, 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 66, 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 52, 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 31 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 59, 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 32 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 60, 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 56, 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.

# Biographical Details of Directors and Senior Management

**Mr. Yu Yu-Tang（余玉堂先生）**, aged 80, 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 58, 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 31 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 55, 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 32 years of experience in the machine tools industry.

**Mr. Yeh Ming-Pin（葉明彬先生）**, aged 49, 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 19 years of experience in the fields of auditing, accounting and finance.

**Mr. Yip Sai Keung, Esmond（葉世強先生）**, aged 51, 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 2016.

## 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 2016 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 date of this report.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2016 is set out in note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 61 to 137.

The Board proposes to preserve cash for development of the Group and does not recommend a final dividend for the year ended 31 December 2016 (2015: RMB0.03 per ordinary share).

## RESERVES

Movements in the reserves of the Company during the year are set out in note 36 to the consolidated financial statements.

## ANNUAL GENERAL MEETING

The 2017 annual general meeting will be held on Thursday, 1 June 2017. Details of the 2017 annual general meeting, notice of annual general meeting and proxy form are set out in the circular of the Company dated 27 April 2017 which will be despatched to shareholders of the Company together with the 2016 annual report.

## RECORD DATE FOR DETERMINING ELIGIBILITY TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING

Record date (being the last date for registration of any share transfer given there will be no book closure) for determining the entitlement of the shareholders of the Company to attend and vote at the annual general meeting to be held on 1 June 2017 will be Thursday, 25 May 2017. All transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 May 2017.

## 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 2016 are set out in note 25 to the consolidated financial statements.

## BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2016 are set out in note 28 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. Chu Chih-Yaung, Wen Chi-Tang and Koo Fook Sun, Louis, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## INDEPENDENCE CONFIRMATION

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

*Report of the Directors*

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 11 January 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 2016, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

## SHARE OPTION SCHEME

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

The principal terms of the Scheme are summarised as follows:

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

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

## Report of the Directors

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

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

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

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

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

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

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

## DIRECTORS' INTEREST IN SHARES

As at 31 December 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 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%.

## Report of the Directors

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

| Name of Director | Name of associated corporations | Nature of interest | Number and class of securities | Approximate percentage of shareholdings |
|---|---|---|---|---|
| Mr. Chu Chih-Yaung | Fair Friend Enterprise Company Limited ("Taiwan FF") | Beneficial owner | 15,669,255 ordinary shares | 15.30% |
| | Taiwan FF | Spouse interest *(Note 1)* | 2,682,926 ordinary shares | 2.62% |
| | 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 2.62% 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 2016, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

   As at 31 December 2016, 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 2016, the interests or short positions of every person, other than Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are set out below:

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 | 232,086,000 shares *(Note)* | 57.56% |

*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 2016.

## 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 2016, 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 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 2016 to 31 December 2016 under the Components Agreement were RMB2.22 million and RMB165.32 million respectively and the actual supply amount and purchase amount of the period were RMB0.236 million and RMB27.52 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 2016 to 31 December 2016 under the Machine Tools Agreement was RMB153.19 million and the actual purchase amount of the period was RMB103.74 million.

# Report of the Directors

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 GmbH ("FFG Werke") and Sky Thrive Hong Kong Enterprise Limited ("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 (the "Bank Guarantees"). Each Bank Guarantee will expire no later than 24 months from its date of issuance.

   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.

   As at 31 December 2016, Bank Guarantees in the aggregate amount of Euro 8.5 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 Bank Guarantees will expire no later than 5 August 2017.

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.

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders 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 2016.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 18.28% of the Group's total turnover for the year and the largest customer accounted for approximately 6.11% of the Group's total turnover. The five largest suppliers accounted for approximately 28.92% of the Group's total purchases for the year and the largest supplier accounted for approximately 14.03% 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

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as those set out in note 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.

## AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Corporate Governance Code. The duties of the Audit Committee includes review and supervise the financial reporting process and risk management and internal control systems of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2016.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 32 to 46.

## 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 138.

## AUDITOR

For the year ended 31 December 2014, PricewaterhouseCoopers was the auditor of the Company. In 2015, PricewaterhouseCoopers resigned as the auditor of the Company and Deloitte Touche Tohmatsu was appointed and re-appointed as auditor of the Company for the years ended 31 December 2015 and 31 December 2016.

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

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

Hong Kong, 30 March 2017

# Corporate Governance Report

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting of the Company held on 2 June 2016 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.

## 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 2016, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

## BOARD OF DIRECTORS

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

The Board currently comprises eight Directors with 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.

*Corporate Governance Report*

### Independent non-executive Directors

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

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

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

### Role of the Board

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

### Corporate Governance Functions

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

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

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

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

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

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

The Board had performed the above duties during the year.

### Directors' training

Based on the training records provided to the Company by the directors and the Company's record, the directors participated in the following training during 2016:

| 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 year ended 31 December 2016, 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 | 2/4 |
| Mr. CHEN Hsiang-Jung | 4/4 |
| Mr. CHEN Min-Ho | 2/4 |
| Mr. WEN Chi-Tang | 3/4 |
| Mr. CHIU Rung-Hsien | 4/4 |
| Mr. KOO Fook Sun, Louis | 4/4 |
| Mr. CHIANG Chun-Te | 3/4 |
| 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 of an adequate internal control and risk management systems and compliance with such system.

The chief responsibilities of the Audit Committee include making recommendations to the Board on the appointment, 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 risk management and internal control systems of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited financial statements of the Company for the six months ended 30 June 2016. The audited financial statements of the Company for the year ended 31 December 2016 has also been reviewed by the Audit Committee.

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

### Frequency of Meetings and Attendance

During the year 2016, 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 | 2/3 |
| Mr. YU Yu-Tang | 3/3 |

## NOMINATION OF DIRECTORS

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

The Company established a nomination committee (the "Nomination Committee"), with written terms of reference in compliance with the CG Code and consists of 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 and diversity as adequate for the Company's present operations. In addition, the Committee has reviewed and satisfied with the independence of all independent non-executive Directors.

In accordance with the Articles, at least one-third of the Directors will retire from office at the forthcoming annual general meeting. In accordance with the Articles 87(1) of the Articles, Mr. Chu Chih-Yaung, Wen Chi-Tang and Mr. Koo Fook Sun, Louis will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

### Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2016 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 2016 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 2 June 2016 which was effective for a period of 10 years until 1 June 2026. The purpose of the share option scheme was to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimize their future contributions for the benefit of the Group. Details of the share option scheme are set out in the section headed "Share Option Scheme" of the "Report of the Directors".

### Remuneration of Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

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

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 transaction involving fomation of joint venture. Details of this discloseable transaction were set out in an announcement of the Company dated 7 April 2016.

*Corporate Governance Report*

A committee meeting was held to approve respectively the above transaction 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 | 2,180 |
| Non-audit services | 446 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has acknowledged its responsibility for the risk management and internal control systems of the Group, and has established and continuously supervised and reviewed the effectiveness of the systems operation as required in the Principle C.2 of the *Corporate Governance Code* set out in Appendix 14 of the *Listing Rules*, with the purpose of managing the risk of failure to achieve the business objective, enhancing the effective and efficient operation, reasonably guaranteeing the reliability of financial reporting as well as in compliance with applicable laws and regulations, and safeguarding the assets of the Group. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The Company has established and improved the risk management and internal control organization systems comprising the Audit Committee of the Board, senior management and all the departments of the Company as required in the Principle C.2.2 of the *Corporate Governance Code* set out in Appendix 14 of the *Listing Rules*, in a bid to guarantee that the Company has sufficient resources, employee qualification, experience, training courses and relevant budgets in terms of the risk management and internal control. All the departments of the Company are the first defending line of the risk management and internal control, the senior management is the second, and the Audit Committee of the Board is the third. The Audit Committee and the Board are the top decision-making organs of the risk management and internal control systems of the Company.

### Internal Audit Function

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

### Conducting Risk Management and Internal Control

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

In 2016, centring on the overall operation objective, the Company gradually established the risk management system through implementing the basic risk management process in each phase of its management and in the course of its operations, which comprehensively identified and dealt with possible risks at the Company level in operations, forming the unique risk pool and risk framework with sound systems of the Company, providing the basis for the risk management and internal control.

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

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

In 2016, the Company carried out the basic risk response measures of internal control through specific business process on the basis of fully identifying and evaluating risks, established the management procedures and internal control measures for significant processes of the preparation and disclosure of financial reports, and finally confirmed the long-term mechanism of risk management with the *Risk Management System*(《風險管理制度》). The management procedures of relevant processes, the internal control measures and the *Risk Management System* have been implemented upon the approval and signature by the senior management.

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

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

The results of risk management and internal control in 2016 indicated that there weren't any material faults or weak points in the major risk monitoring. The management processes of the Company, such as financial reports and information disclosures, strictly complied with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and the risk management and internal control were effective according to the evaluation of the Board.

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

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

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

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's accounts for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2016, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATION

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

# Corporate Governance Report

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 2 June 2016 (the "2016 AGM"). A notice convening the 2016 AGM contained in the circular dated 29 April 2016 was dispatched to the Shareholders together with the 2015 Annual Report. The chairman of the Board was unable to attend the 2016 AGM due to his business trip. Mr. Chen Hsiang-Jung, the Executive Director, attended and chaired the 2016 AGM. The Chairman of the board committees was unable to attend the 2016 AGM and had appointed and delegated Mr. Chen Hsiang-Jung to answer questions from shareholders. Other directors were unable to attend the 2016 AGM due to their other business commitment.

The Chairman of the 2016 AGM explained detailed procedures for conduction a poll. All the resolutions proposed at the 2016 AGM were passed separately by the Shareholders by way of poll. The results of the poll were published on the websites of the Stock Exchange and the Company after the meetings. No other general meeting was held during the year.

The forthcoming annual general meeting of the Company will be held on 1 June 2017 (the "2017 AGM"). A notice convening 2017 AGM will be published on the websites of the Stock Exchange and the Company and dispatched together with the 2016 Annual Report to the Shareholders as soon as practicable in accordance with the Articles and the CG Code.

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

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

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

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

## SHAREHOLDERS' RIGHTS

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

### Procedures for shareholders to convene EGM:

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

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

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

### Procedures for putting forward proposals at general meetings

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

The procedures for shareholders 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 2016.

Hong Kong, 30 March 2017

# Environmental, Social and Governance Report

Good Friend International Holdings Inc. (the "Company" or "we") and its subsidiaries (collectively known as the "Group") hereby present the annual Environmental, Social and Governance Report from 1 January 2016 to 31 December 2016 ("Environmental, Social and Governance Report") in accordance with the regulations in the *Guidance on the Environmental, Social and Governance Report* promulgated by the Stock Exchange of Hong Kong Limited in December 2015.

The board of directors of the Company is responsible for the environmental, social and governance strategy and report, including the assessment and determination of relevant risks in environment, society and governance, and guarantee of proper and effective environmental, social and governance risk management and internal monitoring system. We have appointed the business and functional departments to identify matters related to environment, society and governance, and evaluate the significance of relevant matters to our business and interested parties by reviewing the Group's operation and conducting internal discussions. The management has confirmed the effectiveness of the environmental, social and governance risk management and internal monitoring system with the Board. In accordance with general disclosure regulations in the *Guidance on the Environmental, Social and Governance Report*, the identified significant matters related to the environment, society and governance have been contained in this Environmental, Social and Governance Report with the aim of disclosing the Group's performance of the environment, society and governance during its operation in a balanced manner.

## 1. MANAGEMENT OF INTERESTED PARTIES

The Company regards the shareholders, investors, government, customers, suppliers, employees and the environment as the major interested parties in accordance with its business and operation characteristics.

### Shareholders and Investors

- Standardize the corporate governance, and guarantee the legal compliance of the Company
- Establish the information disclosure system to guarantee the authentic, accurate, prompt and complete disclosure of information

### Government

- Implement the government management requirements, and conduct tax payment and honest operation according to the law
- Implement national economic policies, and promote the sound industry development under fair competition

### Customers

- Improve the quality management system, and guarantee the product quality
- Provide excellent service for customers, and guarantee high customer satisfaction

## 2. ENVIRONMENTAL PROTECTION

### Establishment of Environmental Protection System

Hangzhou Good Friend Precision Machinery Co., Ltd. and Hangzhou Ever Friend Precision Machinery Co Ltd. have passed the ISO14001 Environment Management System Certification, and organized internal and external review of the corporate environment on a yearly basis, in order to guarantee the environment management system is manageable and effective for long.

There were not any environmental pollution accidents, illegal events or complaints from surrounding residents for the year of 2016. We have been always conducting operation in strict accordance with the latest environmental laws, rules and standards of the place where the premises are located. So far we have collected 153 local and national laws, rules and standards related to water, atmosphere, waste, noise and energy resource. We have also carried out appraisal of the environmental protection in accordance with various laws and rules, in order to guarantee the legal compliance of all the activities.

The Company has continuously optimized the environment and energy management system, and formulated the quality and environment manual, hazard specification, operation instructions and air pollution control and management system, in order to enhance the standard and systematic management of the environmental protection, energy conservation and emission reduction.

### Devotion to Energy Conservation and Emission Reduction

The Company attaches great importance to resource conservation and environmental protection, and responds to the climate change through the daily conservation of water and electricity and reduction of greenhouse gas emission.

The Company promulgated the 2016 Environmental Objectives, comprehensively managing and promoting energy conservation and cost reduction.

### Reduction of Energy Use

In terms of the management, the Company has achieved the environmental objective of 100% utilization of the workshop and site. The Group enhances the energy-saving consciousness of employees through the publicity and education of energy conservation and emission reduction. As for the production, it has realized the environmental objective of 100% recycling of hazardous waste. In the aspect of the operation, former lights have been replaced with LED lights to reduce the energy consumption.

### Reduction of Pollutant Discharge

The Company is devoted to reducing the pollutant discharge, and lessening the damage and impact on the ecological environment.

### Wastewater Treatment

Several wastewater treatment facilities are adopted in the production. The domestic wastewater is mainly discharged from office toilets and kitchens with ammonia nitrogen and suspended particles rather than toxic, hazardous and special substance. Oily wastewater produced by kitchens is discharged into the municipal sewage pipe network after solid wastes are filtered out by the filter screen of the washing pool. Phosphoric detergents are prohibited here.

### Waste Gas Treatment

The main gas pollutants produced during the production of the Company include dust particles and VOCs (benzene series). We have established the waste gas treatment project according to the requirement of the environmental protection project and under the support of leaders of Hangzhou Good Friend Precision Machinery Co., Ltd. in a bid to improve the working environment, reduce the impact on the surrounding environment, protect the environment, and prevent the gas contamination. The waste gas after treatment has reached the emission standard stipulated in the *Integrated Emission Standard of Air Pollutants* (GB16297-1996).

### Wastes Treatment

The Company has promulgated the *Provisions on the Administration of Wastes*, to regulate the treatment process of wastes generated in production and operating activities. We classified wastes according to the *National Catalogue of Hazardous Waste*, and made corresponding disposal guidelines according to different levels. Hazard wastes such as waste oil and waste emulsion will be disposed of by qualified and professional third parties appointed by the Company.

### Noise Treatment

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

## 3. EMPLOYEE MANAGEMENT

The Company persists in the equal employment, and prohibits discrimination in the employee recruitment, position promotion, occupational development and contract termination due to the race, nationality, complexion, religion, physical disability, gender, sexual orientation, club member or marital status. It strictly abides by the international conventions on human rights and labour, as well as the labour and employment regulations and policies of the place where the premises are located. Up to now, it has collected a total of 40 applicable laws, rules and standards, and established systems for labour contract management, employment management, occupational physical examination, work-related accident handling, dismissal management, etc.

The Company prohibits the employment of child labourer, forced labour, harassment, physical punishment, spiritual oppression or abusive words in any forms. It also respects the freedom of all the employees to join any associations or labour unions.

There wasn't any employment of child labourer, forced labour or discrimination by the Company for the year of 2016.

### Equal Employment

The Company protects the entitlement of female employees to vocational development, and stipulates that female and male employees are equally entitled to promotion and professional training on technology and post skills. There shall be a certain proportion of female employees in the further education, business study, post training, investigation abroad and practice on a temporary post. The female employees' committee of the labour union is established in accordance with the law, which participates in the deliberation and formulation of rules and regulations relating to the protection of rights of female employees, and protects the legitimate rights and special interests of female employees to the largest extent. Female employees shall enter into the Special Labour Contract of Protection of Rights and Interests of Female Employees with the Company.

### Occupational Safety

Regarding employees as the most precious assets, the Company strives to build a healthy and safe workplace for employees. It has formulated the quality and environment manual, stipulating relevant requirements on the working environment. There was zero death in the production safety accident and zero major production safety accident for the year of 2016.

The Company strives to build a comfortable and healthy working and living environment, enhance the mental and physical health of employees. It also continuously perfects the health management of employees and formulates the *Occupational Safety and Health Education System* in strict compliance with the *Labour Law*, the *Law on Prevention and Control of Occupational Disease* and local laws and regulations on prevention and treatment of occupational diseases.

The Company has established various safety management rules and regulations, in order to enhance the safety management level of the Company, and protect the safety of employees in the production to the largest extent.

### Remuneration Incentive

The Company makes the full payment for the endowment, medical treatment, unemployment, work-related injury and birth insurances and housing provident fund, and effects the commercial insurances for employees in strict accordance with national social security policies, in order to enhance the employees' capability to tackle emergent difficulties. It commits itself to improving the remuneration incentive system, and establishing fair and attractive vocational development channels. The *Employee Management Rules* integrate employees' capability and performance with the post performance.

### Vocational Development

The Company actively focuses on the vocational development of employees and establishes comprehensive and sound employee training system to provide a broader vocational development platform for employees. Pertinent training on marketing, quality, R&D, professional skills, safety and management has been conducted by the Company according to the established education and training management procedures, in order to gradually improve employees' skills and quality, satisfy employees' occupational demands in different phases, consolidate the vocational development channels, and realize the mutual growth of the enterprise and its employees. The Company has also carried out various competitions of production skills (forklift skills, processing technology and machine tool installation and commissioning) among all the employees of different posts, which inspects the operational capability of employees, arouses their working enthusiasm and further enhances the overall level of employees. The individual operational capability of employees is displayed and improved, and employees with outstanding performance are rewarded during the competition.

### Care for Employees

The Company strives to build a comfortable and healthy working and living environment for employees. It has established a dining hall to provide balanced diets for employees, continuously enhanced the management of the dining hall in terms of the dining environment, service mode and consumption demand, and provided better services for employees. The Company has set up employees activity rooms in the headquarters and most of the enterprises, and held recreational and sports activities such as sports meeting, parents-child campaign and female employees' travels on 8 March on a regular basis, which improves the health of employees, eases their working pressure, balances work and life, enhances their sense of belonging, and creates a happy, open, healthy, friendly and harmonious working and living atmosphere.

The Labour Union found four colleagues of the Company lived a difficult life due to their major diseases or major diseases or accidents of family members by thorough investigation. In order to enable every colleague to have a happy and harmonious Spring Festival, the Company leaders sent the consolation money to the employees in Xiaoshan Plant on 7 February 2016, and the director of the representative officer sent the consolation money to colleagues in the representative office. It is hoped that they can overcome the difficulty with great endeavour under the help of the Company.

## 4. SUPPLY CHAIN MANAGEMENT

Following the concept of cooperation for mutual benefits, the Company strives to build a collaborative development mechanism for the mutual growth, trust and benefits with suppliers, and creates a safe and reliable green supply chain. It is also devoted to build up strategic cooperative partnership with suppliers for mutual progress and development, in order to form powerful competitive advantages in the industry.

### Operation Standard for Suppliers

The Company commits itself to promoting the commercial operation standard of integrity, and actively fulfilling the social responsibilities. It implements the *Supplier Management Procedures*, raising requirements on suppliers in terms of legal compliance and discipline observation, integrity operation, health and safety, environmental protection and business ethics. Suppliers are required to comply with the local laws and rules of the place where they operate, and enter into a Letter of Commitment of Manufacturer with the Company as for the above aspects.

### Supplier Assessment

The Company adopts strict and fair supplier admission procedures and assessment mechanism, and supervises suppliers to guarantee the product quality and safety, and continuously improve the supply chain management level through the admission review and annual regular review. The Company encourages suppliers to obtain accreditation under the ISO 90001 quality control system, and conducts on-site random quality inspection on the products from time to time in order to guarantee the product quality.

### Product Quality Assurance System

The Company has obtained accreditation under the ISO 90001 quality control system and adopts a product safety management system covering material supply, production, packaging and delivery. We conduct the self-inspection on the quality management in accordance with established material supply inspection management, process inspection management, finished product inspection management, and detective products control management procedures, and organizes the internal quality review on a yearly basis. The Company cooperates with China Jiliang University to improve the supplier quality management system and enhance the product quality.

### Customer Service

The Company strives to provide high-quality products and efficient services for customers. The Company sets the access authority to the customer documents according to the responsibilities of the sales stuff, in order to guarantee the privacy of customers to the largest extent. It actively deals with customers' request for return or replacement of machines, and provides high-quality products and services for customers.

### Scientific and Technological Responsibilities

As the business partner of owners of major patents and other global patents, the Company undertakes that it will make more investments in R&D and innovation, and actively protect the Group's innovative technology and intellectual property rights in a global context. It formulates the *Patent Management System*, specifying the patent R&D and protection processes.

### Anti-Corruption

The Company establishes the *Anti-Corruption Management Methods* setting out channels (such as mailbox and email) for exposing immoral matters, in order to build a positive and healthy operation environment and guarantee the sound development of the Company. As of 31 December 2016, we never encountered any corruption, bribery, extortion, fraud or money laundering, or any lawsuits arising therefrom.

## 5. CONTRIBUTION TO THE SOCIETY

### Human Resource Cultivation Base

The Company has established Fair Friend Institute of Electromechanical through the cooperation with Hangzhou Vocational & Technical College. As a key human resource cultivation base for advanced manufacturing industry in Zhejiang Province, the Institute has been vigorously promoting the reform in the HR cultivation mode based on concerted efforts of the Institute and enterprises, and has established a various of majors that possess competitive advantages and valued as key and featured majors for the local city and province. The Company also has optimized the project-based curriculum system according to actual post requirements of the Company through the enterprise-dominated cooperation under the leadership of the Institute. Hangzhou Good Friend Precision Machinery Co., Ltd. provides the internship opportunities for the students of the 5th term, and establishes long-term cooperation with the Technician College of Xiaoshan District to arrange the one-year internship for students.

### Community Activities

The Company actively attended the community activities and vigorously promoted the spirits of voluntary service in response to the "G20" voluntary service in Hangzhou City in 2016. Our employees were organized to assist the work of the Xiaoshan District Committee of Communist Youth League and the Voluntary Work Guidance Centre of our community, so as to promote the construction progress of "Smiling Station" for voluntary service and enhance the long-term development of the voluntary service. As a member of Xiaoshan Development Zone, the Company was dedicated to promote the development of urban civilization, demonstrate the strength and beauty of the development zone, and enhance the public satisfaction.

### Charitable Donation

The Company assumed its social duties proactively and finished the blood donation tasks on a yearly basis as required by the local government. On 6 August 2016, the Company organized 42 employees to participate in the voluntary blood donation organized by the Management Committee of the Development Zone.

When a great earthquake attacked the south region of Taiwan on 6 February 2016, the Company organized the donation to Taiwan compatriots to help the affected people overcome the disaster, which demonstrated our sense of social responsibility and our value of "One family across the Straits" and "Support comes from all sides when disaster strikes".

# 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

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

## OPINION

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 137, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS *(Continued)*

**Key audit matter**

***Impairment assessment of trade debtors***

We identified the impairment assessment of trade debtors as a key audit matter due to significance of the Group's trade debtors in the context of the Group's consolidated financial statements, combined with the management judgments involved.

As disclosed in note 20 to the consolidated financial statements, as at 31 December 2016, the carrying amount of trade debtors amounted to approximately RMB451 million (net of impairment provision of RMB34 million) which represented approximately 25.2% of the Group's total assets. As disclosed in note 4.1 (b) to the consolidated financial statements, provision are applied to debtors where events or changes in circumstances indicate that the balances may not be collectable and the identification of impairment of debtors requires the use of management estimates.

**How our audit addressed the key audit matter**

Our procedures in relation to the impairment assessment of trade debtors included:

- Assessing the appropriateness of management's impairment assessment of trade debtors in accordance with the requirements of HKAS 39 Financial Instruments: Recognition and Measurement;

- Obtaining an understanding of management controls over the impairment assessment of trade debtors, including but not limited to the management's regular assessment on the credit rating of trade debtors and their action plans towards the aged debts;

- Examining the trade debtors aging report produced by the Company's financial system and evaluating the reasonableness of the Group's trade debtors provision with reference to the aging report, the past default history and subsequent settlement of the trade debts; and

- Evaluating the adequacy of impairment provision on doubtful debts with reference to the information obtained above.

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of inventories*** | |
| We identified the impairment assessment of inventories as a key audit matter due to significance of the Group's inventories in the context of the Group's consolidated financial statements, combined with the management judgments involved.<br><br>The cost of inventories of the Group mainly comprises raw materials, direct labour, other direct costs and related production overheads. Given the relatively long production cycles and the unpredictability of the fluctuation of steel prices, the inventories are exposed to the risk of being carried in excess of net realisable value. As disclosed in note 21 to the consolidated financial statements, as at 31 December 2016, the carrying amount of inventories amounted to approximately RMB203 million (net of inventory provision of RMB27 million) which represented approximately 11.3% of the Group's total assets. As disclosed in note 4.1 (d) to the consolidated financial statements, in assessment the net realisable value and making appropriate allowances to inventories, the management shall identify, using their judgement, inventories that are slow moving or obsolete, and consider the inventories' physical conditions, age, market conditions and market prices for similar items. | Our procedures in relation to the impairment assessment of inventories included:<br><br>• Assessing the appropriateness of management's impairment assessment of inventories in accordance with the requirements of HKAS 2 Inventories;<br><br>• Obtaining an understanding of management controls over the impairment assessment of inventories;<br><br>• Attending the inventory count performed by the management to evaluate whether obsolete inventories are properly identified with which the impairment assessment is based;<br><br>• Examining the inventories aging report produced by the Company's financial system with reference to the procurement and/or production records;<br><br>• Evaluating the reasonableness of impairment provision on inventories with reference to the aging report and subsequent movement of the inventories;<br><br>• Comparing the carrying amount of inventories on hand to the latest selling prices on a sample basis; and<br><br>• Evaluating the adequacy of impairment provision on inventories with reference to the information obtained above. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Joseph Wing Ming Chan.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

30 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|---|
| | | **2016** | 2015 |
| | NOTES | **RMB'000** | RMB'000 |
| Revenue | 5 | **1,082,336** | 990,239 |
| Cost of revenue | 5 | **(787,185)** | (722,314) |
| **Gross profit** | | **295,151** | 267,925 |
| Other income | 6 | **45,643** | 39,797 |
| Distribution and selling expenses | | **(122,398)** | (122,494) |
| Administrative expenses | | **(112,639)** | (115,895) |
| Other operating expenses | | **(1,825)** | (4,023) |
| Finance costs | 9 | **(9,897)** | (8,734) |
| Share of loss of joint ventures | 17 | **(476)** | (1,387) |
| Share of (loss) profit of associates | 18 | **(5,909)** | 101 |
| Gain on deemed disposal of available-for-sale financial asset | | **–** | 662 |
| **Profit before income tax** | 7 | **87,650** | 55,952 |
| Income tax expense | 10 | **(26,901)** | (9,855) |
| **Profit attributable to equity holders of the Company** | | **60,749** | 46,097 |
| **Other comprehensive income (loss):** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Share of other comprehensive loss of associates | 18 | **(1,352)** | – |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Share of other comprehensive income (loss) of associates | 18 | **5,726** | (4,318) |
| Exchange difference arising on translation of foreign operations | | **6,602** | 157 |
| **Total comprehensive income for the year, attributable to equity holders of the Company** | | **71,725** | 41,936 |
| **Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)** | | | |
| **– Basic and diluted earnings per share** | 11 | **0.15** | 0.11 |
| Dividends | 12 | **12,096** | 24,192 |

# Consolidated Statement of Financial Position

| | | AT 31 DECEMBER | |
|---|---|---|---|
| | | **2016** | 2015 |
| | NOTES | **RMB'000** | RMB'000 |
| **Non-current assets** | | | |
| Prepaid lease payments | 13 | **121,148** | 35,658 |
| Property, plant and equipment | 14 | **195,332** | 216,383 |
| Intangible assets | 15 | **3,431** | 3,251 |
| Investments in joint ventures | 17 | **16,494** | 16,970 |
| Investments in associates | 18 | **385,655** | 310,959 |
| Deferred income tax assets | 29 | **21,701** | 6,310 |
| | | **743,761** | 589,531 |
| **Current assets** | | | |
| Inventories | 21 | **202,828** | 250,076 |
| Debtors, deposits and prepayments | 20 | **499,083** | 449,745 |
| Prepaid lease payments | 13 | **2,707** | 940 |
| Amounts due from customers for contract work | 22 | **40,692** | 36,717 |
| Amount due from ultimate holding company | 34 | **2,110** | – |
| Amounts due from fellow subsidiaries and associates of ultimate holding company | 34 | **2,518** | 1,277 |
| Amounts due from joint ventures | 34 | **922** | 717 |
| Amounts due from associates and subsidiaries of an associate | 34 | **81,629** | 60,841 |
| Restricted bank deposits | 23 | **33,163** | 172,613 |
| Cash and cash equivalents | 24 | **177,946** | 101,583 |
| | | **1,043,598** | 1,074,509 |

# Consolidated Statement of Financial Position

| | NOTES | AT 31 DECEMBER 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 22 | **31,682** | 15,576 |
| Creditors, other payables and accrued charges | 26 | **490,737** | 447,313 |
| Amount due to ultimate holding company | 34 | **2,388** | 160 |
| Amount due to immediate holding company | 34 | **619** | 1,856 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | 34 | **5,503** | 21,664 |
| Amounts due to an associate and subsidiaries of an associate | 34 | **7,981** | 10,389 |
| Amounts due to joint ventures | 34 | **192** | 317 |
| Current income tax liabilities | | **26,219** | 7,858 |
| Bank borrowings | 28 | **350,772** | 408,677 |
| Warranty provision | 27 | **6,018** | 5,791 |
| | | **922,111** | 919,601 |
| **Net current assets** | | **121,487** | 154,908 |
| **Total assets less current liabilities** | | **865,248** | 744,439 |
| **Non-current liabilities** | | | |
| Deferred revenue | 30 | **61,180** | – |
| **Net assets** | | **804,068** | 744,439 |
| **Capital and Reserves** | | | |
| Share capital | 25 | **4,022** | 4,022 |
| Share premium | | **82,281** | 82,281 |
| Capital reserves | | **77,338** | 77,338 |
| Other reserves | | **61,248** | 48,905 |
| Retained earnings | | **579,179** | 531,893 |
| **Total equity** | | **804,068** | 744,439 |

The consolidated financial statements on pages 61 to 137 were approved and authorised for issue by the Board of Directors on 30 March 2017 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 2016

| | 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 2015 | 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 associates | – | – | – | (4,318) | – | (4,318) |
| Exchange difference arising on translation of foreign operations | – | – | – | 157 | – | 157 |
| **Total comprehensive income** | – | – | – | (4,161) | 46,097 | 41,936 |
| **Dividends recognised as distributions** | – | – | – | – | (24,192) | (24,192) |
| At 31 December 2015 | 4,022 | 82,281 | 77,338 | 48,905 | 531,893 | 744,439 |
| Profit for the year | – | – | – | – | 60,749 | 60,749 |
| **Other comprehensive income** | | | | | | |
| Transfer to other reserves | – | – | – | 15 | (15) | – |
| Share of other comprehensive income (loss) of associates | – | – | – | 5,726 | (1,352) | 4,374 |
| Exchange difference arising on translation of foreign operations | – | – | – | 6,602 | – | 6,602 |
| **Total comprehensive income** | – | – | – | 12,343 | 59,382 | 71,725 |
| **Dividends recognised as distributions** | – | – | – | – | (12,096) | (12,096) |
| At 31 December 2016 | 4,022 | 82,281 | 77,338 | 61,248 | 579,179 | 804,068 |

*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

| | NOTES | FOR THE YEAR ENDED 31 DECEMBER 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 31 | **149,050** | 128,851 |
| Income tax and withholding tax paid | | **(23,931)** | (34,962) |
| Net cash generated from operating activities | | **125,119** | 93,889 |
| **Investing activities** | | | |
| Investment in associates | | **(85,089)** | (289,067) |
| Placement of shareholder loan | | **–** | (6,037) |
| Purchases of property, plant and equipment | | **(4,741)** | (5,818) |
| Purchases of prepaid lease payments | | **(88,200)** | – |
| Proceeds from disposal of property, plant and equipment | 31 | **109** | 20 |
| Purchases of intangible assets | | **(1,413)** | (2,538) |
| Interest received | | **8,201** | 14,193 |
| Withdrawal of restricted bank deposits | | **172,613** | 134,681 |
| Placement of restricted bank deposits | | **(33,163)** | (172,613) |
| Government grants and subsidies received | | **61,180** | – |
| Decrease in term deposits with initial term of over three months | | **–** | 98,000 |
| Net cash generated from (used in) investing activities | | **29,497** | (229,179) |
| **Financing activities** | | | |
| Proceeds from bank borrowings | | **348,683** | 1,837,670 |
| Repayments of bank borrowings | | **(406,588)** | (1,831,072) |
| Dividends paid to equity holders | | **(12,096)** | (24,192) |
| Interest paid | | **(9,897)** | (8,734) |
| Net cash used in financing activities | | **(79,898)** | (26,328) |
| **Net increase (decrease) in cash and cash equivalents** | | **74,718** | (161,618) |
| Cash and cash equivalents at beginning of the year | | **101,583** | 262,751 |
| Effect of foreign exchange rate changes | | **1,645** | 450 |
| **Cash and cash equivalents at end of the year** | | **177,946** | 101,583 |

# Notes to the Consolidated Financial Statements

## 1. GENERAL

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

The Company was incorporated in the Cayman Islands. The address of its registered office 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 at the end of each reporting period 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 categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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

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.

*2.1.1 Changes in accounting policies and disclosures*

(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 2016:

| | |
|---|---|
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |

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)*

#### *2.1.1 Changes in accounting policies and disclosures (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 and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share–based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 7 | Disclosure Initiative[4] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2014-2016 Cycle[5] |

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

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

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

4 Effective for annual periods beginning on or after 1 January 2017

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

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

#### *2.1.1 Changes in accounting policies and disclosures (Continued)*

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities and general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described as follows:

- all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

#### *2.1.1 Changes in accounting policies and disclosures (Continued)*

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

HKFRS 9 Financial Instruments *(Continued)*

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of HKFRS 9 will have a material effect on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

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

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

#### *2.1.1 Changes in accounting policies and disclosures (Continued)*

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

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

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company is still in the midst of assessing the financial impact of the application of HKFRS 15.

HKFRS 16 Leases

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

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

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

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

#### *2.1.1 Changes in accounting policies and disclosures (Continued)*

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

HKFRS 16 Leases *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB9,298,000. HKAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors of the Company are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

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

### 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.

*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.

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

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

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

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

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.

### 2.11 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.

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

### 2.11 Financial instruments *(Continued)*

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 nature and 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.

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.

## 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)*

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, which are classified as non-current assets. The Group's receivables comprise 'Debtors, deposits and prepayments', 'Amount due from ultimate holding company', 'Amounts due from fellow subsidiaries and associates of ultimate holding company', 'Amounts due from joint ventures', 'Amounts due from associates and subsidiaries of an associate', 'Restricted bank deposits' 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.

#### *2.12.2 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.

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

### 2.12 Financial assets *(Continued)*

#### *2.12.2 Recognition and measurement (Continued)*

*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 amortised 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 recognised on an effective interest basis.

*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 fellow subsidiaries and associates of ultimate holding company, amounts due to an associate and subsidiaries of an associate, amounts due to joint ventures and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

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

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

*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 the sale of goods and/or services 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.

### 2.23 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.

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

### 2.23 Employee benefits *(Continued)*

*Pension obligations (Continued)*

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

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

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

### 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.

### 2.27 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.

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

### 2.27 Parking garage structures contracts *(Continued)*

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 2016, if RMB had strengthened/weakened by 5% (2015: 5%) against the Hong Kong dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB304,000 higher/lower (2015: approximately RMB1,863,000 higher/lower).

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

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

#### (a) *Foreign exchange risk (Continued)*

At 31 December 2016, if RMB had strengthened/weakened by 5% (2015: 5%) against the United States dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB5,574,000 higher/lower (2015: approximately RMB6,532,000 higher/lower).

At 31 December 2016, if RMB had strengthened/weakened by 5% (2015: 5%) against Euro with all other variables held constant, the Group's profit for the year would have been approximately RMB6,684,000 higher/lower (2015: approximately RMB6,545,000 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.

#### (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 2016, 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 RMB975,000 (2015: RMB1,520,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings.

#### (c) *Credit risk*

As at 31 December 2016, the Group's maximum exposure to credit risk arises from debtors, deposits, amounts due from ultimate holding company, fellow subsidiaries and associates of ultimate holding company, joint ventures, associates and subsidiaries of an associate as well as restricted bank deposits, 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.

| | Weighted average interest rate % | 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 2016** | | | | | | |
| Creditors and other payables | N/A | 254,387 | – | – | 254,387 | 254,387 |
| Bank borrowings | | | | | | |
| – fixed rate | 2.99% | 130,093 | – | – | 130,093 | 126,316 |
| – variable rate | 2.36% | 229,753 | – | – | 229,753 | 224,456 |
| Amount due to ultimate holding company | N/A | 2,388 | – | – | 2,388 | 2,388 |
| Amount due to immediate holding company | N/A | 619 | – | – | 619 | 619 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | N/A | 5,503 | – | – | 5,503 | 5,503 |
| Amounts due to an associate and subsidiaries of an associate | N/A | 7,981 | – | – | 7,981 | 7,981 |
| Amounts due to joint ventures | 4.35% | 200 | – | – | 200 | 192 |
| | | 630,924 | – | – | 630,924 | 621,842 |
| **At 31 December 2015** | | | | | | |
| Creditors and other payables | N/A | 218,645 | – | – | 218,645 | 218,645 |
| Bank borrowings | | | | | | |
| – fixed rate | 3.60% | 46,279 | – | – | 46,279 | 44,671 |
| – variable rate | 2.23% | 372,123 | – | – | 372,123 | 364,006 |
| Amount due to ultimate holding company | N/A | 160 | – | – | 160 | 160 |
| Amount due to immediate holding company | N/A | 1,856 | – | – | 1,856 | 1,856 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | N/A | 21,664 | – | – | 21,664 | 21,664 |
| Amounts due to an associate and subsidiaries of an associate | N/A | 10,389 | – | – | 10,389 | 10,389 |
| Amounts due to joint ventures | 4.71% | 332 | – | – | 332 | 317 |
| | | 671,448 | – | – | 671,448 | 661,708 |

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

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

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

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.

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

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---:|---:|
| Total bank borrowings | **350,772** | 408,677 |
| Less: cash and cash equivalents | **(177,946)** | (101,583) |
| Net debt | **172,826** | 307,094 |
| Total equity | **804,068** | 744,439 |
| Net capital | **976,894** | 1,051,533 |
| Gearing ratio | **18%** | 29% |

The decrease in the gearing ratio during 2016 was mainly due to decrease in bank borrowings and increase 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 may differ from 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 2016, provision for impairment of trade debtors amounting to approximately RMB33,792,000 (2015: RMB36,512,000) had been recognised.

*(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.

## 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 (Continued)*

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.

#### (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 2016, no impairment loss in respect of goodwill recognised in investments in associates was recognised by the Group.

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

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

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

The Group has provided financial guarantees to associates in respect of borrowings, the details of which is disclosed in Note 32. Management estimates that the default risk of the associates 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. The exposure to such guaranty liability and its estimate are reviewed and revised by the Management, as appropriate, on an ongoing basis.

## 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.

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 2016** | | | | |
| Revenue (all from external sales) | **760,047** | **236,048** | **86,241** | **1,082,336** |
| Cost of revenue | **(533,638)** | **(175,632)** | **(77,915)** | **(787,185)** |
| Segment profit | **226,409** | **60,416** | **8,326** | **295,151** |

## 5. SEGMENT INFORMATION *(Continued)*

| | 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 |

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

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Sale of scrap materials | **8,890** | 3,865 |
| Government grants and subsidies related to income* | **18,397** | 5,487 |
| Repair income | **8,509** | 8,201 |
| Rental income | **708** | 3,412 |
| Interest income | **8,201** | 14,193 |
| Others | **938** | 4,639 |
| | **45,643** | 39,797 |

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

## 7. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Directors and chief executives' remuneration | **2,185** | 2,128 |
| Other staff costs | **133,352** | 135,950 |
| Other staff's retirement benefits scheme contributions | **4,614** | 4,915 |
| Total staff costs | **140,151** | 142,993 |
| Auditor's remuneration | **1,972** | 1,408 |
| Cost of inventories recognised as an expense | **692,131** | 627,647 |
| Depreciation of property, plant and equipment | **25,342** | 26,081 |
| Amortisation of intangible assets | **1,233** | 983 |
| Allowance for doubtful debts | **(2,720)** | 2,016 |
| Allowance for inventories | **1,550** | 7,791 |
| Warranty expenses | **5,044** | 5,121 |
| Direct operating expenses incurred for rental income | **1,220** | 1,947 |
| Loss on disposal of property, plant and equipment | **341** | 201 |
| Net exchange loss | **10,800** | 19,196 |
| Research and development costs recognised as expense* | **23,399** | 17,253 |

* 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 RMB1,001,000, RMB428,000 and RMB11,918,000 (2015: RMB1,183,000, RMB224,000 and RMB13,722,000) respectively. Such expenses are included in their corresponding headings within this note.

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

### (a) Directors' and chief executive' 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 | Chen Min-Ho RMB'000 | Wen Chi-Tang RMB'000 | Chiu Rung-Hsien RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | |
| Salaries | **180** | **180** | **144** | **144** | **144** | **792** |
| Performance related bonuses | **518** | **518** | **–** | **–** | **–** | **1,036** |
| Total | **698** | **698** | **144** | **144** | **144** | **1,828** |
| 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 |

\# 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 2016** | | | | |
| Fees | **179** | **89** | **89** | **357** |
| Total | **179** | **89** | **89** | **357** |
| Year ended 31 December 2015 | | | | |
| Fees | 168 | 84 | 84 | 336 |
| Total | 168 | 84 | 84 | 336 |

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

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company. The emoluments of the remaining three (2015: three) individuals were as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Basic salaries and allowances | **1,841** | 2,158 |
| Bonus | **883** | 745 |
| Pension costs – defined contribution plans | **133** | 77 |
| | **2,857** | 2,980 |

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

| | **2016** | 2015 |
|---|---|---|
| Emoluments bands (in HKD) | | |
| Less than HKD1,000,000 | **3** | 3 |
| HKD1,000,001 to HKD1,500,000 | **2** | 2 |

During the years ended 31 December 2015 and 2016, 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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Interest expense: | | |
| – Bank borrowings | **9,897** | 8,734 |

## 10. INCOME TAX EXPENSE

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current tax | | |
| – Current year | **35,037** | 16,301 |
| – Under (over) provision in prior years | **610** | (6,280) |
| | **35,647** | 10,021 |
| PRC withholding tax | **6,645** | – |
| Deferred tax credit | **(15,391)** | (166) |
| | **26,901** | 9,855 |

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 2016 is 15% (2015: 15%).

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

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 and paid by Hangzhou Good Friend during the year ended 31 December 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.

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:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Profit before income tax | **87,650** | 55,952 |
| Add: Share of loss of joint ventures and associates, net | **6,385** | 1,286 |
| | **94,035** | 57,238 |
| Tax calculated at tax rates applicable to the principal operating entity of the Group (15%) | **14,105** | 8,586 |
| Tax effect of: | | |
| Expenses not deductible for tax purpose | **3,607** | 2,518 |
| Utilisation of previously unrecognised tax losses | **–** | (234) |
| Tax losses for which no deferred income tax asset was recognised | **3,397** | 6,501 |
| Unrecognised temporary differences | **852** | 669 |
| Income not taxable for tax purpose | **–** | (99) |
| Withholding tax on the dividends declared and paid by a PRC subsidiary | **6,645** | – |
| Different tax rates of subsidiaries | **–** | (94) |
| Tax concession granted to PRC subsidiaries | **(2,315)** | (1,712) |
| Under (over) provision in prior years | **610** | (6,280) |
| Tax charge | **26,901** | 9,855 |

## 11. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB60,749,000 (2015: RMB46,097,000) by the number of ordinary shares in issue 403,200,000 (2015: 403,200,000).

| | **2016** | 2015 |
|---|---|---|
| Basic and diluted earnings per share (RMB per share) | **0.15** | 0.11 |

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

## 12. DIVIDENDS

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Dividends for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2015 final – RMB0.03 (2015: 2014 final dividend RMB0.06) per ordinary share | **12,096** | 24,192 |

At a meeting of the board of directors held on 30 March 2017, the directors of the Company resolved not to declare a final dividend for the year ended 31 December 2016 (2015: RMB0.03 per ordinary share).

## 13. PREPAID LEASE PAYMENTS

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Carrying values | | |
| At beginning of the year | **36,598** | 37,538 |
| Additions | **88,200** | – |
| Released to profit or loss | **(943)** | (940) |
| At end of the year | **123,855** | 36,598 |
| Less: Amount to be amortised within one year | **(2,707)** | (940) |
| Non-current portion | **121,148** | 35,658 |

## 13. PREPAID LEASE PAYMENTS *(Continued)*

The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB3,443,000 as at 31 December 2016 (2015: RMB5,131,000) to secure the general banking facilities granted to the Group as disclosed in Note 28.

As at 31 December 2016, the Group is in the process of applying the land use right certificate of newly acquired land with the aggregated carrying value of RMB88,200,000 (2015:Nil).

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Machinery and equipment RMB'000 | Office and computer equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2015 | 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 |
| Additions | 645 | 1,326 | 769 | 1,044 | 957 | 4,741 |
| Transfers | 720 | 597 | – | – | (1,317) | – |
| Disposals | – | (2,316) | (592) | (679) | (99) | (3,686) |
| At 31 December 2016 | 204,107 | 169,702 | 31,422 | 21,431 | 3,216 | 429,878 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2015 | 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 |
| Provided for the year | 9,325 | 12,382 | 1,799 | 1,836 | – | 25,342 |
| Disposals | – | (2,064) | (561) | (611) | – | (3,236) |
| At 31 December 2016 | 76,812 | 114,538 | 24,059 | 19,137 | – | 234,546 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2016 | 127,295 | 55,164 | 7,363 | 2,294 | 3,216 | 195,332 |
| At 31 December 2015 | 135,255 | 65,875 | 8,424 | 3,154 | 3,675 | 216,383 |

The Group has pledged its buildings with carrying amounts of approximately RMB9,153,000 as at 31 December 2016 (2015: RMB10,131,000) to secure the general banking facilities granted to the Group as disclosed in Note 28.

## 15. INTANGIBLE ASSETS

| | Softwares<br>RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2015 | 10,531 |
| Additions | 2,538 |
| At 31 December 2015 | 13,069 |
| Additions | 1,413 |
| At 31 December 2016 | 14,482 |
| **Amortisation** | |
| At 1 January 2015 | 8,835 |
| Charge for the year | 983 |
| At 31 December 2015 | 9,818 |
| Charge for the year | 1,233 |
| At 31 December 2016 | 11,051 |
| **CARRYING VALUES** | |
| At 31 December 2016 | 3,431 |
| At 31 December 2015 | 3,251 |

## 16. DETAILS OF SUBSIDIARIES

The following is a list of subsidiaries of the Group at 31 December 2016 and 2015:

| Name | Place of incorporation/ operation | Principal activities | Issued and fully paid-up share capital/ registered capital | Interest held | |
|---|---|---|---|---|---|
| | | | | 2016 | 2015 |
| **Directly held subsidiaries** | | | | | |
| Winning Steps Ltd. | British Virgin Island ("BVI") | Investment holding | Ordinary shares USD110 | 100% | 100% |
| Yu Hwa Holdings Ltd. | BVI | Investment holding | Ordinary shares USD1,500,000 | 100% | 100% |
| Hai Sheng International Holdings Inc. | BVI | Investment holding | Ordinary shares USD200,000 | 100% | 100% |
| Sky Thrive Investment Ltd. | BVI | Investment holding | Ordinary shares USD5,000,000 | 100% | 100% |
| Kai Win Group Ltd. | BVI | Investment holding | Ordinary shares USD1 | 100% | 100% |
| **Indirectly held subsidiaries** | | | | | |
| Full Moral Industrial Ltd. | Hong Kong | Inactive | Ordinary shares HKD1 | 100% | 100% |
| Winnings Steps Hong Kong Development Ltd. | Hong Kong | Trading and Investment holding | Ordinary shares HKD1,000 | 100% | 100% |
| Yu Hwa Hong Kong Enterprise Ltd. | Hong Kong | Investment holding | Ordinary shares HKD1,000 | 100% | 100% |
| Hai Sheng International Hong Kong Ltd. | Hong Kong | Investment holding | Ordinary shares HKD1,000 | 100% | 100% |
| Sky Thrive Hong Kong Enterprise Ltd. | Hong Kong | Investment holding | Ordinary shares HKD1,000 | 100% | 100% |
| Hangzhou Good Friend Precision Machinery Co., Ltd. | PRC | Design and production of computer numerical control, design machine tools and construction of three dimensional car parking garage structure | Registered Capital USD11,000,000 | 100% | 100% |

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

| Name | Place of incorporation/ operation | Principal activities | Issued and fully paid-up share capital/ registered capital | Interest held 2016 | Interest held 2015 |
|---|---|---|---|---|---|
| Hangzhou Global Friend Precision Machinery Co., Ltd. | PRC | Design and assembling of forklift trucks | Registered Capital USD10,000,000 | 100% | 100% |
| Hangzhou Ever Friend Precision Machinery Co., Ltd. | PRC | Design and production of computer numerical control machine tools | Registered Capital USD3,000,000 | 100% | 100% |
| Hangzhou Glory Friend Machinery Technology Co., Ltd. | PRC | Processing of computer numerical control machine tools | Registered Capital USD15,000,000 | 100% | 100% |
| Rich Friend (Shanghai) Precision Machinery Co., Ltd. | PRC | Trading of computer numerical control machine tools | Registered Capital USD200,000 | 100% | 100% |
| Huller Hille (Shanghai) Machinery Co., Ltd. | PRC | Trading of high-end machine tools | Registered Capital USD1,000,000 | 100% | 100% |
| Fair Friend (Henan) Precision Machinery Co., Ltd.* | PRC | Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structure | Registered Capital USD30,000,000 | 100% | – |

* Established in 2016.

## 17. INVESTMENTS IN JOINT VENTURES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cost of unlisted investments in joint ventures | **27,666** | 27,666 |
| Share post-acquisition loss and other comprehensive income | **(11,172)** | (10,696) |
| | **16,494** | 16,970 |

As at 31 December 2016 and 2015, the Company had direct interests in the following joint ventures:

| Name | Date of incorporation | Attributable equity interest 2016 | Attributable equity interest 2015 | 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 |
| **Current** | | | | | | | | | | |
| Cash | **8,571** | 4,175 | **948** | 941 | **1,094** | 579 | **119** | 53 | **10,732** | 5,748 |
| Other current assets | **21,028** | 16,588 | **2** | 2 | **4,428** | 5,987 | **568** | 1,350 | **26,026** | 23,927 |
| Total current assets | **29,599** | 20,763 | **950** | 943 | **5,522** | 6,566 | **687** | 1,403 | **36,758** | 29,675 |
| Short term bank borrowings | **(6,925)** | (6,443) | **–** | – | **–** | – | **–** | – | **(6,925)** | (6,443) |
| Other financial liabilities (including trade payable) | **(10,787)** | (6,482) | **(11)** | (7) | **(1,876)** | (2,143) | **(502)** | (97) | **(13,176)** | (8,729) |
| Total current liabilities | **(17,712)** | (12,925) | **(11)** | (7) | **(1,876)** | (2,143) | **(502)** | (97) | **(20,101)** | (15,172) |
| **Non-current** | | | | | | | | | | |
| Assets | **31,874** | 34,431 | **–** | – | **322** | 417 | **2,270** | 1,972 | **34,466** | 36,820 |
| Liabilities | **(6,937)** | (6,494) | **–** | – | **–** | – | **–** | – | **(6,937)** | (6,494) |
| **Net assets** | **36,824** | 35,775 | **939** | 936 | **3,968** | 4,840 | **2,455** | 3,278 | **44,186** | 44,829 |

### Summarised statement of profit or loss and other comprehensive income

| | AIF | | Nippon Cable Feeler | | Feeler Mectron | | UFM | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 |
| Revenue | **58,417** | 39,716 | **75** | 155 | **5,479** | 3,453 | **907** | 579 | **64,878** | 43,903 |
| Cost of revenue | **(53,231)** | (38,933) | **–** | – | **(5,619)** | (2,829) | **(1,302)** | (747) | **(60,152)** | (42,509) |
| Other expenses | **(4,137)** | (3,263) | **(72)** | (68) | **(732)** | (959) | **(428)** | (572) | **(5,369)** | (4,862) |
| **Profit (loss) before income tax** | **1,049** | (2,480) | **3** | 87 | **(872)** | (335) | **(823)** | (740) | **(643)** | (3,468) |
| Income tax expense | **–** | – | **–** | (9) | **–** | – | **–** | – | **–** | (9) |
| **Profit (loss) for the year** | **1,049** | (2,480) | **3** | 78 | **(872)** | (335) | **(823)** | (740) | **(643)** | (3,477) |
| Share of profit (loss) of joint ventures | **367** | (868) | **2** | 39 | **(392)** | (151) | **(453)** | (407) | **(476)** | (1,387) |

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 |
| Opening net assets as at 1 January | **35,775** | 38,255 | **936** | 858 | **4,840** | 5,175 | **3,278** | 4,018 | **44,829** | 48,306 |
| Profit (loss) for the year | **1,049** | (2,480) | **3** | 78 | **(872)** | (335) | **(823)** | (740) | **(643)** | (3,477) |
| Closing net assets as at 31 December | **36,824** | 35,775 | **939** | 936 | **3,968** | 4,840 | **2,455** | 3,278 | **44,186** | 44,829 |
| Equity interest | **35%** | 35% | **50%** | 50% | **45%** | 45% | **55%** | 55% | **–** | – |
| Carrying value as at 31 December | **12,888** | 12,521 | **470** | 468 | **1,786** | 2,178 | **1,350** | 1,803 | **16,494** | 16,970 |

## 18. INVESTMENTS IN ASSOCIATES

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Cost of unlisted investments in associates | **415,701** | 346,072 |
| Share of post-acquisition loss and other comprehensive loss | **(36,805)** | (35,270) |
| Exchange difference arising on translation of foreign operations | **6,759** | 157 |
| | **385,655** | 310,959 |

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

As at 31 December 2016 and 2015, the Group has interests in the following associate:

| Name | Date of incorporation | Attributable equity interest | | Registered capital | Principal activities/ place of incorporation and operation |
|---|---|---|---|---|---|
| | | **2016** | 2015 | | |
| 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 | **39.00%** | 39.00% | 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%** | 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 Ltd. ("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 is owned approximately as to 42.00% by World Ten, 10.00% by Golden Friendship, 39.00% by Sky Thrive and 9.00% by Golden Wealth Inc. Limited ("Golden Wealth") (an independent third party).

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

### FFG EA

FFG EA 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.

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

The Group's obligation to the capital contribution to FFG EA is Euro49,500,000. The Group paid Euro40,000,000 in June and November 2015 and further paid the rest Euro9,500,000 in November 2016.

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

### Summarised statement of financial positon prepared under IFRS

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 *(note a)* | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 |
| Cash | **18,332** | 32,008 | **29,059** | 82,354 | **248,270** | 266,368 | **295,661** | 380,730 |
| Other current assets | **529,590** | 454,496 | **777,962** | 534,332 | **2,248,237** | 2,000,946 | **3,555,789** | 2,989,774 |
| Total current assets | **547,922** | 486,504 | **807,021** | 616,686 | **2,496,507** | 2,267,314 | **3,851,450** | 3,370,504 |
| Short term bank borrowings | **(109,412)** | (129,656) | **(546,885)** | (284,624) | **(406,514)** | (71,115) | **(1,062,811)** | (485,395) |
| Other financial liabilities | **(446,204)** | (412,243) | **(431,524)** | (233,758) | **(1,504,346)** | (2,192,041) | **(2,382,074)** | (2,838,042) |
| Total current liabilities | **(555,616)** | (541,899) | **(978,409)** | (518,382) | **(1,910,860)** | (2,263,156) | **(3,444,885)** | (3,323,437) |
| **Non-current** | | | | | | | | |
| Assets | **165,769** | 139,805 | **408,779** | 290,409 | **1,718,428** | 1,445,789 | **2,292,976** | 1,876,003 |
| Liabilities | **(144,229)** | (72,134) | **(201,427)** | (334,502) | **(1,506,063)** | (833,104) | **(1,851,719)** | (1,239,740) |
| **Net assets** | **13,846** | 12,276 | **35,964** | 54,211 | **798,012** | 616,843 | **847,822** | 683,330 |
| Less: non-controlling interests | **–** | – | **–** | – | **356,835** | 343,754 | **356,835** | 343,754 |
| Net assets attributed to the owners of the associate | **13,846** | 12,276 | **35,964** | 54,211 | **441,177** | 273,089 | **490,987** | 339,576 |

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

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 *(note a)* | **2016 RMB'000** | 2015 RMB'000 *(note d)* | **2016 RMB'000** | 2015 RMB'000 |
| Revenue | **578,688** | 497,254 | **786,193** | 366,966 | **3,679,596** | – | **5,044,477** | 864,220 |
| Cost of revenue | **(309,584)** | (263,817) | **(718,941)** | (245,253) | **(3,073,240)** | – | **(4,101,765)** | (509,070) |
| Other expenses | **(262,279)** | (239,936) | **(78,837)** | (101,490) | **(578,124)** | (5,588) | **(919,240)** | (347,014) |
| **Profit (loss) before tax** | **6,825** | (6,499) | **(11,585)** | 20,223 | **28,232** | (5,588) | **23,472** | 8,136 |
| Income tax (charge) credit | **(3,940)** | 324 | **(1,699)** | (3,535) | **(26,289)** | – | **(31,928)** | (3,211) |
| **Profit (loss) for the year** | **2,885** | (6,175) | **(13,284)** | 16,688 | **1,943** | (5,588) | **(8,456)** | 4,925 |
| Less: non-controlling interest | **–** | – | **–** | – | **802** | – | **802** | – |
| Profit (loss) for the year attributed to the owners of the associate | **2,885** | (6,175) | **(13,284)** | 16,688 | **1,141** | (5,588) | **(9,258)** | 4,925 |

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

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 *(note a)* | **2016 RMB'000** | 2015 RMB'000 *(note d)* | **2016 RMB'000** | 2015 RMB'000 |
| Less: amortisation of fair value adjustment | **–** | – | **6,479** | – | **–** | – | **6,479** | – |
| Adjusted profit (loss) for the year attributed to the owners of the associate | **2,885** | (6,175) | **(19,763)** | 16,688 | **1,141** | (5,588) | **(15,737)** | 4,925 |
| Other comprehensive income (loss) for the year attributed to the owners of the associate | **–** | – | **(6,547)** | – | **8,511** | (5,307) | **1,964** | (5,307) |
| Share of profit (loss) of associates | **870** | (1,862) | **(7,707)** | 6,508 | **928** | (4,545) | **(5,909)** | 101 |
| Share of other comprehensive income (loss) of associates | **–** | – | **(2,553)** | – | **6,927** | (4,318) | **4,374** | (4,318) |

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 | |
|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 *(note c)* | **2016 RMB'000** | 2015 RMB'000 *(note a)* | **2016 RMB'000 *(note c)*** | 2015 RMB'000 *(note c)* | **2016 RMB'000** | 2015 RMB'000 |
| Opening net assets | **12,276** | 4,003 | **54,211** | – | **273,089** | – | **339,576** | 4,003 |
| Capital injection and transfer from available-for-sale financial asset | **–** | 13,926 | **–** | 37,575 | **152,201** | 283,984 | **152,201** | 335,485 |
| Exchange difference | **(1,315)** | 522 | **1,584** | (52) | **6,235** | – | **6,504** | 470 |
| Other comprehensive (loss) income for the year | **–** | – | **(6,547)** | – | **8,511** | (5,307) | **1,964** | (5,307) |
| Profit (loss) for the year attributed to the owners of the associate | **2,885** | (6,175) | **(13,284)** | 16,688 | **1,141** | (5,588) | **(9,258)** | 4,925 |
| Closing net assets attributed to the owners of the associates as at 31 December | **13,846** | 12,276 | **35,964** | 54,211 | **441,177** | 273,089 | **490,987** | 339,576 |
| Equity interest | **30.16%** | 30.16% | **39.00%** | 39.00% | **81.37%** | 81.37% | | |
| Share of net assets | **4,176** | 3,703 | **14,025** | 21,142 | **358,986** | 222,211 | **377,187** | 247,056 |
| Goodwill *(note a)* | **–** | – | **2,451** | 2,451 | **–** | – | **2,451** | 2,451 |
| Effect of fair value adjustment at acquisition *(note a)* | **–** | – | **6,017** | 8,544 | **–** | – | **6,017** | 8,544 |
| Other adjustment *(note b)* | **–** | – | **–** | – | **–** | 52,908 | **–** | 52,908 |
| Carrying value as at 31 December | **4,176** | 3,703 | **22,493** | 32,137 | **358,986** | 275,119 | **385,655** | 310,959 |

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

*Note:*

a. The Group originally held 13.5% equity interest in FFG Werke and accounted for the investment as available-for-sale using cost method. In late September 2015, the Group acquired further 25.5% equity interest in FFG Werke for the consideration of Euro2,340,000. Goodwill of RMB2,451,000 and effect of fair value adjustment at acquisition of RMB8,544,000 was recognised in respect of this further acquisition of equity interest. The fair value adjustment is subject to amortisation over the estimated useful life of the relevant assets. 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 arose from post-acquisition date to 31 December 2015.

b. Other adjustment of FFG EA represents the effect of unfunded capital contribution from other shareholders which does not form part of the investment cost in FFG EA as at 31 December 2015. FFG EA received such capital contribution from shareholders on pro rate basis during the year ended 31 December 2016, thus no other adjustment as at 31 December 2016.

c. The Group contributed Euro600,000 (equivalent to RMB4,200,000) as additional share capital in FFG Europe in July 2015, together with other shareholders on pro rate basis. The Group contributed Euro40,024,000 (equivalent to RMB283,984,000) and Euro9,500,000 (equivalent to RMB69,629,000) to FFG EA in 2015 and 2016 respectively.

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 arose from post-acquisition date to 31 December 2015.

## 19. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per consolidated statement of financial position

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Debtors and deposits excluding prepayments | **479,562** | 433,712 |
| Amount due from ultimate holding company | **2,110** | – |
| Amounts due from fellow subsidiaries and an associate of ultimate holding company | **2,518** | 1,277 |
| Amounts due from joint ventures | **922** | 717 |
| Amounts due from associates and subsidiaries of an associate | **81,629** | 60,841 |
| Restricted bank deposits | **33,163** | 172,613 |
| Cash and cash equivalents | **177,946** | 101,583 |
| Total | **777,850** | 770,743 |

## 19. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Liabilities as per consolidated statement of financial position

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Creditors and other payables | **254,387** | 218,645 |
| Amount due to ultimate holding company | **2,388** | 160 |
| Amount due to immediate holding company | **619** | 1,856 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | **5,503** | 21,664 |
| Amounts due to an associate and subsidiaries of an associate | **7,981** | 10,389 |
| Amounts due to joint ventures | **192** | 317 |
| Bank borrowings | **350,772** | 408,677 |
| | **621,842** | 661,708 |

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Trade debtors and bills receivables | **484,785** | 444,978 |
| Less: provision for impairment of trade receivables | **(33,792)** | (36,512) |
| Trade debtors and bills receivables – net | **450,993** | 408,466 |
| Prepayments | **19,521** | 16,033 |
| Others | **28,569** | 25,246 |
| Total debtors, deposits and prepayments | **499,083** | 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.

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

At 31 December 2016 and 2015, the ageing analysis of gross trade debtors and bills receivable based on due date was as follows:

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Current – 30 days | **367,010** | 341,202 |
| 31 – 60 days | **10,305** | 8,465 |
| 61 – 90 days | **7,184** | 9,079 |
| 91 – 180 days | **15,989** | 14,038 |
| Over 180 days | **84,297** | 72,194 |
| Trade debtors and bills receivables | **484,785** | 444,978 |

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB109,081,000 (2015: RMB82,578,000) which were past due as at 31 December 2016 but the Group had not provided for impairment loss. The Group does not hold any collateral over these balances. The directors of the Company, 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.

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

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| 0 – 30 days | **22,887** | 11,573 |
| 31 – 60 days | **10,305** | 7,486 |
| 61 – 90 days | **7,184** | 8,174 |
| 91 –180 days | **15,989** | 12,338 |
| Over 180 days | **52,716** | 43,007 |
| | **109,081** | 82,578 |

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

As of 31 December 2016, trade debtors of RMB33,792,000 (2015: RMB36,512,000) 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:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| 0 – 30 days | **2,211** | 4,884 |
| 31 – 60 days | **–** | 748 |
| 61 – 90 days | **–** | 931 |
| 91 –180 days | **–** | 1,411 |
| Over 180 days | **31,581** | 28,538 |
| | **33,792** | 36,512 |

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

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | **36,512** | 36,544 |
| Provision for receivables impairment | **5,068** | 2,016 |
| Impairment losses reversed | **(7,788)** | – |
| Receivables written off during the year when proved to be uncollectible | **–** | (2,048) |
| At 31 December | **33,792** | 36,512 |

## 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:

| | **2016<br>RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| RMB | **481,759** | 427,844 |
| USD | **1,777** | 9,909 |
| Euro | **14,716** | 11,147 |
| Other currencies | **831** | 845 |
| | **499,083** | 449,745 |

## 21. INVENTORIES

| | **2016<br>RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Raw materials | **71,845** | 79,263 |
| Work in progress | **74,415** | 61,901 |
| Finished goods | **83,605** | 134,399 |
| | **229,865** | 275,563 |
| Provision | **(27,037)** | (25,487) |
| | **202,828** | 250,076 |

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **732,630** | 615,251 |
| Less: Progress billings | **(723,620)** | (594,110) |
| | **9,010** | 21,141 |

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Amounts due from contract customers | **40,692** | 36,717 |
| Amounts due to contract customers | **(31,682)** | (15,576) |
| Net amounts due from (to) customers for contract work | **9,010** | 21,141 |

As at 31 December 2016, retention money held by customers for contract work included in debtors amounted to RMB10,089,000 (2015: RMB6,994,000).

## 23. RESTRICTED BANK DEPOSITS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Restricted bank deposits | **33,163** | 172,613 |

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% (2015: 0.4%) per annum.

## 24. CASH AND BANK BALANCES

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Cash at bank and on hand | **62,046** | 53,983 |
| Short-term bank deposits | **115,900** | 47,600 |
| Cash and cash equivalents | **177,946** | 101,583 |

(a) The cash at bank and on hand and short-term bank deposits are denominated in the following currencies:

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| RMB | **138,132** | 73,379 |
| USD | **11,626** | 15,290 |
| Euro | **25,694** | 10,866 |
| Other currencies | **2,494** | 2,048 |
| | **177,946** | 101,583 |

(b) The effective interest rate on short-term bank deposits ranged from 1.77% to 3.00% (2015: from 2.70% to 4.00%) per annum.

## 25. SHARE CAPITAL

| | **Number of shares '000** | Share Capital RMB$'000 |
|---|---|---|
| **Ordinary share of HKD0.01 each** | | |
| **Authorised:** | | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | **1,000,000** | 10,211 |
| **Issued and fully paid:** | | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | **403,200** | 4,022 |

## 26. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Trade creditors | **203,499** | 177,863 |
| Advance deposits from customers | **194,990** | 184,316 |
| Other payables | **50,888** | 40,782 |
| Accrued expenses | **41,360** | 44,352 |
| Total creditors, other payables and accrued charges | **490,737** | 447,313 |

The Group normally receives credit terms of 30 to 60 days. At 31 December 2016 and 2015, the ageing analysis of the trade payables was as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current – 30 days | **134,078** | 119,353 |
| 31 – 60 days | **48,156** | 34,725 |
| 61 – 90 days | **5,219** | 3,979 |
| 91 –180 days | **3,062** | 4,921 |
| Over 180 days | **12,984** | 14,885 |
| | **203,499** | 177,863 |

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| RMB | **413,390** | 398,800 |
| USD | **8,177** | 6,620 |
| Euro | **66,599** | 38,191 |
| HKD | **2,531** | 3,702 |
| JPY | **40** | – |
| | **490,737** | 447,313 |

## 27. WARRANTY PROVISON

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | **5,791** | 6,329 |
| Provision for the year | **5,044** | 5,121 |
| Utilisation of provision | **(4,817)** | (5,659) |
| At 31 December | **6,018** | 5,791 |

## 28. BANK BORROWINGS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current | | |
| – Secured | **1,829** | – |
| – Unsecured | **348,943** | 408,677 |
| Total bank borrowings | **350,772** | 408,677 |

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

| | 2016 | 2015 |
|---|---|---|
| Effective interest rate | **1.40% to 4.79% per annum** | 1.09% to 4.50% per annum |

The Group's bank borrowings were repayable as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within 1 year | **350,772** | 408,677 |

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

## 28. BANK BORROWINGS *(Continued)*

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

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| HKD | **13,418** | 43,068 |
| USD | **141,511** | 176,221 |
| Euro | **141,615** | 164,198 |
| RMB | **54,228** | 25,190 |
| | **350,772** | 408,677 |

*Note:*

(a) The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB3,443,000 (2015: RMB5,131,000) and buildings with carrying amounts of approximately RMB9,153,000 (2015: RMB10,131,000) as at 31 December 2016 to secure the general banking facilities granted to it. As at 31 December 2016, the Group has utilised such secured bank facilities of RMB1,829,000. (2015: Nil).

(b) As at 31 December 2016, the Group's bank borrowings of RMB209,205,000 (2015: RMB242,350,000) were guaranteed by irrevocable standby letter of credits issued by banks of which Nil has been utilised (2015: RMB120,601,000).

(c) As at 31 December 2016, cross guarantees between subsidiaries of RMB131,000,000 (2015: RMB176,000,000) have been provided to guarantee the bank borrowings of which RMB8,835,000 has been utilised (2015: RMB3,969,000).

(d) As at 31 December 2016, personal guarantees were provided by a director of the Company and a related party of the Group in respect of the Group's bank borrowings of RMB69,370,000 (2015: RMB64,936,000).

## 29. DEFERRED TAXATION

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **21,701** | 6,310 |

## 29. DEFERRED TAXATION *(Continued)*

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

| | Allowance for doubtful receivables | Allowance for inventories | Warranty provision | Sales commission | Deferred revenue | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2015 | 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 |
| (Charge) credit to profit or loss | (582) | (281) | 42 | 917 | 15,295 | 15,391 |
| At 31 December 2016 | 3,870 | 753 | 866 | 917 | 15,295 | 21,701 |

As at 31 December 2016, the Group had unutilised tax losses of approximately RMB65,498,000 (2015: RMB65,792,000) 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 RMB65,498,000 (2015:RMB59,606,000) with expiry dates.

Apart from unutilised tax losses as mentioned above, the Group had other deductible temporary differences of RMB151,830,000 (2015: RMB84,334,000) available to offset against future profits as at 31 December 2016. Deductible temporary differences of RMB103,887,000 (2015: RMB42,067,000) had been recognised in deferred tax assets as at 31 December 2016, while RMB47,943,000 (2015: RMB42,267,000) had not been recognised as it is not probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

## 29. DEFERRED TAXATION *(Continued)*

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

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| With expiry in: | | |
| 2016 | **–** | 16,755 |
| 2017 | **13,043** | 13,043 |
| 2018 | **6,472** | 6,472 |
| 2019 | **5,528** | 5,528 |
| 2020 | **17,808** | 17,808 |
| 2021 | **22,647** | – |
| | **65,498** | 59,606 |

## 30. DEFERRED REVENUE

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Assets related government grants | **61,180** | – |

In November 2016, Fair Friend (Henan) Precision Machinery Co., Ltd., one of the Company's wholly-owned subsidiaries, received certain government grants and subsidies amounting to RMB61,180,000 for its specified purpose to invest in plants and equipment. These grants and subsidies will be recognised in profit or loss over the useful lives of the relevant assets.

## 31. CASH GENERATED FROM OPERATIONS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Profit before income tax: | **87,650** | 55,952 |
| Adjustments for: | | |
| – Amortisation of prepaid lease payments | **943** | 940 |
| – Depreciation of property, plant and equipment | **25,342** | 26,081 |
| – Amortisation of intangible assets | **1,233** | 983 |
| – Allowance for doubtful debts | **(2,720)** | 2,016 |
| – Allowance for inventories | **1,550** | 7,791 |
| – Share of loss of joint ventures | **476** | 1,387 |
| – Share of loss (profit) of associates | **5,909** | (101) |
| – Gain on deemed disposal of available-for-sale financial asset | **–** | (662) |
| – Loss on disposal of property, plant and equipment | **341** | 201 |
| – Interest income | **(8,201)** | (14,193) |
| – Interest expense | **9,897** | 8,734 |
| – Warranty expenses | **5,044** | 5,121 |
| Changes in working capital: | | |
| – Inventories | **45,698** | (610) |
| – Debtors, deposits and prepayments | **(46,618)** | 62,222 |
| – Amounts due from customers for contract work | **(3,975)** | (4,223) |
| – Amount due from ultimate holding company | **(2,110)** | 532 |
| – Amounts due from joint ventures, fellow subsidiaries and associates of ultimate holding company | **(22,234)** | (38,864) |
| – Creditors, other payables and accrued charges | **57,239** | 36,652 |
| – Amounts due to customers for contract work | **16,106** | (27,224) |
| – Amount due to ultimate holding company | **2,228** | (1,556) |
| – Amount due to immediate holding company | **(1,237)** | (1,591) |
| – Amounts due to joint ventures | **(125)** | 241 |
| – Amounts due to an associate and subsidiaries of an associate | **(2,408)** | 9,261 |
| – Amounts due to fellow subsidiaries and associates of ultimate holding company | **(16,161)** | 5,420 |
| – Warranty provision | **(4,817)** | (5,659) |
| Cash generated from operations | **149,050** | 128,851 |

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

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

| Group | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Carrying value: | 450 | 221 |
| Loss on disposal of property, plant and equipment | (341) | (201) |
| Proceeds from disposal of property, plant and equipment | 109 | 20 |

## 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 arranged a facility for the maximum principal amount of Euro50,000,000 (equivalent RMB365,340,000) to be available to the Company and FFG Werke on a joint and several basis, whereby each of the Company and FFG Werke is liable for the indebtedness incurred by the other under the facility. As at 31 December 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 (equivalent RMB365,340,000) (2015:Euro32,000,000 (equivalent RMB227,046,000)).

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 RMB77,452,000). As at 31 December 2016, Sky Thrive has arranged the aforesaid bank guarantees of total amount of Euro8,500,000 (equivalent RMB62,108,000) (2015: Euro4,605,000 (equivalent RMB32,675,000)).

In 2016, Hangzhou Good Friend Precision Machinery Co., Ltd., a wholly-owned subsidiary of the Company, issued standby letter of credit with a maximum amount of RMB33,000,000 to guarantee the corresponding amount of the credit facilities to be provided by a bank to FFG Werke. As at 31 December 2016, FFG Werke has drawn down a total amount of Euro4,000,000 (equivalent RMB29,227,000).

In 2016, Hangzhou Good Friend Precision Machinery Co., Ltd., a wholly-owned subsidiary of the Company, issued standby letter of credit with a maximum amount of Euro5,051,000 (approximately RMB36,907,000) to guarantee the corresponding amount of the credit facilities to be provided by a bank to FFG Europe. As at 31 December 2016, FFG Europe has drawn down a total amount of Euro5,051,000 (equivalent RMB36,907,000).

Management estimates that the default risk of FFG Werke and FFG Europe 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:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – Construction of buildings | – | 625 |
| – Capital contribution to an associate | – | 67,404 |
| | – | 68,029 |

### (b) Operating lease commitments

*The Group as lessee*

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year | 9,416 | 10,241 |

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| No later than 1 year | 5,749 | 6,788 |
| Later than 1 year and no later than 5 years | 3,549 | 5,672 |
| | 9,298 | 12,460 |

## 34. RELATED PARTY TRANSACTIONS

Save as disclosed in Note 28 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 | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| Fair Friend Enterprise Company Limited ("Fair Friend") | Ultimate holding company | Sales of goods | **206** | 1,484 |
| | | Purchases of goods | **21,381** | 5,007 |
| | | Purchases of services | **878** | – |
| Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu") | Associate of ultimate holding company | Sales of goods | **–** | 943 |
| | | Purchases of goods | **907** | 2,188 |
| | | Rental income | **1** | 9 |
| | | Rendering of services | **182** | 190 |
| Good Friend (H. K.) Corporation Limited ("Hong Kong GF") | Immediate holding company | Purchases of goods | **25,660** | 35,393 |
| Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine") | Fellow subsidiary | Sales of goods | **1** | 3 |
| | | Rental income | **501** | 641 |
| | | Rendering of services | **598** | 754 |
| | | Purchases of goods | **119** | – |

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

(a) Transactions *(Continued)*

| Name of company | Relationship | Nature of transactions | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| AIF (controlled by Mr. Wen Chi-Tang) | Joint venture | Sales of goods | **15** | 8 |
| | | Purchases of goods | **235** | 377 |
| | | Rental income | **22** | 24 |
| | | Purchases of services | **–** | 11 |
| | | Rendering of services | **1,138** | 884 |
| Hangzhou Best Friend Technology Co., Ltd. ("Best Friend") | Associate of ultimate holding company | Sales of goods | **–** | 11 |
| SANCO Machine & Tools Co., Ltd. ("SANCO") | Fellow subsidiary | Purchases of goods | **13,299** | 5,171 |
| | | Purchases of services | **–** | 511 |
| Jobs Automazione S.p.A.("Jobs") | Subsidiary of an associate of the Group | Purchases of goods | **30,552** | 22,830 |
| FFG Werke | Associate | Purchases of goods | **33,590** | 3,012 |
| Feeler Mectron | Joint venture | Purchases of goods | **4,067** | 3,121 |
| | | Rendering of services | **119** | – |
| | | Interest income | **1** | – |

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

(a) Transactions *(Continued)*

| Name of company | Relationship | Nature of transactions | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| UFM | Joint venture | Sales of goods | **15** | 10 |
| | | Purchases of goods | **757** | 381 |
| | | Rendering of services | **36** | 38 |
| | | Interest income | **22** | – |
| Nippon Cable Feeler | Joint venture | Purchases of services | **75** | – |
| | | Rendering of services | **21** | – |
| | | Rental income | **6** | – |
| Golden Friendship | Fellow subsidiary | Purchase of equity share | **–** | 15,460 |
| SMS Holding Co., Inc. | Subsidiary of an associate of the Group | Sales of goods | **1,138** | – |
| FFG DMC Co., Ltd. | Subsidiary of ultimate holding company | Purchases of goods | **1,040** | – |

*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.

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

(b) Balances

| Name of company | Relationship | Nature of transactions | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| Fair Friend | Ultimate holding company | Trade payable *(note (b))* | **(1,510)** | (160) |
| | | Advance to *(note (b))* | **2,110** | – |
| | | Other payable *(note (b))* | **(878)** | – |
| Hong Kong GF | Immediate holding company | Trade payable *(note (b))* | **(619)** | (1,856) |
| Fair Fine (controlled by Mr. Chen Min-Ho) | Fellow subsidiary | Other receivable *(note (b))* | **114** | 222 |
| | | Trade receivable *(note (a))* | **7** | – |
| SANCO | Fellow subsidiary | Trade payable *(note (b))* | **(5,207)** | (6,204) |
| | | Other receivable *(note (b))* | **–** | 1,009 |
| | | Advance to *(note (b))* | **2,356** | – |

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of transactions | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| Best Friend | Associate of ultimate holding company | Trade receivable *(note (a))* | **2** | 13 |
| | | Advance from *(note (b))* | **(1)** | – |
| Feeler Takamatsu | Associate of ultimate holding company | Other receivable *(note (b))* | **32** | 32 |
| | | Trade payable *(note (b))* | **(23)** | – |
| | | Trade receivable *(note (a))* | **–** | 1 |
| AIF (controlled by Mr. Wen Chi-Tang) | Joint venture | Trade receivable *(note (a))* | **1** | 228 |
| | | Other receivable *(note (b))* | **254** | – |
| | | Trade payable *(note (b))* | **–** | (206) |
| | | Other payable *(note (b))* | **–** | (3) |

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of transactions | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| Feeler Mectron | Joint venture | Trade receivable *(note (a))* | **58** | 48 |
| | | Other receivable *(note (b))* | **13** | 78 |
| | | Other payable *(note (b))* | **(4)** | – |
| UFM | Joint venture | Trade payable *(note (b))* | **(188)** | (108) |
| | | Other receivable *(note (b))* | **591** | 363 |
| SIGMA Technology S.r.l | Subsidiary of an associate | Advance to *(note (b))* | **2,127** | 2,127 |
| | | Trade payable *(note (b))* | **(76)** | (254) |
| Jobs | Subsidiary of an associate | Other receivable *(note (b))* | **7,428** | 18,641 |
| | | Trade payable *(note (b))* | **(4,615)** | (9,837) |
| | | Shareholder loan *(note (b))* | **22,595** | 5,469 |

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of transactions | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| FFG Werke | Associate | Advance to *(note (b))* | **43,025** | 28,020 |
| | | Trade payable *(note (b))* | **(3,290)** | (298) |
| | | Shareholder loan *(note (b))* | **4,915** | 5,041 |
| | | Other receivable *(note (b))* | **862** | – |
| Golden Friendship | Fellow subsidiary | Other payable *(note (b))* | **–** | (15,460) |
| FFG Europe | Associate | Other receivable *(note (b))* | **674** | 1,543 |
| Nippon Cable Feeler | Joint venture | Other receivable *(note (b))* | **5** | – |
| Equiptop Hitech Corp. | Fellow subsidiary | Trade receivable *(note (a))* | **7** | – |
| | | Trade payable *(note (b))* | **(272)** | – |
| SMS Holding Co.,Inc | Subsidiary of an associate | Trade receivable *(note (a))* | **3** | – |

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

### (b) Balances *(Continued)*

*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 2016 and 2015, the ageing of above balances was mostly within 6 to 12 months.

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

### (c) Key management compensation

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

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Salaries | **2,916** | 2,817 |
| Performance related bonuses | **1,287** | 1,304 |
| Retirement benefit scheme contributions | **108** | 99 |
| | **4,311** | 4,220 |

## 35. PLEDGE OF ASSETS

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Prepaid lease payments | **3,443** | 5,131 |
| Property, plant and equipment | **9,153** | 10,131 |
| Pledged bank deposits | **33,163** | 172,613 |
| | **45,759** | 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.

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

The statement of financial position of the Company as at 31 December 2016 is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | – | 2 |
| Investments in subsidiaries | 52,837 | 52,837 |
| Investments in joint ventures | 27,666 | 27,666 |
| Amounts due from subsidiaries | 670,585 | 605,881 |
| | 751,088 | 686,386 |
| **Current assets** | | |
| Debtors, deposits and prepayments | 11,223 | 14,022 |
| Amounts due from associates and subsidiaries of an associate | 35,304 | 28,592 |
| Cash and cash equivalents | 6,817 | 35,301 |
| | 53,344 | 77,915 |
| **Current liabilities** | | |
| Other payables and accrued charges | 7,653 | 11,641 |
| Amounts due to an associate and subsidiaries of an associate | 1,400 | 8,853 |
| Bank borrowings | 280,588 | 332,299 |
| | 289,641 | 352,793 |
| **Net current liabilities** | (236,297) | (274,878) |
| **Total assets less current liabilities** | 514,791 | 411,508 |
| **Capital and reserves** | | |
| Share capital | 4,022 | 4,022 |
| Share premium | 82,281 | 82,281 |
| Other reserves | 7,973 | 7,973 |
| Retained earnings | 420,515 | 317,232 |
| **Total equity** | 514,791 | 411,508 |

## 36. 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 2016 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 2015 | 4,022 | 82,281 | 7,973 | 46,895 | 141,171 |
| **Profit and total comprehensive income** | – | – | – | 294,529 | 294,529 |
| **Dividends recognised as distributions** | – | – | – | (24,192) | (24,192) |
| At 31 December 2015 | 4,022 | 82,281 | 7,973 | 317,232 | 411,508 |
| **Profit and total comprehensive income** | – | – | – | 115,379 | 115,379 |
| **Dividends recognised as distributions** | – | – | – | (12,096) | (12,096) |
| At 31 December 2016 | 4,022 | 82,281 | 7,973 | 420,515 | 514,791 |

## 37. EVENTS 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

| | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | **2016**<br>**RMB'000** |
|---|---|---|---|---|---|
| Revenue | 1,540,856 | 1,350,271 | 1,300,119 | 990,239 | **1,082,336** |
| Gross profit | 308,947 | 309,771 | 344,894 | 267,925 | **295,151** |
| Profit before income tax | 60,440 | 54,388 | 125,071 | 55,952 | **87,650** |
| **Profit attributable to equity holders of the Company** | 42,022 | 36,868 | 101,313 | 46,097 | **60,749** |
| **Earnings per share – basic (RMB)** | 0.10 | 0.09 | 0.25 | 0.11 | **0.15** |

## ASSETS AND LIABILITIES

As at 31 December

| | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | **2016**<br>**RMB'000** |
|---|---|---|---|---|---|
| Non-current assets | 345,271 | 330,119 | 309,492 | 589,531 | **743,761** |
| Net current assets | 339,800 | 361,656 | 433,321 | 154,908 | **121,487** |
| Non-current liabilities | (23,180) | (18,775) | (16,118) | – | **(61,180)** |
| **Net assets** | 661,891 | 673,000 | 726,695 | 744,439 | **804,068** |
| Share capital | 4,022 | 4,022 | 4,022 | 4,022 | **4,022** |
| Reserves | 657,869 | 668,978 | 722,673 | 740,417 | **800,046** |
| **Shareholders' equity** | 661,891 | 673,000 | 726,695 | 744,439 | **804,068** |