# 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 2017

# 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
Bank SinoPac
Bangkok Bank
The Hongkong and Shanghai Banking Corporation Limited

## STOCK CODE

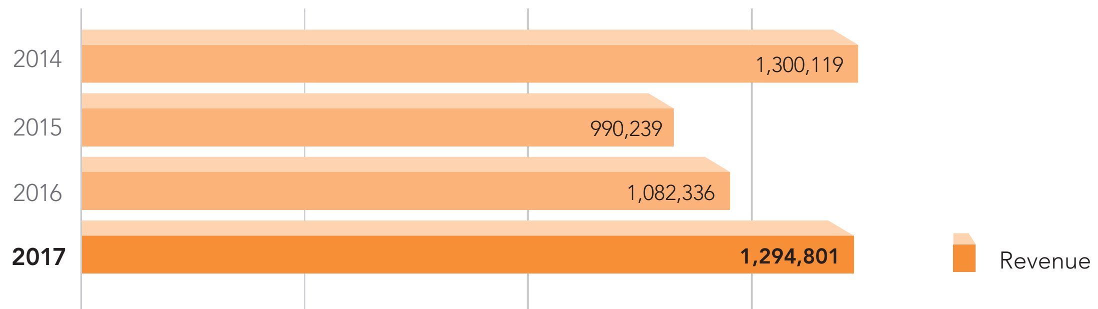
2398

## WEBSITE

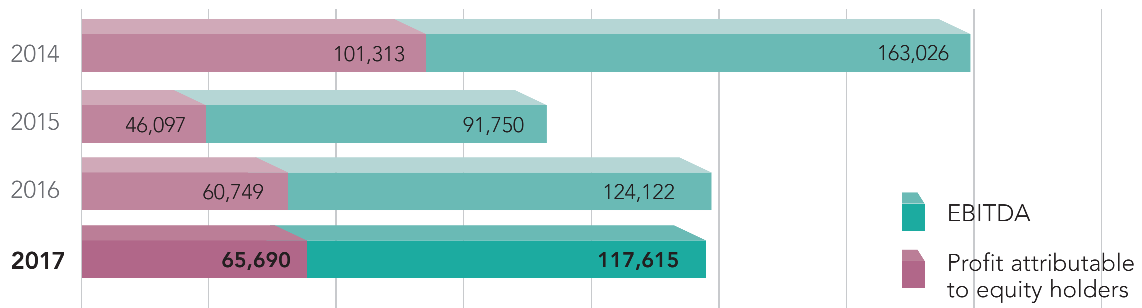
http://www.goodfriend.hk

# Financial Highlights

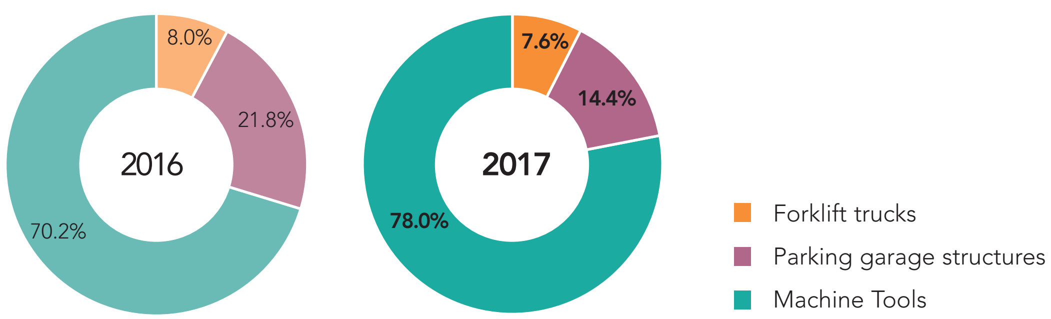
## REVENUE (RMB'000)




## PROFIT (RMB'000)




## BUSINESS SEGMENTS (In terms of revenue)



# Financial Highlights

## TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

| | **2017 RMB'000** | 2016 RMB'000 | Change (%) |
|---|---|---|---|
| Revenue | **1,294,801** | 1,082,336 | 19.6% |
| Gross profit | **312,515** | 295,151 | 5.9% |
| EBITDA | **117,615** | 124,122 | -5.2% |
| Profit attributable to equity holders | **65,690** | 60,749 | 8.1% |
| Shareholders' equity | **827,404** | 804,068 | 2.9% |
| Total assets | **1,973,494** | 1,787,359 | 10.4% |
| Earnings per share – basic (RMB) | **0.16** | 0.15 | 6.7% |

## SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

| | **2017** | 2016 | Change (%) |
|---|---|---|---|
| Gross profit margin *Note 1* | **24.1%** | 27.3% | -11.7% |
| Net profit margin *Note 2* | **5.1%** | 5.6% | -8.9% |
| Inventory turnover days *Note 3* | **128.4** | 94.0 | 36.6% |
| Debtors' turnover days *Note 4* | **134.6** | 152.1 | -11.5% |
| Creditors' turnover days *Note 5* | **73** | 94.4 | -22.7% |
| Current ratio (Times) *Note 6* | **1.2** | 1.1 | 9.1% |
| Quick ratio (Times) *Note 7* | **0.9** | 0.9 | 0% |
| Gearing ratio (%) *Note 8* | **18.6%** | 19.6% | -5.1% |
| EBITDA/Finance costs (Times) *Note 9* | **13.4** | 12.5 | 7.2% |
| Return on equity (%) *Note 10* | **7.9%** | 7.6% | 3.9% |

*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 2017 (the "year").

## FINANCIAL PERFORMANCE

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB1,294.80 million, representing an increase of approximately 19.6% compared to the previous year. Whilst profit attributable to equity holders for the year amounted to approximately RMB65.69 million, representing an increase of approximately 8.1% compared to RMB60.75 million in 2016.

*Chairman's Statement*

## FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 7 June 2018, a final dividend of RMB0.06 (equivalent to approximately HK$0.075 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 28 March 2018) per share for the year ended 31 December 2017, amounting to RMB24.19 million (equivalent to approximately HK$30.24 million) payable to shareholders whose names appear on the register of members of the Company on Wednesday, 20 June 2018. The payment date of the final dividend will be announced later.

## BUSINESS REVIEW

China's economic growth remained steady in 2017. According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product ("GDP") for 2017 grew by 6.9% year-on-year. For the year ended 31 December 2017, sales volume and sales revenue of CNC machine tools amounted to 2,067 units and approximately RMB1,009.35 million respectively, both representing an increase when compared to 2016. Moreover, the gross profit margin of CNC machine tools business decreased to approximately 27.0% during the year. This was attributable to the change of products mix during the year.

During the year, the Group continued to offer high-end CNC machine tools products to the customers. The sales of high-end CNC machine tools products produced by German and Italian manufacturers accounted totally for approximately RMB142.17 million during the year, representing approximately 14.1% of the Group's sales of 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.

# Chairman's Statement


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.

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, 28 March 2018

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB1,294.80 million, representing an increase of approximately 19.6% as compared to 2016. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,067 units, 13,727 units and 1,679 units respectively (2016 comparative figures: 1,611 units, 17,529 units and 1,433 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 RMB1,009.35 million, representing an increase of approximately 32.8% as compared to 2016. Revenue of CNC machine tools accounted for approximately 78.0% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB186.17 million during the year, representing a decrease of approximately 21.1% as compared to 2016 and accounted for approximately 14.4% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year increased by approximately 15.1%, as compared to 2016, to approximately RMB99.28 million and approximately 7.6% of the Group's total revenue.

### Gross profit and margin

For the year ended 31 December 2017, gross profit of the Group amounted to approximately RMB312.52 million. Overall gross profit margin was approximately 24.1%, compared to 27.3% for 2016. The gross profit margin of CNC machine tools (the Group's major product) during the year decreased to approximately 27.0%, compared to approximately 29.8% for 2016. As a result, the overall gross profit margin for the year decreased compared to 2016.

### Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB139.93 million for the year ended 31 December 2017, increased by approximately 14.3% as compared to last year. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 10.8%, compared to approximately 11.3% for 2016.

### Administrative expenses

Administrative expenses for the year ended 31 December 2017 increased by approximately 5.7% as compared to 2016. This was mainly attributable to the increase in China's staff costs during the year.

# Management Discussion and Analysis

### Finance costs

During the year, finance costs decreased to approximately RMB8.80 million. The decrease was primarily due to the decrease of average bank borrowings of the Group during 2017.

### Share of loss of associates

For the year ended 31 December 2017, share of loss of associates amounted to approximately RMB7.54 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 2017, profit attributable to the equity holders of the Company amounted to approximately RMB65.69 million, representing an increase of approximately 8.1% as compared to 2016.

### Liquidity and financial resources

As at 31 December 2017, the Group had net current assets of approximately RMB185.22 million (2016: RMB121.49 million), shareholders' fund of approximately RMB827.40 million (2016: RMB804.07 million) and short-term bank borrowings of approximately RMB367.43 million (2016: RMB350.77 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 2017 amounted to approximately RMB174.21 million (2016: RMB177.95 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.2 times (2016: 1.1 times). The gearing ratio (ratio of total debts to total assets) was approximately 18.6% (2016: 19.6%), indicating that the Group continued to maintain solid financial position.

### Capital structure and treasury policies

The share capital of the Company as at 31 December 2017 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2016: HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each).

# Management Discussion and Analysis

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As at 31 December 2017, the total outstanding short-term borrowings stood at approximately RMB367.43 million (2016: RMB350.77 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 2017.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2017.

## SEGMENTAL INFORMATION

Details of segmental information for the year ended 31 December 2017 are set out in note 5 to the consolidated financial statements.

### Staff and remuneration policies

As at 31 December 2017, the Group employed a total of 1,240 (2016: 1,300) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB157.88 million (2016: RMB140.15 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

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

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year ended 31 December 2017, the Group contributed approximately RMB5.04 million (2016: RMB4.61 million) to the said schemes.

### Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB2.62 million (2016: Nil) which are contracted but not provided in the consolidated financial statements for the year ended 31 December 2017. The Group had no material contingent liabilities as at 31 December 2017 (2016: Nil).

### Charges on the Group's assets

As at 31 December 2017, restricted bank deposits with an amount of approximately RMB32.72 million (2016: RMB33.16 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 RMB11.78 million (2016: RMB12.60 million) to secure general banking facilities granted to them. As at 31 December 2017, the subsidiaries have not utilized such secured bank facilities (2016: RMB1.83 million).

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2017. 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 2017, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as Hong Kong dollars, United States dollars, Euro and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group had no hedging activities during the year. However, the management of the Group has been monitoring the exchange rate risk, and will consider hedging against major foreign currency risk when required.

Renminbi currently is not a freely convertible currency. A portion of the Group's Renminbi revenue or profit must be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Chu Chih-Yaung (朱志洋先生)**, aged 71, 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 72, 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 67, 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 53, 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 32 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 60, 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 33 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 61, was appointed as an independent non-executive Director in December 2005 and is the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. He is the founder and managing director of Hercules Capital Limited, a corporate finance advisory firm. He has more than 20 years of experience in investment banking and professional accounting. Mr. Koo currently act as an independent non-executive director of Li Ning Company Limited, Xingda International Holdings Limited and Winfull Group Holdings Limited, all of which are companies listed on the Main Board of the Stock Exchange. He is a certified public accountant.

**Mr. Chiang Chun-Te,（江俊德先生）** aged 57, was appointed as an independent non-executive Director in December 2005. He is also a member of the audit committee, the remuneration and the nomination committee of the Company. He is the director of Istra Corporation.

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

From 2003 to February 2010, Mr. Chiang served as the director of Premier Capital Management Corp. and Premier Venture Capital Corp. From 2006 to June 2009, he served as the independent director of Yin King Industrial Co., Ltd., which is a listed company at over-the-counter market on the Taiwan Stock Exchange Corporation. From 2009 to March 2012, he served as the independent director of Feng Sheng Technology Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). From 2011 to June 2013, he served as the independent director of Swancor Ind. Co., Ltd. (listed on the Taiwan Stock Exchange Corporation). From 2001 to December 2014, he served as the president and general manager of PK Investment Corp. From 2000 to 18 June 2015, he served as the director of the Importers and Exporters Association of Taipei. From 1995 to January 2017, he served as the president of Istra Corporation.

# *Biographical Details of Directors and Senior Management*

**Mr. Yu Yu-Tang (余玉堂先生)**, aged 81, 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 59, 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 32 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 56, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend and then was promoted as the senior manager with effect from January 2015. He joined the Group in October 2000 and has over 33 years of experience in the machine tools industry.

**Mr. Lee Chung-Yi (李仲益先生)**, aged 57, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. Mr. Lee graduated from National Chengchi University in 1982 with a degree in Business Administration. Before he joined the Group in November 2017, he worked in Xander International Corp. from 1992 to 2015 and has over 33 years of experience in the fields of auditing, accounting and finance.

**Mr. Yip Sai Keung, Esmond (葉世強先生)**, aged 52, 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 2017.

## 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 2017 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 2017 is set out in note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 71 to 149.

The Directors declared an interim dividend of RMB0.05 (equivalent to approximately HK$0.0592) per share to those shareholders whose names appeared on the register of members on 29 September 2017, amounting to approximately RMB20.16 million (equivalent to approximately HK$23.87 million) which was paid on 12 October 2017.

*Report of the Directors*

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 7 June 2018, a final dividend of RMB0.06 (equivalent to approximately HK$0.075 according to the average mean rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 28 March 2018) per share for the year ended 31 December 2017, amounting to RMB24.19 million (equivalent to approximately HK$30.24 million), according to number of existing issued ordinary shares.

The dates of closure of register of members, record date and payment date of the proposed final dividend will be announced later.

## RESERVES

Movements in the reserves of the Company during the year are set out in note 37 to the consolidated financial statements.

## ANNUAL GENERAL MEETING

The 2018 annual general meeting will be held on Thursday, 7 June 2018. Details of the 2018 annual general meeting, notice of annual general meeting and proxy form are set out in the circular of the Company dated 27 April 2018 which will be despatched to shareholders of the Company together with the 2017 annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2017 are set out in note 25 to the consolidated financial statements.

## BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2017 are set out in note 28 to the consolidated financial statements.

# Report of the Directors

## DIRECTORS

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

**Executive Directors**

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

**Independent Non-Executive Directors**

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

In accordance with article 87(1) of the articles of association of the Company (the "Articles"), Messrs. Chen Min-Ho, Chiang Chun-Te and Yu Yu-Tang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## INDEPENDENCE CONFIRMATION

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 11 January 2018 with the Company for a term of three years commencing from 11 January 2018 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

A service agreement has been entered into between each of the independent non-executive Directors and the Company for a fixed term of 2 years commencing from 10 January 2018, and may be terminated by not less than three months' notice in writing served by either party to the other.

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2017, 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.

*Report of the Directors*

## 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.

(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.

*Report of the Directors*

## DIRECTORS' INTEREST IN SHARES

As at 31 December 2017, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

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

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

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

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

| Name of Director | Name of associated corporations | Nature of interest | Number and class of securities | Approximate percentage of shareholdings |
|---|---|---|---|---|
| Mr. Chu Chih-Yaung | Fair Friend Enterprise Company Limited ("Taiwan FF") | Beneficial owner | 15,669,255 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 2017, 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 2017, 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 2017, 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 | 232,208,000 shares *(Note)* | 57.59% |

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

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2017.

## 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 2017, 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 35 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.

# Report of the Directors

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. The Components Agreement and the Machine Tools Agreement expired on 26 June 2017.

   As disclosed in the announcement of the Company on 26 May 2017 and the circular of the Company on 27 June 2017, the Company had on 26 May 2017 entered into agreements with Taiwan FF to renew the Components Agreement (the "Renewed CKD Components Agreement") and the Machine Tools Agreement (the "Renewed CNC Machine Tools Agreement") respectively for a period of three years from 13 July 2017.

   As Taiwan FF is the holding company of Hong Kong GF, the controlling shareholder of the Company, Taiwan FF is therefore a connected person of the Company under the Listing Rules. The transactions under the Components Agreement, the Machine Tools Agreement, the Renewed CKD Components Agreement and the Renewed CNC Machine Tools Agreement respectively constituted continuing connected transactions of the Company, and are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The resolutions approving the 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 2017 to 26 June 2017 under the Components Agreement were RMB1.11 million and RMB86.31 million respectively and the actual supply amount and purchase amount of the period were RMB0.22 million and RMB25.97 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 2017 to 26 June 2017 under the Machine Tools Agreement was RMB75.67 million and the actual purchase amount of the period was RMB54.99 million.

The resolutions approving the Renewed CKD Components Agreement and the Renewed CNC Machine Tools Agreement, the transactions contemplated thereunder and the annual caps thereof were duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 13 July 2017. The annual caps for the supply of CKD components to FF Parties by the GF Parties and the purchase of CKD components from the FF Parties by the GF Parties for the period from 13 July 2017 to 31 December 2017 under the Renewed CKD Components Agreement were RMB1.6 million and RMB45.27 million respectively and the actual supply amount and purchase amount of the period were RMB0.22 million and RMB25.41 million respectively. The annual cap for the purchase of CNC machine tools from the FF Parties by the GF Parties for the period from 13 July 2017 to 31 December 2017 under the Renewed CNC Machine Tools Agreement was RMB311.75 million and the actual purchase amount of the period was RMB243.01 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. All Bank Guarantees expired before 5 August 2017.

The independent non-executive Directors have reviewed the Components Agreement, the Machine Tools Agreement, the Renewed CKD Components Agreement, the Renewed CNC 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, the Renewed CKD Components Agreement, the Renewed CNC 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 2017.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 13.99% of the Group's total turnover for the year and the largest customer accounted for approximately 4.93% of the Group's total turnover. The five largest suppliers accounted for approximately 50.23% of the Group's total purchases for the year and the largest supplier accounted for approximately 22.39% of the Group's total purchases.

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

# Report of the Directors

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## PERMITTED INDEMNITY

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

## EQUITY-LINKED AGREEMENTS

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as those set out in note 35 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, its parent company, its subsidiaries or fellow subsidiaries were a party and in which a director of the Company or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

*Report of the Directors*

## AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Corporate Governance Code. The 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 2017.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 34 to 47.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 150.

## AUDITOR

The financial statements for the year ended 31 December 2017 have been audited by the auditor of the Company, Deloitte Touche Tohmatsu who shall retire and, being eligible, offer themselves for re-appointment at the 2018 annual general meeting.

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 three years ended 31 December 2015, 31 December 2016 and 31 December 2017.

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, 28 March 2018

# 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 1 June 2017 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 ("Articles").

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2017, 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.

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.

# Corporate Governance Report

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 2017:

| 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 2017, 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 | 1/4 |
| Mr. CHEN Hsiang-Jung | 4/4 |
| Mr. CHEN Min-Ho | 2/4 |
| Mr. WEN Chi-Tang | 4/4 |
| Mr. CHIU Rung-Hsien | 3/4 |
| Mr. KOO Fook Sun, Louis | 3/4 |
| Mr. CHIANG Chun-Te | 2/4 |
| Mr. YU Yu-Tang | 4/4 |

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, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of the risk management and internal control systems of the Group. The Audit Committee had during the year performed such functions and reviewed the unaudited financial statements of the Company for the six months ended 30 June 2017. The audited financial statements of the Company for the year ended 31 December 2017 has also been reviewed by the Audit Committee.

*Corporate Governance Report*

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 2017, the Audit Committee met three times, during which the management of the Company and the external auditor were also in attendance, if appropriate. Details of the attendance by members of the Audit Committee of such meetings are as follows:

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

## NOMINATION OF DIRECTORS

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

The Company established a nomination committee (the "Nomination Committee"), with written terms of reference in compliance with the CG Code and consists of 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 Article 87(1) of the Articles, Mr. CHEN Min-Ho, Mr. CHIANG Chun-Te and Mr. YU Yu-Tang 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 2017 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.

# Corporate Governance Report

## 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 2017 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 2017 is set out below:

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

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

## OTHER BOARD COMMITTEES

During the year, an independent board committee comprising all the three independent non-executive directors was formed for continuing connected transactions involving (i) renewal of framework agreement for purchase and supply of components; and (ii) renewal of exclusive framework agreement for the purchase of designated CNC machine tools. Details of these continuing connected transactions etc were set out in a circular of the Company dated 27 June 2017.

A committee meeting was held to approve 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 | 600 |

Corporate Governance Report

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has acknowledged its responsibility for the risk management and internal control systems of the Group, and has established and continuously supervised and reviewed the effectiveness of the systems operation as required in the Principle C.2 of the CG Code 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 Systems

The Company has established and improved the risk management and internal control organization systems comprising the Audit Committee of the Board, senior management and all the departments of the Company as required in the Principle C.2.2 of the CG Code 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 2017, 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 2017, 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 2017 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 2017, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATION

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

The general meetings of the Company are valuable forum for the Board to communicate directly with the Shareholders. The Shareholders are encouraged to attend the general meetings of the Company.

An annual general meeting of the Company was held on 1 June 2017 (the "2017 AGM"). A notice convening the 2017 AGM contained in the circular dated 27 April 2017 was dispatched to the Shareholders together with the 2016 Annual Report. The chairman of the Board was unable to attend the 2017 AGM due to his business trip. Mr. Chen Hsiang-Jung, the Executive Director, attended and chaired the 2017 AGM. The Chairman of the board committees was unable to attend the 2017 AGM and had appointed and delegated Mr. Chen Hsiang-Jung to answer questions from shareholders. Other directors were unable to attend the 2017 AGM due to their other business commitment.

Besides, an extraordinary general meeting of the Company was held on 13 July 2017 (the "2017 EGM") to approve continuing connected transactions of the Company and Mr. Chen Hsiang-Jung attended and act as chairman of the 2017 EGM. Other Directors except Mr. Koo Fook Sun, Louis were unable to attend the 2017 EGM due to their other business commitment.

The Chairman of the 2017 AGM and 2017 EGM explained detailed procedures for conduction a poll. All the resolutions proposed at the 2017 AGM and 2017 EGM 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.

*Corporate Governance Report*

The forthcoming annual general meeting of the Company will be held on 7 June 2018 (the "2018 AGM"). A notice convening 2018 AGM will be published on the websites of the Stock Exchange and the Company and dispatched together with the 2017 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 2017.

Hong Kong, 28 March 2018

# Environmental, Social and Governance Report

## ABOUT THE REPORT

Good Friend International Holdings Inc. (the "Company" or "we") hereby presents the annual Environmental, Social and Governance ("ESG") Report from 1 January 2017 to 31 December 2017 ("FY2017") in accordance with the Environmental, Social and Governance Reporting Guide promulgated by the Stock Exchange of Hong Kong Limited in December 2015. The company has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide.

The Board of directors of the Company is responsible for the ESG strategy and reporting, including the assessment and determination of relevant risks in these aspects, and guarantee of proper ESG risk management and internal monitoring system. We have appointed the business and functional departments to identify the relevant ESG matters, and evaluate the significance of these matters to our business and interested parties by reviewing the Group's operation and conducting internal discussions. The management has confirmed the effectiveness of the ESG risk management and internal monitoring system with the Board. In accordance with the general disclosure regulations in the Guidance on the ESG Report, the identified significant matters have been contained in this Report with the aim of disclosing the Group's performance on these matters during its operation.

## SELECTION OF ISSUES

### Communication with Stakeholders

Judging from the characteristics of the business and operation, we categorize major stakeholders as shareholders and investors, government, employees, clients, suppliers and communities.

| Stakeholders | Expectation & requirement | Communication & responses |
|---|---|---|
| Shareholders & investors | • Protection of shareholders' rights and interests<br>• Maintenance and appreciation of assets value<br>• Enterprise governance mechanism<br>• Authentic, accurate, prompt and complete disclosure of information | • Shareholders' meeting<br>• Press releases and announcements<br>• Company reports<br>• Information on the company website<br>• Investors' meetings |

| Stakeholders | Expectation & requirement | Communication & responses |
|---|---|---|
| Government | • Compliance with laws and regulations<br>• Pay taxes in accordance with law<br>• Protect the environment<br>• Industry development<br>• Giving back to the community | • Meeting<br>• Compliance report<br>• Onsite check<br>• Meetings/seminars<br>• Special investigation<br>• Proper submission of documents |
| Employees | • Equal employment<br>• Competitive salary system<br>• Employee training<br>• Career development<br>• Humanity care<br>• Health and safety protection | • Labor contracts<br>• After-work activities<br>• Manager mail box<br>• Voluntary activities<br>• Daily communication |
| Clients | • Client satisfaction management<br>• Client complaint management<br>• Product responsibility | • Daily communication<br>• Regular interviews and visits<br>• Client service center and hotline |
| Suppliers | • Suppliers' code of conduct<br>• Supplier assessment<br>• Supplier cooperation | • High-level meetings<br>• Workshop<br>• Suppliers' summits<br>• Supplier entry and assessment<br>• Field work<br>• Daily communication |
| Communities | • Noise management<br>• Support economic development<br>• Enthusiasm towards public welfare | • Charitable activities<br>• Community services<br>• Environmental protection activities |

*Environmental, Social and Governance Report*

### Selection of Major Issues

After interviewing the internal and external stakeholders this year, we received serval suggestions. We score and rank social responsibility issues of the Company according to two standards, namely their impact on business as well as the stakeholders' rights and interests, so as to reflect their influence on the environment and society, and better respond to the expectations and demands of the stakeholders. Our major issues are as below:

### Matrix for material issues

| Significance to Stakeholders | Low | Significance to business operation | High |
|---|---|---|---|
| High | Community welfare | Noise management<br>Employment and labor standards | Quality assurance<br>Business ethics<br>Client service |
| | Waste managment<br>Water resource management | Career development<br>Resources management<br>Employee care<br>Safety and health | Economic development<br>Supplier management |
| Low | | | |

## MARKET

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

In FY 2017，we did not find any products were returned due to safety or health problems.

## Quality Assurance

The Company is specialized in manufacturing CNC machine tools, parking garage structures and forklift trucks. We always insist that all products must pass strict quality control system to free our customers from worries. In FY 2017, we did not find any sold or shipped products were returned due to quality problems.

As for products, the Company has obtained the ISO 90001 accreditation on quality control system and adopted a product safety management system covering material supply, production, packaging and delivery. We conduct the self-inspection on the quality management in accordance with the established material supply inspection management, process inspection management, finished product inspection management, and detective products control management procedures, and organise the internal quality review on a yearly basis.

We believe that innovation can determine the ability of the enterprise's survival. Only by continuously carrying out innovation, we can stay at the forefront of the times. In response to the upcoming industry 4.0 revolution, we are building a factory that integrates information, visualization and information networks. Through our own software and new production systems，we convey effective and latest information to the employees who are doing daily work and respond to customers' needs timely.

In addition, employees in their respective positions have not stopped innovating. Our CNC machine tools division now has owned 28 valid patents and 6 software copyrights. We also formulate the Patent Management System, to regulate the patent development and protection processes.

## Client Service

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

We strive to provide high-quality services for clients. In order to timely submit customer orders and boost client satisfaction, we implement lean management internally, and set up a cross-sectoral sub division and special case team. By summarizing and classifying business management data, we easily locate the occurrence points and detection points of problems, and promptly solve the problems in daily operation process.

In January 2017, we had a customer complaint case about the relay contact of the solenoid valve that controlled the entry and exit of the knife tower was burned out. We actively contacted the customers to replace the relay with the solid-state relay (contactless), and at the same time, for the lathes containing the relays of the same batch, the parts were provided free of charge by the supplier and exchanged by recalling them. No failures occurred to other customers any more, and they were satisfied with the solution.

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

# Environmental, Social and Governance Report

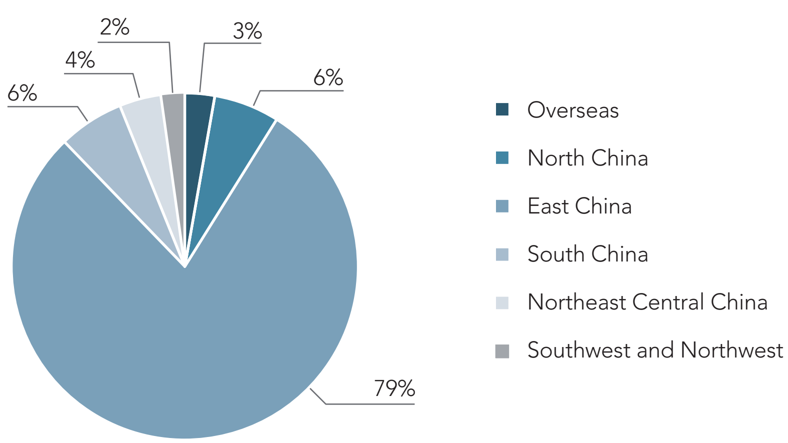
## Supplier Management

The high-quality environmental-friendly products we provide to customers are inseparable from our excellent supplier management. We make strict demands on suppliers at source. We carry out strict and fair supplier access procedures and evaluation mechanism, formulating the supplier management process flow chart and supplier monthly assessment form. When choosing a new supplier, we will conduct a series of evaluation procedures based on these systems, including the on-site investigation, sampling, quality assurance, etc.

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

We give priority to local suppliers. Currently, we are cooperating with 437 suppliers, which are mainly from Jiangsu, Zhejiang and Shanghai. The distribution is as follows.

Suppliers by regions




For qualified suppliers, we conduct monthly and annual review, and eliminate the suppliers who do not pass the review. For excellent suppliers, we issue the "excellent supplier award" at the end of the year. In order to ensure the quality of products, we also select the products on site and conduct quality test at any time.

### Business Ethics

In order to build a positive and healthy operation environment and guarantee the sound development of the Company, we establish the Anti-Corruption Management Methods and strictly comply with the laws and regulations. For suppliers, when signing the contract, we require them to sign the Letter of Commitment of Manufacturer to ensure the transparency of the whole transaction process. In addition, we provide various anonymous channels for reporting immoral matters.

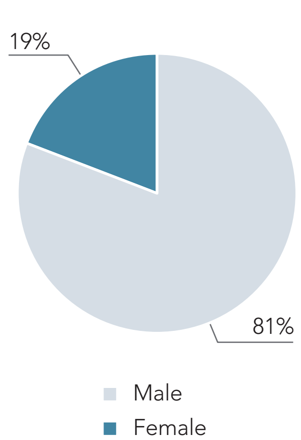
In FY 2017, no corruption, bribery, blackmails, fraud or money laundry occurred in our Company. No lawsuits aroused by malpractices above either.

## EMPLOYEE

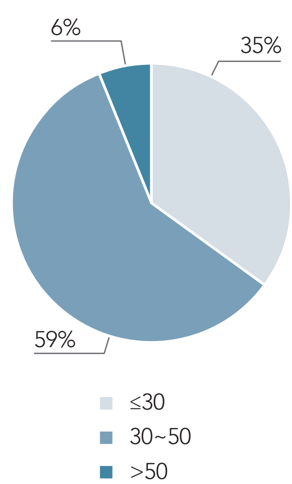
We are committed to creating an innovative, win-win and equal working environment for our employees. Under the premise of ensuring employees' occupational safety and health, we focus on taking care of our employees, and organize diverse activities to promote employees' physical and mental health. In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

In FY2017, the total number of employees reached 1,189, among which 226 were female and they accounted for 19% of the total employees.

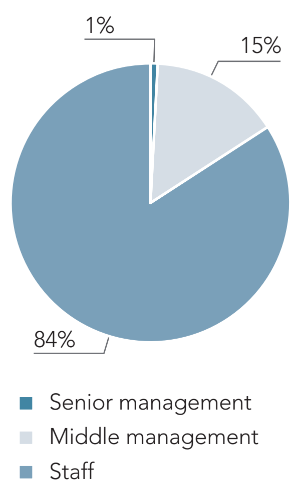
Employee by gender




Employee by age




Employee by category



# Environmental, Social and Governance Report

## Employment and Labour Standards

*Labour standards*

The Company persists in the equal employment, and prohibits discrimination in the employee recruitment, promotion, occupational development and contract termination due to the race, nationality, complexion, religion, physical disability, gender, sexual orientation, club member or marital status.

The Company protects the entitlement of female employees to vocational development, and stipulates that female and male employees are equally entitled to promotion and professional training on technology and management skills. There shall be a certain proportion of female employees in the further education, business study, post training and overseas exchange on a temporary post.

We support equal employment and prohibit any form of employment discrimination, strictly abiding by the human rights and Labour Laws. We have strictly prohibited child labour and any form of harassment, corporal punishment, spirit oppress, language vituperation and forced labours. We respect the rights of all employees to freely join in associations or labour unions. We have not involved in child labour, forced labour and discrimination cases in FY2017.

*Salary and welfare*

In strict compliance with the national social security policies, we pay various social insurances including pension scheme, social medical insurance, unemployment insurance, work-related injury insurance (domestic companies) and maternity insurance, as well as housing fund in full on time. We also buy commercial insurances for our employees to improve their abilities to overcome the unexpected difficulties.

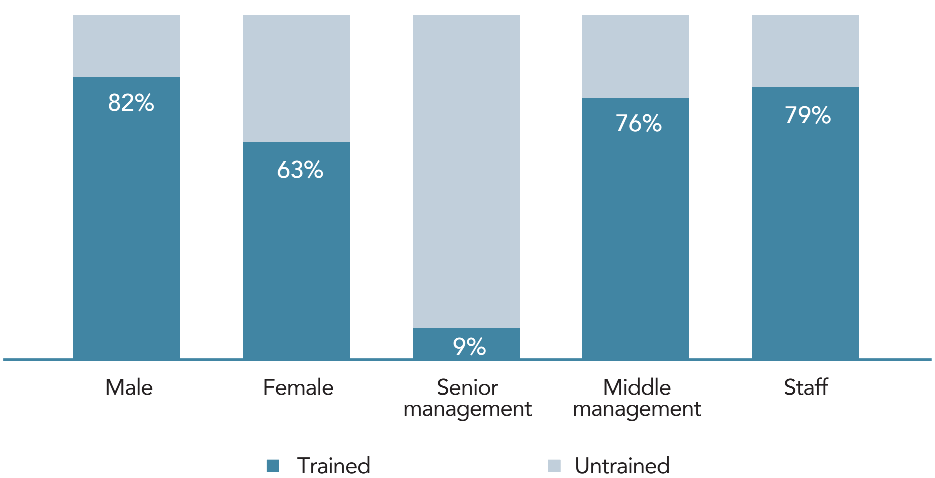
We aim to form a complete incentive system and we will adjust the policy of salary, assurance and welfare on the basis of employees' capabilities and performance according to the Staff Management Policy. For example, in the first half of 2017, we awarded extra bonus to 38 shift supervisors from CNC Machine Tools Department due to their excellent performance.

## Training and Development

The development of the enterprise is closely connected with the growth of the employees. The development of the technical level and ability of the employees represent the future of the enterprise. The key to our success is to make sure that each employee is equipped with the corresponding skills for their positions. We encourage our employees to continuously improve and develop themselves, providing all employees with all kinds of training and skills related competition activities, so that employees can learn from each other, identify improvement areas and enhance themselves in competition.

In FY2017, employee's average training time is 34 hours.

Percentage of trained employees by gender and category




In addition, the Fair Friend Institute of Electromechanical which is founded together with Hangzhou Vocational & Technical College. The Fair Friend Institute of Electromechanical is the key advanced manufacturing industry training base in Zhejiang Province and it has advanced equipment of RMB130 million with 20 professors and associate professors as well as 50 full-time and part-time doctoral and master students. It provides employees with a platform for development and training.

# Environmental, Social and Governance Report

## Safety and Health

Occupational safety and health of the employees is the foundation of the sustainable development of the Company. Although there is no big occupational safety and health threat in our production and operation processes, we always focus on ensuring occupational safety and health for our employees.

We have obtained accreditation under the OHSAS18000 international safety and health management system. We constantly improve the level of occupational health and safety management, forming a complete mechanism of self-monitoring, self-discovery and self-improvement. Every year, we carry out a complete and comprehensive test on the environment of all the plants to ensure the safety of the staff's working environment. In FY2017, we had no death of the employees nor major accidents in production.

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

- Decontamination of dust

  During the production of parking equipment, the dust produced by welding threatens the health of the employees. Therefore, we install 8 smoke purifiers which inhale smoke, dust and exhaust gas through the suction of the fan. At the same time, the flame arrester at the inlet prevents the entry of the spark generated by welding, filtering the smoke and so on, and the purified gas is draught through the outlet. In this way, it not only ensures the safety of employees' working environment but also protects the natural environment.

- Noise management

  The noise will also affect the production line staffs' health, so in order to reduce noise, our Processing Department invests RMB150,000 to build a vibration workshop, which can reduce the internal noise down to 98 dB and the noise outside the closed room is to 78 dB. We also require our employee should wait outside the room during vibration process and cannot go inside to install work pieces until the vibration is over. The requirement can well reduce the possibility that the employees' hearing is impaired during work.

- Disease prevention

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

### Care for Employees

We often organize vivid recreational activities to help employees relieve the pressure of work so that they can better balance their lives and work. For example, we have successfully held parents and children activities for three years in order to create opportunities for strengthening family bonding. We regularly hold a staff sporting event to strengthen the spirit of cooperation and solidarity among the employees. At the same time, we send consolation money in time to employees who have suffered from economic pressure due to special circumstances to help our employees get through the difficult times.

## ENVIRONMENT

The Company focuses on the sustainable development management and improving the utilization ratio of resources. In order to become an environmental friendly enterprise, we try to protect the environment in all of our operational processes. We have passed the ISO14001 Environment Management System Certification, and organized internal and external review of the corporate environment on a yearly basis, in order to guarantee that the environment management system is manageable and effective for long.

There were no environmental pollution accidents, illegal events or complaints from the surrounding residents in FY2017.

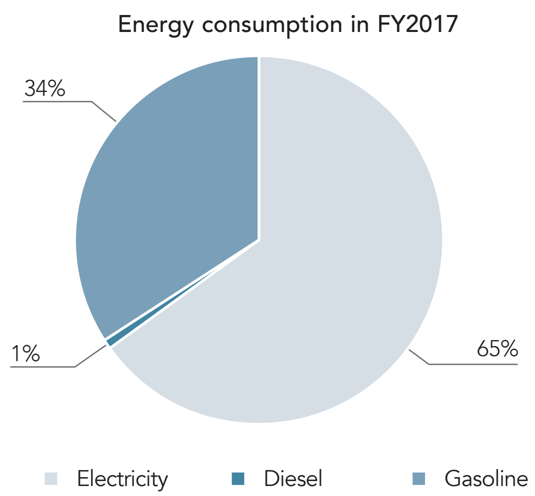
### Resources Management

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

# Environmental, Social and Governance Report

*Low-carbon production*

The main resources in our operation are electricity, gasoline, and diesel. In FY2017, we consumed 5,427.11 MWh of energy in total and the purchased electricity accounted for 65% of the total. In FY2017, we have 501.58 tons of direct greenhouse gas emissions and 2,460.14 tons of indirect greenhouse gas emissions.




In order to reduce greenhouse gas emissions, we have taken a number of measures. In FY2017, we changed the central air conditioning and replaced the original three central air conditioners with two energy efficient units. By improving the efficiency, the use of electricity has been effectively reduced. At the same time, we carry out measures of transformer outage every year to reduce energy consumption.

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

*Raw materials and packaging materials*

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

In the CNC Machine Tools Department, we try to reduce the use of packaging materials. Products shipped to customers are in wooden boxes and we signed an agreement with wood packaging enterprises for recycling of packaging materials, so as to reduce the consumption of timber and the impact on the environment. In FY2017, we consumed 2,410.00 tons of packaging materials, of which 2,323.00 tons are wood.

### Waste Management

*Waste gas*

The main gas pollutants produced during the production include dust particles and VOCs (benzene series). In order to improve the working environment and reduce the impact on the surrounding environment, we have established the waste gas treatment project with the support of leaders of the Company according to the requirement of the environmental protection project. The waste gas after treatment has reached the emission standard stipulated in the Integrated Emission Standard of Air Pollutants (GB16297-1996).

Dust produced in the production process has a significant impact on employees' health and it will not only do harm to the surrounding environment but also to the whole atmosphere if the emissions are not treated. So we put into 8 smoke recycling equipment and all the dust gas emissions released into the air again should be processed, which greatly reduce the production activities' impacts on the surrounding environment.

*Solid wastes*

The wastes generated in our production are mainly divided into hazardous wastes and non-hazardous wastes. Non-hazardous wastes mainly include living garbage, scrap iron, grinding wheel and office consumables. Hazardous wastes mainly include waste oil, grinding mud, activated carbon after use, paint bucket and so on.

We have policies on waste discharge management to deal with the hazardous wastes. 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.

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

### Water Resource Management

Our water comes from the urban water supply system, which is mainly used for office. In FY2017, we consumed 192,598.00 cubic meters of water.

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 by the filter screen of the washing pool. Phosphoric detergents are prohibited here so as to avoid negative influence on the surrounding water environment.

## COMMUNITY

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

### Noise Treatment

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

### Boosting Economic Development

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

### Community Dedication

In July 2017, we organized the voluntary blood donation activity in the Management Committee of the Development Zone. At the Company's call, a total of 44 employees were involved and a total of 17,600 millilitres of blood were donated.

*Environmental, Social and Governance Report*

## DATA OVERVIEW

**Environmental, Social and Governance Data Overview in FY2017**

| | |
|---|---|
| **Emissions** | |
| Greenhouse gas emissions in total (Scope 1&2) (in tons) | 2,961.72 |
| Direct greenhouse gas emissions in total（Scope1） | 501.58 |
| Indirect greenhouse gas emissions in total (Scope 2) | 2,460.14 |
| The total amount of greenhouse gas emissions per million yuan of output value (Tons/Million yuan) | 3.07 |
| Waste gas emissions in total (in tons) | 0.40 |
| NOx emissions in total | 0.15 |
| Organic VOCs emissions in total | 0.25 |
| Hazardous wastes produced in total (in tons) | 17.24 |
| Grinding mud | 15.78 |
| Activated charcoal contaminated with paint | 1.40 |
| The paint bucket | 0.04 |
| Waste oil | 0.02 |
| Hazardous wastes produced per million yuan of output value (Tons/Million yuan) | 0.02 |
| Non-hazardous wastes produced in total (in tons) | 177.58 |
| Scrap iron | 166.80 |
| Living garbage | 9.45 |
| Grinding wheel | 1.24 |
| Office supplies | 0.09 |
| Non-hazardous wastes produced per million yuan of output value(Tons/Million yuan) | 0.18 |

# Environmental, Social and Governance Report

## Environmental, Social and Governance Data Overview in FY2017

| | |
|---|---|
| **Water resources consumption** | |
| Water consumption in total (in cubic meters) | 192,598.00 |
| Water consumption per million yuan of output value(in cubic meters/Million yuan) | 199.40 |
| **Energy consumption** | |
| Energy consumption in total (MWh) | 5,427.11 |
| Electricity | 3,497.00 |
| Gasoline | 1,861.58 |
| Diesel | 68.53 |
| Energy consumption per million yuan of output value (MWh/Million yuan) | 5.62 |
| **Packaging materials consumption** | |
| Packaging materials in total (in tons) | 2,410.00 |
| Packaging wood | 2,323.00 |
| Other | 87.00 |
| **Employee** | |
| Total workforce | 1,189 |
| By gender | |
| Female | 963 |
| Male | 226 |
| By age group | |
| Under 30 | 417 |
| From 30 to 50 | 699 |
| Over 50 | 73 |
| By employee category | |
| Senior management | 11 |
| Middle management | 180 |
| Staff | 998 |
| By employee type | |
| No fixed & fixed term contract | 598 |
| A fixed quantity contract has been completed | 591 |
| Employee turnover ratio | 26% |

# Environmental, Social and Governance Report

## Environmental, Social and Governance Data Overview in FY2017

| | |
|---|---|
| **Safety** | |
| Number of work-related fatalities. | 0 |
| Number of lost days due to work injury | 0 |
| Average number of working days lost due to work injury | 2,832 |
| **Development** | |
| The percentage of trained employees | |
| By gender | |
| Female | 82% |
| Male | 63% |
| By employee type | |
| Senior management | 9% |
| Middle management | 76% |
| Staff | 79% |
| The average training hours completed per employee | 34 |
| By gender | |
| Female | 31 |
| Male | 34 |
| By employee type | |
| Senior management | 7 |
| Middle management | 25 |
| Staff | 34 |

# Independent Auditor's Report

Deloitte. 德勤

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

## OPINION

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 149, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 year. 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.

# Independent Auditor's Report

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

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of trade 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.<br><br>As disclosed in Note 20 to the consolidated financial statements, as at 31 December 2017, the carrying amount of trade debtors amounted to approximately RMB477 million (net of impairment provision of RMB38 million) which represented approximately 24.2% 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. | Our procedures in relation to the impairment assessment of trade debtors included:<br><br>• Assessing the appropriateness of the management's impairment assessment of trade debtors in accordance with the requirements of Hong Kong Accounting Standards ("HKAS") 39 Financial Instruments: Recognition and Measurement;<br><br>• Obtaining an understanding of the management's 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;<br><br>• Examining the trade debtors ageing report produced by the Company's financial system and evaluating the reasonableness of the Group's trade debtors provision with reference to the ageing report, the past default history and subsequent settlements of the trade debts; and<br><br>• Evaluating the adequacy of impairment provision on doubtful debts with reference to the information obtained above. |

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

## 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 fluctuations 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 2017, the carrying amount of inventories amounted to approximately RMB346 million (net of inventory provision of RMB22 million) which represented approximately 17.5% of the Group's total assets. As disclosed in Note 4.1 (d) to the consolidated financial statements, in assessing 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 the management's impairment assessment of inventories in accordance with the requirements of HKAS 2 Inventories;<br><br>• Obtaining an understanding of the management's 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 ageing 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 ageing 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. |

*Independent Auditor's Report*

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

## OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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.

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

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

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

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

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

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

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

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

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

28 March 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | NOTES | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **1,294,801** | 1,082,336 |
| Cost of revenue | 5 | **(982,286)** | (787,185) |
| **Gross profit** | | **312,515** | 295,151 |
| Other income | 6 | **47,966** | 45,643 |
| Distribution and selling expenses | | **(139,925)** | (122,398) |
| Administrative expenses | | **(119,100)** | (112,639) |
| Other operating expenses | | **(1,936)** | (1,825) |
| Finance costs | 9 | **(8,803)** | (9,897) |
| Share of profit (loss) of joint ventures | 17 | **1,893** | (476) |
| Share of loss of associates | 18 | **(7,544)** | (5,909) |
| Profit before income tax | 7 | **85,066** | 87,650 |
| Income tax expense | 10 | **(19,376)** | (26,901) |
| Profit attributable to equity holders of the Company | | **65,690** | 60,749 |
| **Other comprehensive (expense) income:** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Share of other comprehensive loss of associates | 18 | **(522)** | (1,352) |
| **Items that may be reclassified subsequently to profit or loss :** | | | |
| Share of other comprehensive (expense) income of associates | 18 | **(47,272)** | 5,726 |
| Exchange difference arising on translation of foreign operations | | **25,600** | 6,602 |
| **Total comprehensive income for the year, attributable to equity holders of the Company** | | **43,496** | 71,725 |
| **Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)** | | | |
| – Basic and diluted earnings per share | 11 | **0.16** | 0.15 |
| Dividends | 12 | **20,160** | 12,096 |

# Consolidated Statement of Financial Position

| | NOTES | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Prepaid lease payments | 13 | **123,052** | 121,148 |
| Property, plant and equipment | 14 | **180,401** | 195,332 |
| Intangible assets | 15 | **3,203** | 3,431 |
| Investments in joint ventures | 17 | **18,387** | 16,494 |
| Investments in associates | 18 | **355,917** | 385,655 |
| Deferred income tax assets | 29 | **22,401** | 21,701 |
| | | **703,361** | 743,761 |
| **Current assets** | | | |
| Inventories | 21 | **345,626** | 202,828 |
| Debtors, deposits and prepayments | 20 | **541,941** | 499,083 |
| Prepaid lease payments | 13 | **2,905** | 2,707 |
| Amounts due from customers for contract work | 22 | **50,270** | 40,692 |
| Amount due from ultimate holding company | 35 | **1,053** | 2,110 |
| Amounts due from fellow subsidiaries and associates of ultimate holding company | 35 | **1,476** | 2,518 |
| Amounts due from joint ventures | 35 | **852** | 922 |
| Amounts due from associates and subsidiaries of an associate | 35 | **119,083** | 81,629 |
| Restricted bank deposits | 23 | **32,716** | 33,163 |
| Cash and cash equivalents | 24 | **174,211** | 177,946 |
| | | **1,270,133** | 1,043,598 |

# Consolidated Statement of Financial Position

| | NOTES | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Amounts due to customers for contract work | 22 | **42,813** | 31,682 |
| Creditors, other payables and accrued charges | 26 | **589,692** | 490,737 |
| Amount due to ultimate holding company | 35 | **7,400** | 2,388 |
| Amount due to immediate holding company | 35 | **2,123** | 619 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | 35 | **3,673** | 5,503 |
| Amounts due to an associate and subsidiaries of an associate | 35 | **37,327** | 7,981 |
| Amounts due to joint ventures | 35 | **608** | 192 |
| Current income tax liabilities | | **28,091** | 26,219 |
| Bank borrowings | 28 | **367,428** | 350,772 |
| Warranty provision | 27 | **5,755** | 6,018 |
| | | **1,084,910** | 922,111 |
| **Net current assets** | | **185,223** | 121,487 |
| **Total assets less current liabilities** | | **888,584** | 865,248 |
| **Non-current liability** | | | |
| Deferred revenue | 30 | **61,180** | 61,180 |
| **Net assets** | | **827,404** | 804,068 |
| **Capital and Reserves** | | | |
| Share capital | 25 | **4,022** | 4,022 |
| Share premium | | **82,281** | 82,281 |
| Capital reserves | | **77,338** | 77,338 |
| Other reserves | | **39,576** | 61,248 |
| Retained earnings | | **624,187** | 579,179 |
| **Total equity attributable to equity holders of the company** | | **827,404** | 804,068 |

The consolidated financial statements on pages 71 to 149 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

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

# Consolidated Statement of Changes In Equity

| | Share capital RMB'000 | Share premium RMB'000 *(note a)* | Capital reserves RMB'000 *(note b)* | Other reserves RMB'000 *(note c)* | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 4,022 | 82,281 | 77,338 | 48,905 | 531,893 | 744,439 |
| Profit for the year | – | – | – | – | 60,749 | 60,749 |
| Transfer to other reserves | – | – | – | 15 | (15) | – |
| Share of other comprehensive income (expense) of associates | – | – | – | 5,726 | (1,352) | 4,374 |
| Exchange difference arising on translation of foreign operations | – | – | – | 6,602 | – | 6,602 |
| **Total comprehensive income for the year** | – | – | – | 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 |
| Profit for the year | – | – | – | – | 65,690 | 65,690 |
| Share of other comprehensive expense of associates | – | – | – | (47,272) | (522) | (47,794) |
| Exchange difference arising on translation of foreign operations | – | – | – | 25,600 | – | 25,600 |
| **Total comprehensive income for the year** | – | – | – | (21,672) | 65,168 | 43,496 |
| **Dividends recognised as distributions** | – | – | – | – | (20,160) | (20,160) |
| At 31 December 2017 | 4,022 | 82,281 | 77,338 | 39,576 | 624,187 | 827,404 |

*Notes:*

a. **Share premium**

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

b. **Capital reserves**

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

c. **Other reserves**

In addition to currency translation reserve, 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 | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 31 | **120,104** | 149,050 |
| Income tax and withholding tax paid | | **(18,204)** | (23,931) |
| Net cash generated from operating activities | | **101,900** | 125,119 |
| **Investing activities** | | | |
| Investment in associates | | **–** | (85,089) |
| Placement of shareholder loan | | **(83,996)** | – |
| Purchases of property, plant and equipment | | **(8,476)** | (4,741) |
| Purchases of prepaid lease payments | | **(5,134)** | (88,200) |
| Proceeds from disposal of property, plant and equipment | 31 | **1,027** | 109 |
| Purchases of intangible assets | | **(1,175)** | (1,413) |
| Interest received | | **4,261** | 8,201 |
| Withdrawal of restricted bank deposits | | **33,163** | 172,613 |
| Placement of restricted bank deposits | | **(32,716)** | (33,163) |
| Government grants and subsidies received | | **–** | 61,180 |
| Net cash (used in) generated from investing activities | | **(93,046)** | 29,497 |
| **Financing activities** | | | |
| Proceeds from bank borrowings | | **602,194** | 348,683 |
| Repayments of bank borrowings | 32 | **(590,223)** | (406,588) |
| Dividends paid to equity holders | | **(20,160)** | (12,096) |
| Interest paid | | **(8,803)** | (9,897) |
| Net cash used in financing activities | | **(16,992)** | (79,898) |
| **Net (decrease) increase in cash and cash equivalents** | | **(8,138)** | 74,718 |
| Cash and cash equivalents at beginning of the year | | **177,946** | 101,583 |
| Effect of foreign exchange rate changes | | **4,403** | 1,645 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | | **174,211** | 177,946 |

# Notes to the Consolidated Financial Statements

## 1. GENERAL

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), 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"). In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. 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 preparation of consolidated 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 Application of new and revised accounting policies and disclosures*

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

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

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |

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

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

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

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

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 32. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 32, the application of these amendments has had no impact on the Group's 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] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[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 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[2] |

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 2021

## 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)*

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact to the Group's consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be 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 generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at 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.

- 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.

## 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)*

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

The classification and measurement of the financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provision upon application of HKFRS 9 by the Group.

Based on the assessment of the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit loss provision on 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. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets as at 1 January 2018.

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 anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

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

## 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. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing 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 2017, the Group has non-cancellable operating lease commitments of RMB7,177,000 as disclosed in Note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

Furthermore, the application of new requirements may result in changes in measurements, presentation and disclosure as indicated above.

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

### 2.2 Subsidiaries

#### *2.2.1 Basis of consolidation*

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

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

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

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

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

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

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

### 2.3 Investments in associates and joint ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

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

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

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

### 2.3 Investments in associates and joint ventures *(Continued)*

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

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

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

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

### 2.4 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)*

### 2.5 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.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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.

### 2.6 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.

### 2.7 Property, plant and equipment

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

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

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

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

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

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

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.

### 2.8 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.

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

### 2.10 Financial instruments

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

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

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

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

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

### 2.11 Financial assets

#### *2.11.1 Classification*

The Group classifies its financial assets as loans and receivables. 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.

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

### 2.11 Financial assets *(Continued)*

#### *2.11.1 Classification (Continued)*

*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.

#### *2.11.2 Recognition and measurement*

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

*Effective interest method*

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

### 2.12 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.

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

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

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

### 2.13 Impairment of financial assets

*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.

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

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

*Asset carried at amortised cost (Continued)*

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.

### 2.14 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.

### 2.15 Trade debtors and other receivables

Trade debtors are amounts due from customers for the sale of goods and/or services in the ordinary course of business. If collection of trade debtors 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 debtors and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.16 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.

### 2.17 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)*

### 2.18 Trade creditors and other payables

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors 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 creditors and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.19 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.

### 2.20 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.

### 2.21 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)*

### 2.21 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.

### 2.22 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)*

### 2.22 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.

*Short-term employee benefits*

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

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

### 2.23 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.

### 2.24 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.

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

### 2.24 Provisions *(Continued)*

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.

### 2.25 Revenue recognition and other income

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

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

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

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

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

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

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

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

### 2.26 Parking garage structures contracts

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

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

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

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

### 2.27 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.

### 2.28 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.

# 3. FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Financial risk factors *(Continued)*

### (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 2017, if RMB had strengthened/weakened by 5% (2016: 5%) against the Hong Kong dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB3,633,000 higher/lower (2016: approximately RMB304,000 higher/lower).

At 31 December 2017, if RMB had strengthened/weakened by 5% (2016: 5%) against the United States dollars with all other variables held constant, the Group's profit for the year would have been approximately RMB10,644,000 higher/lower (2016: approximately RMB5,574,000 higher/lower).

At 31 December 2017, if RMB had strengthened/weakened by 5% (2016: 5%) against Euro with all other variables held constant, the Group's profit for the year would have been approximately RMB3,235,000 higher/lower (2016: approximately RMB6,684,000 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 2017, 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 RMB709,000 (2016: RMB975,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings.

### (c) *Credit risk*

As at 31 December 2017, the Group's maximum exposure to credit risk arises from debtors, deposits, and 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 33.

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

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

#### *(c) Credit risk (Continued)*

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.

#### *(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 2017** | | | | | | |
| Creditors and other payables | N/A | 250,632 | – | – | 250,632 | 250,632 |
| Bank borrowings | | | | | | |
| – fixed rate | 2.64% | 124,653 | – | – | 124,653 | 121,447 |
| – variable rate | 2.31% | 251,663 | – | – | 251,663 | 245,981 |
| Amount due to ultimate holding company | N/A | 7,400 | – | – | 7,400 | 7,400 |
| Amount due to immediate holding company | N/A | 2,123 | – | – | 2,123 | 2,123 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | N/A | 3,673 | – | – | 3,673 | 3,673 |
| Amounts due to an associate and subsidiaries of an associate | N/A | 37,327 | – | – | 37,327 | 37,327 |
| Amounts due to joint ventures | N/A | 608 | – | – | 608 | 608 |
| | | 678,079 | – | – | 678,079 | 669,191 |

# 3. FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Financial risk factors *(Continued)*

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

| | 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 |

In addition, the Group may be required to settle the financial guarantees issued by the Group as detailed in Note 33 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.

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

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

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.

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Total bank borrowings | **367,428** | 350,772 |
| Less: cash and cash equivalents | **(174,211)** | (177,946) |
| Net debt | **193,217** | 172,826 |
| Total equity | **827,404** | 804,068 |
| Net capital | **1,020,621** | 976,894 |
| Gearing ratio | **19%** | 18% |

## 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.

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

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

#### (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 2017, provision for impairment of trade debtors amounted to approximately RMB37,811,000 (2016: RMB33,792,000) 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. The management will increase the depreciation charge where useful lives are less than previously estimated, and will write-off or write-down technically obsolete or non-strategic assets.

Machinery and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the machinery and equipment less costs 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.

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

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

*(d) Provision for impairment of inventories*

The Group reviews the carrying values of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, the management identifies, using their judgement, inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market prices for similar items.

*(e) Warranty provision*

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

*(f) 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 2017, no impairment loss in respect of goodwill recognised in investments in associates has been recognised by the Group.

*(g) 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 33. The 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 operating and reportable segments: (1) machine tools; (2) parking garage structures; 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 operating and 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 2017** | | | | |
| Revenue (all from external sales) | **1,009,354** | **186,165** | **99,282** | **1,294,801** |
| Cost of revenue | **(737,198)** | **(154,055)** | **(91,033)** | **(982,286)** |
| Segment profit | **272,156** | **32,110** | **8,249** | **312,515** |

## 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 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 |

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Sale of scrap materials | **9,055** | 8,890 |
| Government grants and subsidies related to income* | **22,182** | 18,397 |
| Repair income | **10,888** | 8,509 |
| Rental income | **1,427** | 708 |
| Interest income | **4,261** | 8,201 |
| Others | **153** | 938 |
| | **47,966** | 45,643 |

* 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.

*Notes to the Consolidated Financial Statements*

## 7. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging (crediting):

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Directors and chief executives' remuneration | 1,839 | 2,185 |
| Other staff costs | 151,001 | 133,352 |
| Other staff's retirement benefits scheme contributions | 5,036 | 4,614 |
| Total staff costs | 157,876 | 140,151 |
| Auditor's remuneration | 1,984 | 1,972 |
| Cost of inventories recognised as an expense | 884,532 | 692,131 |
| Depreciation of property, plant and equipment | 22,343 | 25,342 |
| Amortisation of intangible assets | 1,403 | 1,233 |
| Allowance (reversal) for trade debtors impairment | 5,505 | (2,720) |
| (Reversal) allowance for inventories impairment | (2,981) | 1,550 |
| Warranty expenses | 6,282 | 5,044 |
| Direct operating expenses incurred for rental income | 2,258 | 1,220 |
| Loss on disposal of property, plant and equipment | 37 | 341 |
| Net exchange (gain) loss | (920) | 10,800 |
| Research and development costs recognised as expense* | 30,771 | 23,399 |

* 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 RMB726,000, RMB437,000 and RMB11,862,000 (2016: RMB1,001,000, RMB428,000 and RMB11,918,000) 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 2017** | | | | | | |
| Salaries | – | 180 | – | 144 | 144 | 468 |
| Performance related bonuses | 518 | 518 | – | – | – | 1,036 |
| Total | 518 | 698 | – | 144 | 144 | 1,504 |
| 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 |

\# 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 2017 | | | | |
| Fees | **167** | **84** | **84** | **335** |
| Total | **167** | **84** | **84** | **335** |
| Year ended 31 December 2016 | | | | |
| Fees | **179** | **89** | **89** | **357** |
| Total | **179** | **89** | **89** | **357** |

## 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.

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2016: two) was director of the Company. The emoluments of the remaining four (2016: three) individuals are as follows:

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Basic salaries and allowances | **1,902** | 1,841 |
| Bonus | **1,928** | 883 |
| Pension costs – defined contribution plans | **110** | 133 |
| | **3,940** | 2,857 |

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

| | **2017** | 2016 |
|---|---|---|
| Emoluments bands (in HKD) | | |
| Less than HKD1,000,000 | **2** | 3 |
| HKD1,000,001 to HKD1,500,000 | **3** | 2 |

During the years ended 31 December 2016 and 2017, 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.

## 9. FINANCE COSTS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Interest expense: | | |
| – Bank borrowings | **8,803** | 9,897 |

## 10. INCOME TAX EXPENSE

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Current tax | | |
| – Current year | **18,347** | 35,037 |
| – Under provision in prior years | **1,729** | 610 |
| | **20,076** | 35,647 |
| PRC withholding tax | **–** | 6,645 |
| Deferred tax credit | **(700)** | (15,391) |
| | **19,376** | 26,901 |

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 2017, 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 2017. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2017 is 15% (2016: 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%.

For the year ended 31 December 2017, 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:

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Profit before income tax | **85,066** | 87,650 |
| Add: Share of loss of joint ventures and associates, net | **5,651** | 6,385 |
| | **90,717** | 94,035 |
| Tax calculated at tax rates applicable to the principal operating entity of the Group (15%) | **13,608** | 14,105 |
| Tax effect of: | | |
| Expenses not deductible for tax purpose | **5,440** | 3,607 |
| Utilisation of previously unrecognised tax losses | **(547)** | – |
| Tax losses for which no deferred income tax asset was recognised | **2,117** | 3,397 |
| Unrecognised temporary differences | **(630)** | 852 |
| Withholding tax on the dividends declared and paid by a PRC subsidiary | **–** | 6,645 |
| Different tax rates of subsidiaries | **394** | – |
| Tax concession granted to PRC subsidiaries | **(2,735)** | (2,315) |
| Under provision in prior years | **1,729** | 610 |
| Tax charge | **19,376** | 26,901 |

## 11. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company of RMB65,690,000 (2016: RMB60,749,000) by the weighted average number of ordinary shares in issue 403,200,000 (2016: 403,200,000).

| | 2017 | 2016 |
|---|---|---|
| Basic and diluted earnings per share (RMB per share) | **0.16** | 0.15 |

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

## 12. DIVIDENDS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Dividends for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2017 interim dividend – RMB0.05 (2016: 2015 final dividend RMB0.03) per ordinary share | **20,160** | 12,096 |

At a meeting of the board of directors held on 28 March 2018, the directors of the Company resolved to recommend a final dividend of RMB0.06 (2016: Nil) per ordinary share for the year ended 31 December 2017. The proposed final dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2017.

## 13. PREPAID LEASE PAYMENTS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Carrying values | | |
| At beginning of the year | **123,855** | 36,598 |
| Additions | **5,134** | 88,200 |
| Released to profit or loss | **(3,032)** | (943) |
| At end of the year | **125,957** | 123,855 |
| Less: Amount to be amortised within one year | **(2,905)** | (2,707) |
| Non-current portion | **123,052** | 121,148 |

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

The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB3,352,000 as at 31 December 2017 (2016: RMB3,443,000) to secure the general banking facilities granted to the Group as disclosed in Note 28.

## 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 2016 | 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 |
| Additions | 1,532 | 1,399 | 862 | 984 | 3,699 | 8,476 |
| Transfers | 145 | – | 78 | – | (223) | – |
| Disposals | (562) | (2,279) | (812) | (1,844) | – | (5,497) |
| At 31 December 2017 | 205,222 | 168,822 | 31,550 | 20,571 | 6,692 | 432,857 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2016 | 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 |
| Provided for the year | 9,398 | 10,684 | 1,137 | 1,124 | – | 22,343 |
| Disposals | (67) | (1,953) | (753) | (1,660) | – | (4,433) |
| At 31 December 2017 | 86,143 | 123,269 | 24,443 | 18,601 | – | 252,456 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2017 | 119,079 | 45,553 | 7,107 | 1,970 | 6,692 | 180,401 |
| At 31 December 2016 | 127,295 | 55,164 | 7,363 | 2,294 | 3,216 | 195,332 |

The Group has pledged its buildings with carrying amounts of approximately RMB8,428,000 as at 31 December 2017 (2016: RMB9,153,000) to secure the general banking facilities granted to the Group as disclosed in Note 28.

## 15. INTANGIBLE ASSETS

| | Softwares RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2016 | 13,069 |
| Additions | 1,413 |
| At 31 December 2016 | 14,482 |
| Additions | 1,175 |
| At 31 December 2017 | 15,657 |
| **Amortisation** | |
| At 1 January 2016 | 9,818 |
| Charge for the year | 1,233 |
| At 31 December 2016 | 11,051 |
| Charge for the year | 1,403 |
| At 31 December 2017 | 12,454 |
| **CARRYING VALUES** | |
| At 31 December 2017 | 3,203 |
| At 31 December 2016 | 3,431 |

## 16. DETAILS OF SUBSIDIARIES

The following is a list of subsidiaries of the Group at 31 December 2017 and 2016:

| Name | Place of incorporation/ operation | Principal activities | Issued and fully paid-up share capital/ registered capital | Interest held | |
|---|---|---|---|---|---|
| | | | | **2017** | 2016 |
| **Directly held subsidiaries** | | | | | |
| Winning Steps Ltd. | British Virgin Island ("BVI") | Investment holding | Ordinary shares USD110 | **100%** | 100% |
| Yu Hwa Holdings Ltd. | BVI | Investment holding | Ordinary shares USD1,500,000 | **100%** | 100% |
| Hai Sheng International Holdings Inc. | BVI | Investment holding | Ordinary shares USD200,000 | **100%** | 100% |
| Sky Thrive Investment Ltd. | BVI | Investment holding | Ordinary shares USD5,000,000 | **100%** | 100% |
| Kai Win Group Ltd. | BVI | Investment holding | Ordinary shares USD1 | **100%** | 100% |
| Winnings Steps Hong Kong Development Ltd. | Hong Kong | Trading and Investment holding | Ordinary shares HKD1,000 | **100%** | 100% |
| **Indirectly held subsidiaries** | | | | | |
| Full Moral Industrial Ltd. | Hong Kong | Inactive | Ordinary shares HKD2 | **100%** | 100% |
| Yu Hwa Hong Kong Enterprise Ltd. | Hong Kong | Investment holding | Ordinary shares HKD1,000 | **100%** | 100% |
| Hai Sheng International Hong Kong Ltd. | Hong Kong | Investment holding | Ordinary shares HKD1,000 | **100%** | 100% |
| Sky Thrive Hong Kong Enterprise Ltd. | 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 | |
|---|---|---|---|---|---|
| | | | | **2017** | 2016 |
| Hangzhou Global Friend Precision Machinery Co., Ltd. | PRC | Design and assembling of forklift trucks | Registered Capital USD10,000,000 | **100%** | 100% |
| Hangzhou Ever Friend Precision Machinery Co., Ltd. | PRC | Design and production of computer numerical control machine tools | Registered Capital USD30,000,000 | **100%** | 100% |
| Hangzhou Glory Friend Machinery Technology Co., Ltd. | PRC | Processing of computer numerical control machine tools | Registered Capital USD15,000,000 | **100%** | 100% |
| Rich Friend (Shanghai) Precision Machinery Co., Ltd. | PRC | Trading of computer numerical control machine tools | Registered Capital USD200,000 | **100%** | 100% |
| Huller Hille (Shanghai) Machinery Co., Ltd. | PRC | Trading of high-end machine tools | Registered Capital USD1,000,000 | **100%** | 100% |
| Fair Friend (Henan) Precision Machinery Co., Ltd. | PRC | Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structure | Registered Capital USD30,000,000 | **100%** | 100% |

## 17. INVESTMENTS IN JOINT VENTURES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cost of unlisted investments in joint ventures | 27,666 | 27,666 |
| Share post-acquisition loss and other comprehensive income | (9,279) | (11,172) |
| | 18,387 | 16,494 |

As at 31 December 2017 and 2016, the Company had direct interests in the following joint ventures:

| Name | Date of incorporation | Attributable equity interest 2017 | Attributable equity interest 2016 | 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| **Current** | | | | | | | | | | |
| Cash | **6,149** | 8,571 | **946** | 948 | **948** | 1,094 | **187** | 119 | **8,230** | 10,732 |
| Other current assets | **36,830** | 21,028 | **2** | 2 | **5,249** | 4,428 | **1,123** | 568 | **43,204** | 26,026 |
| Total current assets | **42,979** | 29,599 | **948** | 950 | **6,197** | 5,522 | **1,310** | 687 | **51,434** | 36,758 |
| Short term bank borrowings | **(6,483)** | (6,925) | **–** | – | **–** | – | **–** | – | **(6,483)** | (6,925) |
| Other financial liabilities (including trade payable) | **(17,541)** | (10,787) | **(11)** | (11) | **(2,915)** | (1,876) | **(905)** | (502) | **(21,372)** | (13,176) |
| Total current liabilities | **(24,024)** | (17,712) | **(11)** | (11) | **(2,915)** | (1,876) | **(905)** | (502) | **(27,855)** | (20,101) |
| **Non-current** | | | | | | | | | | |
| Assets | **30,547** | 31,874 | **–** | – | **255** | 322 | **1,940** | 2,270 | **32,742** | 34,466 |
| Liabilities | **(6,544)** | (6,937) | **–** | – | **–** | – | **–** | – | **(6,544)** | (6,937) |
| **Net assets** | **42,958** | 36,824 | **937** | 939 | **3,537** | 3,968 | **2,345** | 2,455 | **49,777** | 44,186 |

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

| | AIF | | Nippon Cable Feeler | | Feeler Mectron | | UFM | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Revenue | **93,267** | 58,417 | **63** | 75 | **4,063** | 5,479 | **2,237** | 907 | **99,630** | 64,878 |
| Cost of revenue | **(76,185)** | (53,231) | **–** | – | **(4,202)** | (5,619) | **(1,933)** | (1,302) | **(82,320)** | (60,152) |
| Other expenses | **(10,948)** | (4,137) | **(65)** | (72) | **(292)** | (732) | **(414)** | (428) | **(11,719)** | (5,369) |
| **Profit (loss) before income tax** | **6,134** | 1,049 | **(2)** | 3 | **(431)** | (872) | **(110)** | (823) | **5,591** | (643) |
| Income tax expense | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| **Profit (loss) for the year** | **6,134** | 1,049 | **(2)** | 3 | **(431)** | (872) | **(110)** | (823) | **5,591** | (643) |
| Share of profit (loss) of joint ventures | **2,147** | 367 | **(1)** | 2 | **(193)** | (392) | **(60)** | (453) | **1,893** | (476) |

*Notes to the Consolidated Financial Statements*

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Opening net assets as at 1 January | **36,824** | 35,775 | **939** | 936 | **3,968** | 4,840 | **2,455** | 3,278 | **44,186** | 44,829 |
| Profit (loss) and total comprehensive income (loss) for the year | **6,134** | 1,049 | **(2)** | 3 | **(431)** | (872) | **(110)** | (823) | **5,591** | (643) |
| Closing net assets as at 31 December | **42,958** | 36,824 | **937** | 939 | **3,537** | 3,968 | **2,345** | 2,455 | **49,777** | 44,186 |
| Equity interest | **35%** | 35% | **50%** | 50% | **45%** | 45% | **55%** | 55% | **–** | – |
| Carrying value as at 31 December | **15,036** | 12,888 | **469** | 470 | **1,592** | 1,786 | **1,290** | 1,350 | **18,387** | 16,494 |

## 18. INVESTMENTS IN ASSOCIATES

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Cost of unlisted investments in associates | **415,701** | 415,701 |
| Share of post-acquisition loss and other comprehensive loss | **(92,143)** | (36,805) |
| Exchange difference arising on translation of foreign operations | **32,359** | 6,759 |
| | **355,917** | 385,655 |

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

As at 31 December 2017 and 2016, the Group has interests in the following associate:

| Name | Date of incorporation | Attributable equity interest 2017 | Attributable equity interest 2016 | Registered capital | Principal activities/ place of incorporation and operation |
|---|---|---|---|---|---|
| FFG Europe S.p.A.(" FFG Europe") | 1 January 2013 | **30.16%** | 30.16% | Euro11,205,000 | Manufacture and sales of machine tools and related products, Italy |
| FFG Werke GmbH (" FFG Werke") | 17 October 2013 | **39.00%** | 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.

### FFG Werke

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

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

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

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

### Summarised statement of financial positon

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Cash | **32,535** | 18,332 | **4,697** | 29,059 | **257,687** | 248,270 | **294,919** | 295,661 |
| Other current assets | **488,518** | 529,590 | **545,100** | 777,962 | **1,927,309** | 2,248,237 | **2,960,927** | 3,555,789 |
| Total current assets | **521,053** | 547,922 | **549,797** | 807,021 | **2,184,996** | 2,496,507 | **3,255,846** | 3,851,450 |
| Short term bank borrowings | **(100,985)** | (109,412) | **(177,916)** | (546,885) | **(254,488)** | (406,514) | **(533,389)** | (1,062,811) |
| Other financial liabilities | **(400,297)** | (446,204) | **(375,056)** | (431,524) | **(1,648,361)** | (1,504,346) | **(2,423,714)** | (2,382,074) |
| Total current liabilities | **(501,282)** | (555,616) | **(552,972)** | (978,409) | **(1,902,849)** | (1,910,860) | **(2,957,103)** | (3,444,885) |
| Non-current | | | | | | | | |
| Assets | **181,887** | 165,769 | **236,230** | 408,779 | **1,875,938** | 1,718,428 | **2,294,055** | 2,292,976 |
| Liabilities | **(211,887)** | (144,229) | **(294,685)** | (201,427) | **(1,366,409)** | (1,506,063) | **(1,872,981)** | (1,851,719) |
| Net (deficit) assets | **(10,229)** | 13,846 | **(61,630)** | 35,964 | **791,676** | 798,012 | **719,817** | 847,822 |
| Less: non-controlling interests | **–** | – | **–** | – | **354,271** | 356,835 | **354,271** | 356,835 |
| Net (deficit) assets attributed to the owners of the associate | **(10,229)** | 13,846 | **(61,630)** | 35,964 | **437,405** | 441,177 | **365,546** | 490,987 |

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

Summarised statement of profit or loss and other comprehensive income

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Revenue | **563,027** | 578,688 | **703,335** | 786,193 | **3,432,545** | 3,679,596 | **4,698,907** | 5,044,477 |
| Cost of revenue | **(335,689)** | (309,584) | **(665,341)** | (718,941) | **(2,879,477)** | (3,073,240) | **(3,880,507)** | (4,101,765) |
| Other expenses | **(256,374)** | (262,279) | **(121,598)** | (78,837) | **(593,710)** | (578,124) | **(971,682)** | (919,240) |
| **(Loss) profit before tax** | **(29,036)** | 6,825 | **(83,604)** | (11,585) | **(40,642)** | 28,232 | **(153,282)** | 23,472 |
| Income tax credit (charge) | **7,150** | (3,940) | **(12,095)** | (1,699) | **73,065** | (26,289) | **68,120** | (31,928) |
| **(Loss) profit for the year** | **(21,886)** | 2,885 | **(95,699)** | (13,284) | **32,423** | 1,943 | **(85,162)** | (8,456) |
| Less: non-controlling interest | **–** | – | **–** | – | **10,637** | 802 | **10,637** | 802 |
| (Loss) profit for the year attributed to the owners of the associate | **(21,886)** | 2,885 | **(95,699)** | (13,284) | **21,786** | 1,141 | **(95,799)** | (9,258) |
| Less: amortisation of fair value adjustment | **–** | – | **–** | 6,479 | **–** | – | **–** | 6,479 |
| Adjusted (loss) profit for the year attributed to the owners of the associate | **(21,886)** | 2,885 | **(95,699)** | (19,763) | **21,786** | 1,141 | **(95,799)** | (15,737) |
| Other comprehensive (loss) income for the year attributed to the owners of the associate | **–** | – | **(2,185)** | (6,547) | **(57,690)** | 8,511 | **(59,875)** | 1,964 |
| Share of (loss) profit of associates | **(6,601)** | 870 | **(37,322)** | (7,707) | **17,726** | 928 | **(26,197)** | (5,909) |
| Less: the unrecognised share of loss of associates *(note a)* | **(3,085)** | – | **(15,568)** | – | **–** | – | **(18,653)** | – |
| The recognised share of (loss) profit of associates | **(3,516)** | 870 | **(21,754)** | (7,707) | **17,726** | 928 | **(7,544)** | (5,909) |
| Share of other comprehensive (loss) income of associates | **–** | – | **(852)** | (2,553) | **(46,942)** | 6,927 | **(47,794)** | 4,374 |

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

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

### Summarised financial information

| | FFG Europe | | FFG Werke | | FFG EA | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 | **2017 RMB'000** | 2016 RMB'000 |
| Opening net assets | **13,846** | 12,276 | **35,964** | 54,211 | **441,177** | 273,089 | **490,987** | 339,576 |
| Capital injection *(note b)* | **–** | – | **–** | – | **–** | 152,201 | **–** | 152,201 |
| Exchange difference | **(2,189)** | (1,315) | **290** | 1,584 | **32,132** | 6,235 | **30,233** | 6,504 |
| Other comprehensive (loss) income for the year | **–** | – | **(2,185)** | (6,547) | **(57,690)** | 8,511 | **(59,875)** | 1,964 |
| (Loss) profit for the year attributed to the owners of the associate | **(21,886)** | 2,885 | **(95,699)** | (13,284) | **21,786** | 1,141 | **(95,799)** | (9,258) |
| Closing net assets attributed to the owners of the associates as at 31 December | **(10,229)** | 13,846 | **(61,630)** | 35,964 | **437,405** | 441,177 | **365,546** | 490,987 |
| Equity interest | **30.16%** | 30.16% | **39.00%** | 39.00% | **81.37%** | 81.37% | | |
| Share of net assets | **(3,085)** | 4,176 | **(24,036)** | 14,025 | **355,917** | 358,986 | **328,796** | 377,187 |
| The unrecognised share of loss of associates *(note a)* | **3,085** | – | **15,568** | – | **–** | – | **18,653** | – |
| Goodwill *(note c)* | **–** | – | **2,451** | 2,451 | **–** | – | **2,451** | 2,451 |
| Effect of fair value adjustment at acquisition *(note c)* | **–** | – | **6,017** | 6,017 | **–** | – | **6,017** | 6,017 |
| Carrying value as at 31 December | **–** | 4,176 | **–** | 22,493 | **355,917** | 358,986 | **355,917** | 385,655 |

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

### Summarised financial information *(Continued)*

Notes:

a. As at 31 December 2017, the Group's proportionate share of loss of two of its associates amounted to RMB37,322,000 and RMB6,601,000 respectively, which exceeded its carrying value of investments in the two associates as at 31 December 2016 amounted to RMB22,493,000 and RMB4,176,000 respectively. Hence, the Group has recognised its share of losses in the two associates up to its investment carrying value of RMB22,493,000 and RMB4,176,000, respectively.

b. The Group contributed Euro9,500,000 (equivalent to RMB69,629,000) to FFG EA in 2016.

c. 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.

## 19. FINANCIAL INSTRUMENTS BY CATEGORY

### Assets as per consolidated statement of financial position

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Debtors and deposits excluding prepayments | **500,279** | 479,562 |
| Amount due from ultimate holding company | **1,053** | 2,110 |
| Amounts due from fellow subsidiaries and an associate of ultimate holding company | **1,476** | 2,518 |
| Amounts due from joint ventures | **852** | 922 |
| Amounts due from associates and subsidiaries of an associate | **119,083** | 81,629 |
| Restricted bank deposits | **32,716** | 33,163 |
| Cash and cash equivalents | **174,211** | 177,946 |
| Total | **829,670** | 777,850 |

*Notes to the Consolidated Financial Statements*

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

**Liabilities as per consolidated statement of financial position**

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Creditors and other payables | **250,632** | 254,387 |
| Amount due to ultimate holding company | **7,400** | 2,388 |
| Amount due to immediate holding company | **2,123** | 619 |
| Amounts due to fellow subsidiaries and associates of ultimate holding company | **3,673** | 5,503 |
| Amounts due to an associate and subsidiaries of an associate | **37,327** | 7,981 |
| Amounts due to joint ventures | **608** | 192 |
| Bank borrowings | **367,428** | 350,772 |
| | **669,191** | 621,842 |

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Trade debtors and bills receivables | **515,275** | 484,785 |
| Less: provision for impairment of trade debtors | **(37,811)** | (33,792) |
| Trade debtors and bills receivables – net | **477,464** | 450,993 |
| Prepayments | **41,662** | 19,521 |
| Others | **22,815** | 28,569 |
| Total debtors, deposits and prepayments | **541,941** | 499,083 |

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 2017 and 2016, the ageing analysis of gross trade debtors and bills receivables based on due date was as follows:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Current – 30 days | **397,841** | 367,010 |
| 31 – 60 days | **6,943** | 10,305 |
| 61 – 90 days | **8,576** | 7,184 |
| 91 – 180 days | **20,052** | 15,989 |
| Over 180 days | **81,863** | 84,297 |
| Trade debtors and bills receivables | **515,275** | 484,785 |

Included in the Group's trade debtors are debtors with an aggregate carrying amount of approximately RMB83,440,000 (2016: RMB109,081,000) which were past due as at 31 December 2017 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:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| 0 – 30 days | **17,009** | 22,887 |
| 31 – 60 days | **6,567** | 10,305 |
| 61 – 90 days | **8,529** | 7,184 |
| 91 –180 days | **13,981** | 15,989 |
| Over 180 days | **37,354** | 52,716 |
| | **83,440** | 109,081 |

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

As of 31 December 2017, trade debtors of RMB37,811,000 (2016: RMB33,792,000) 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:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| 0 – 30 days | **1,724** | 2,211 |
| 31 – 60 days | **61** | – |
| 61 – 90 days | **44** | – |
| 91 –180 days | **119** | – |
| Over 180 days | **35,863** | 31,581 |
| | **37,811** | 33,792 |

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| At 1 January | **33,792** | 36,512 |
| Provision for impairment | **6,850** | 5,068 |
| Impairment losses reversed | **(1,345)** | (7,788) |
| Receivables written off during the year when proved to be uncollectible | **(1,486)** | – |
| At 31 December | **37,811** | 33,792 |

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

Trade debtors 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 debtors 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:

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| RMB | **496,516** | 481,759 |
| USD | **20,211** | 1,777 |
| EUR | **24,044** | 14,716 |
| Other currencies | **1,170** | 831 |
| | **541,941** | 499,083 |

## 21. INVENTORIES

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Raw materials | **80,881** | 71,845 |
| Work in progress | **90,002** | 74,415 |
| Finished goods | **196,770** | 83,605 |
| | **367,653** | 229,865 |
| Provision | **(22,027)** | (27,037) |
| | **345,626** | 202,828 |

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **913,875** | 732,630 |
| Less: Progress billings | **(906,418)** | (723,620) |
| | **7,457** | 9,010 |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Amounts due from contract customers | **50,270** | 40,692 |
| Amounts due to contract customers | **(42,813)** | (31,682) |
| Net amounts due from customers for contract work | **7,457** | 9,010 |

As at 31 December 2017, retention money held by customers for contract work included in debtors amounted to RMB8,225,000 (2016: RMB10,089,000).

## 23. RESTRICTED BANK DEPOSITS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Restricted bank deposits | **32,716** | 33,163 |

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% (2016: 0.4%) per annum.

## 24. CASH AND CASH EQUIVALENTS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cash at bank and on hand | **98,071** | 62,046 |
| Short-term bank deposits | **76,140** | 115,900 |
| Cash and cash equivalents | **174,211** | 177,946 |

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| RMB | **155,112** | 138,132 |
| USD | **10,777** | 11,626 |
| EUR | **7,225** | 25,694 |
| Other currencies | **1,097** | 2,494 |
| | **174,211** | 177,946 |

(b) The effective interest rate on short-term bank deposits ranged from 2.00% to 3.40% (2016: from 1.77% to 3.00%) per annum.

## 25. SHARE CAPITAL

| | Number of shares '000 | Share Capital RMB$'000 |
|---|---|---|
| **Ordinary share of HKD0.01 each** | | |
| **Authorised:** | | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | **1,000,000** | 10,211 |
| **Issued and fully paid:** | | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | **403,200** | 4,022 |

## 26. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Trade creditors | **196,462** | 203,499 |
| Advance deposits from customers | **296,284** | 194,990 |
| Other payables | **54,170** | 50,888 |
| Accrued expenses | **42,776** | 41,360 |
| Total creditors, other payables and accrued charges | **589,692** | 490,737 |

The Group normally receives credit terms of 30 to 60 days. At 31 December 2017 and 2016, the ageing analysis of the trade creditors was as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Current – 30 days | **113,021** | 134,078 |
| 31 – 60 days | **51,625** | 48,156 |
| 61 – 90 days | **7,592** | 5,219 |
| 91 –180 days | **12,499** | 3,062 |
| Over 180 days | **11,725** | 12,984 |
| | **196,462** | 203,499 |

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| RMB | **459,425** | 413,390 |
| USD | **24,056** | 8,177 |
| EUR | **104,157** | 66,599 |
| HKD | **2,054** | 2,531 |
| JPY | **–** | 40 |
| | **589,692** | 490,737 |

## 27. WARRANTY PROVISON

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| At 1 January | **6,018** | 5,791 |
| Provision for the year | **6,282** | 5,044 |
| Utilisation of provision | **(6,545)** | (4,817) |
| At 31 December | **5,755** | 6,018 |

## 28. BANK BORROWINGS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Current | | |
| – Secured | **–** | 1,829 |
| – Unsecured | **367,428** | 348,943 |
| Total bank borrowings | **367,428** | 350,772 |

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

| | 2017 | 2016 |
|---|---|---|
| Effective interest rate | **1.20% to 4.79% per annum** | 1.40% to 4.79% per annum |

The Group's bank borrowings were repayable as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within 1 year | **367,428** | 350,772 |

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:

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| HKD | **92,033** | 13,418 |
| USD | **265,444** | 141,511 |
| EUR | **9,951** | 141,615 |
| RMB | **–** | 54,228 |
| | **367,428** | 350,772 |

*Notes:*

(a) The Group has pledged its prepaid lease payments with carrying amounts of approximately RMB3,352,000 (2016: RMB3,443,000) and buildings with carrying amounts of approximately RMB8,428,000 (2016: RMB9,153,000) as at 31 December 2017 to secure the general banking facilities granted to it. As at 31 December 2017, the Group has not utilised such secured bank facilities (2016: RMB1,829,000).

(b) As at 31 December 2017, the Group's bank facilities of RMB34,608,000 (2016: RMB209,205,000) were guaranteed by irrevocable standby letter of credits issued by banks of which none has been utilised (2016: Nil).

(c) As at 31 December 2017, cross guarantees between subsidiaries of RMB108,000,000 (2016: RMB131,000,000) have been provided to guarantee the bank borrowings of which RMB6,880,000 has been utilised (2016: RMB8,835,000).

(d) As at 31 December 2017, personal guarantees were provided by a director of the Company and a related party of the Group in respect of the Group's bank facilities of RMB78,410,000 (2016: RMB69,370,000).

## 29. DEFERRED TAXATION

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **22,401** | 21,701 |

## 29. DEFERRED TAXATION *(Continued)*

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

| | Allowance for doubtful receivables RMB'000 | Allowance for inventories RMB'000 | Warranty provision RMB'000 | Sales commission RMB'000 | Deferred revenue RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 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 |
| Credit (charge) to profit or loss | 375 | 313 | (47) | 59 | – | 700 |
| At 31 December 2017 | 4,245 | 1,066 | 819 | 976 | 15,295 | 22,401 |

As at 31 December 2017, the Group had unutilised tax losses of approximately RMB66,018,000 (2016: RMB65,498,000) available for offsetting against future profits. No deferred tax asset had been recognised as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Apart from unutilised tax losses as mentioned above, the Group had other deductible temporary differences of RMB152,294,000 (2016: RMB151,830,000) available to offset against future profits as at 31 December 2017. Deductible temporary differences of RMB108,553,000 (2016: RMB103,887,000) had been recognised in deferred tax assets as at 31 December 2017, while RMB43,741,000 (2016: RMB47,943,000) 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:

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| With expiry in: | | |
| 2017 | **–** | 13,043 |
| 2018 | **6,472** | 6,472 |
| 2019 | **5,528** | 5,528 |
| 2020 | **17,808** | 17,808 |
| 2021 | **22,100** | 22,647 |
| 2022 | **14,110** | – |
| | **66,018** | 65,498 |

## 30. DEFERRED REVENUE

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Assets related government grants | **61,180** | 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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Profit before income tax: | **85,066** | 87,650 |
| Adjustments for: | | |
| – Amortisation of prepaid lease payments | **3,032** | 943 |
| – Depreciation of property, plant and equipment | **22,343** | 25,342 |
| – Amortisation of intangible assets | **1,403** | 1,233 |
| – Allowance (reversal) for trade debtors impairment | **5,505** | (2,720) |
| – (Reversal) allowance for inventories impairment | **(2,981)** | 1,550 |
| – Share of (profit) loss of joint ventures | **(1,893)** | 476 |
| – Share of loss of associates | **7,544** | 5,909 |
| – Loss on disposal of property, plant and equipment | **37** | 341 |
| – Interest income | **(4,261)** | (8,201) |
| – Interest expense | **8,803** | 9,897 |
| – Warranty expenses | **6,282** | 5,044 |
| Changes in working capital: | | |
| – Inventories | **(139,817)** | 45,698 |
| – Debtors, deposits and prepayments | **(48,363)** | (46,618) |
| – Amounts due from customers for contract work | **(9,578)** | (3,975) |
| – Amount due from ultimate holding company | **1,057** | (2,110) |
| – Amounts due from joint ventures, fellow subsidiaries and associates of ultimate holding company | **47,654** | (22,234) |
| – Creditors, other payables and accrued charges | **99,237** | 57,239 |
| – Amounts due to customers for contract work | **11,131** | 16,106 |
| – Amount due to ultimate holding company | **5,012** | 2,228 |
| – Amount due to immediate holding company | **1,504** | (1,237) |
| – Amounts due to joint ventures | **416** | (125) |
| – Amounts due to an associate and subsidiaries of an associate | **29,346** | (2,408) |
| – Amounts due to fellow subsidiaries and associates of ultimate holding company | **(1,830)** | (16,161) |
| – Warranty provision | **(6,545)** | (4,817) |
| Cash generated from operations | **120,104** | 149,050 |

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

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

| Group | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Carrying value: | **1,064** | 450 |
| Loss on disposal of property, plant and equipment | **(37)** | (341) |
| Proceeds from disposal of property, plant and equipment | **1,027** | 109 |

## 32. RECONCILIATION OF LIABILITIES ARISING FROM FIANCING ACTICITIES

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

| | **Dividend payable** RMB'000 *(Note 12)* | **Bank borrowings** RMB'000 *(Note 28)* | **Total** RMB'000 |
|---|---|---|---|
| At 1 January 2017 | – | 350,772 | 350,772 |
| Financing cash flows *(note)* | (20,160) | 3,168 | (16,992) |
| Foreign exchange translation | – | 4,685 | 4,685 |
| Interest expenses | – | 8,803 | 8,803 |
| Dividends recognised as distributions | 20,160 | – | 20,160 |
| At 31 December 2017 | – | 367,428 | 367,428 |

*Note:* The financing cash flow of bank borrowings represents the proceeds from and repayment of bank borrowings and interest paid in the consolidated statements of cash flows.

## 33. 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. FFG Werke fully repaid the borrowings under this facility during 2017.

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 2017, no such bank guarantees are arranged under the guarantee procurement deed (2016: Euro8,500,000 (equivalent RMB62,108,000)).

In 2017, Hangzhou Good Friend Precision Machinery Co., Ltd., a wholly-owned subsidiary of the Company ("Hangzhou Good Friend"), issued standby letter of credit with a maximum amount of RMB34,000,000 to guarantee the corresponding amount of the credit facilities to be provided by a bank to FFG Werke. As at 31 December 2017, FFG Werke has drawn down a total amount of Euro4,000,000 (equivalent RMB31,209,000).

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

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

Furthermore, in September 2017, the Company issued a warranty guarantee of Euro2,475,000 (equivalent RMB19,311,000) on behalf of MAG IAS GmbH, a wholly owned subsidiary of MAG, to its customer, which will expire in August 2018.

Management estimates that the default risk of FFG Werke, FFG Europe and MAG Group 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.

## 34. COMMITMENTS

### (a) Capital commitments

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – Construction of plant | **2,615** | – |

### (b) Operating lease commitments

*The Group as lessee*

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year | **8,606** | 9,416 |

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| No later than 1 year | **4,838** | 5,749 |
| Later than 1 year and no later than 5 years | **2,339** | 3,549 |
| | **7,177** | 9,298 |

## 35. RELATED PARTY TRANSACTIONS

Save as disclosed in Note 28 and Note 33, the Group also had the following transactions with its related parties during the year:

(a) Transactions

| Name of company | Relationship | Nature of transactions | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| Fair Friend Enterprise Company Limited ("Fair Friend") | Ultimate holding company | Sales of goods | **191** | 206 |
| | | Purchases of goods | **21,830** | 21,381 |
| | | Purchases of services | **9,802** | 878 |
| Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu") | Associate of ultimate holding company | Purchases of goods | **1,519** | 907 |
| | | Rental income | **3** | 1 |
| | | Rendering of services | **1,027** | 182 |
| Good Friend (H. K.) Corporation Limited ("Hong Kong GF") | Immediate holding company | Purchases of goods | **46,945** | 25,660 |
| Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("Fair Fine") | Fellow subsidiary | Sales of goods | **–** | 1 |
| | | Rental income | **–** | 501 |
| | | Rendering of services | **–** | 598 |
| | | Purchases of goods | **–** | 119 |

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

(a) Transactions *(Continued)*

| Name of company | Relationship | Nature of transactions | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| AIF (controlled by Mr. Wen Chi-Tang) | Joint venture | Sales of goods | **8** | 15 |
| | | Purchases of goods | **483** | 235 |
| | | Rental income | **35** | 22 |
| | | Purchases of services | **10** | – |
| | | Rendering of services | **1,273** | 1,138 |
| Hangzhou Best Friend Technology Co., Ltd. ("Best Friend") | Associate of ultimate holding company | Sales of goods | **3** | – |
| SANCO Machine & Tools Co., Ltd. ("SANCO") | Fellow subsidiary | Purchases of goods | **8,654** | 13,299 |
| Jobs Automazione S.p.A.("Jobs") | Subsidiary of an associate of the Group | Purchases of goods | **44,450** | 30,552 |
| FFG Werke | Associate | Purchases of goods | **219,966** | 33,590 |
| Feeler Mectron | Joint venture | Purchases of goods | **710** | 4,067 |
| | | Rendering of services | **143** | 119 |
| | | Interest income | **–** | 1 |
| | | Rental Income | **34** | – |

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

(a) Transactions *(Continued)*

| Name of company | Relationship | Nature of transactions | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| UFM | Joint venture | Sales of goods | **15** | 15 |
| | | Purchases of goods | **1,556** | 757 |
| | | Rendering of services | **31** | 36 |
| | | Interest income | **23** | 22 |
| Nippon Cable Feeler | Joint venture | Purchases of services | **63** | 75 |
| | | Rendering of services | **21** | 21 |
| | | Rental income | **6** | 6 |
| SMS Holding Co.,Inc. | Subsidiary of an associate of the Group | Sales of goods | **12** | 1,138 |
| FFG DMC Co.,Ltd. | Subsidiary of ultimate holding company | Purchases of goods | **3,757** | 1,040 |
| Equiptop Hitech Corp. | Fellow subsidiary | Sales of goods | **1,420** | – |

*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.

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

(b) Balances

| Name of company | Relationship | Nature of balances | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| Fair Friend | Ultimate holding company | Trade payable *(note (b))* | **(1,460)** | (1,510) |
| | | Advance to *(note (b))* | **1,053** | 2,110 |
| | | Other payable *(note (b))* | **(5,812)** | (878) |
| | | Advance from *(note (b))* | **(128)** | – |
| Hong Kong GF | Immediate holding company | Trade payable *(note (b))* | **(2,123)** | (619) |
| Fair Fine (controlled by Mr. Chen Min-Ho) | Fellow subsidiary | Other receivable *(note (b))* | **–** | 114 |
| | | Trade receivable *(note (a))* | **1** | 7 |
| SANCO | Fellow subsidiary | Trade payable *(note (b))* | **(3,405)** | (5,207) |
| | | Advance to *(note (b))* | **–** | 2,356 |

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of balances | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| Best Friend | Associate of ultimate holding company | Trade receivable *(note (a))* | **2** | 2 |
| | | Advance from *(note (b))* | **–** | (1) |
| Feeler Takamatsu | Associate of ultimate holding company | Other receivable *(note (b))* | **32** | 32 |
| | | Trade payable *(note (b))* | **–** | (23) |
| | | Advance to *(note (b))* | **39** | – |
| AIF (controlled by Mr. Wen Chi-Tang) | Joint venture | Trade receivable *(note (a))* | **1** | 1 |
| | | Other receivable *(note (b))* | **114** | 254 |
| | | Trade payable *(note (b))* | **(191)** | – |

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of balances | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| Feeler Mectron | Joint venture | Trade receivable *(note (a))* | **–** | 58 |
| | | Other receivable *(note (b))* | **22** | 13 |
| | | Other payable *(note (b))* | **(4)** | (4) |
| | | Advance to *(note (b))* | **98** | – |
| | | Trade payable *(note (b))* | **(116)** | – |
| UFM | Joint venture | Trade payable *(note (b))* | **(297)** | (188) |
| | | Other receivable *(note (b))* | **612** | 591 |
| SIGMA Technology S.r.l | Subsidiary of an associate | Advance to *(note (b))* | **–** | 2,127 |
| | | Trade payable *(note (b))* | **–** | (76) |

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of balances | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| Jobs | Subsidiary of an associate | Other receivable *(note (b))* | **3,234** | 7,428 |
| | | Trade payable *(note (b))* | **(3,075)** | (4,615) |
| | | Shareholder loan *(note (b))* | **27,465** | 22,595 |
| | | Other payable *(note (b))* | **(911)** | – |
| | | Advance to *(note (b))* | **737** | – |
| FFG Werke | Associate | Advance to *(note (b))* | **1,357** | 43,025 |
| | | Trade payable *(note (b))* | **(33,341)** | (3,290) |
| | | Shareholder loan *(note (b))* | **41,473** | 4,915 |
| | | Other receivable *(note (b))* | **904** | 862 |
| FFG Europe | Associate | Other receivable *(note (b))* | **766** | 674 |
| | | Shareholder loan *(note (b))* | **16,505** | – |

## Notes to the Consolidated Financial Statements

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

(b) Balances *(Continued)*

| Name of company | Relationship | Nature of balances | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|
| Nippon Cable Feeler | Joint venture | Other receivable *(note (b))* | **5** | 5 |
| Equiptop Hitech Corp. | Fellow subsidiary | Trade receivable *(note (a))* | **–** | 7 |
| | | Trade payable *(note (b))* | **(144)** | (272) |
| | | Advance from *(note (b))* | **(124)** | – |
| SMS Holding Co.,Inc | Subsidiary of an associate | Trade receivable *(note (a))* | **4** | 3 |
| FFG DMC Co.,Ltd. | Subsidiary of ultimate holding company | Advance to *(note (b))* | **668** | 1,040 |
| Ikegai (Shanghai) Machinery & Equipment Co., Ltd | Fellow subsidiary | Advance to *(note (b))* | **734** | – |
| MAG | Subsidiary of an associate | Other receivable *(note (b))* | **575** | – |
| FFG EA | Associate | Shareholder loan *(note (b))* | **26,063** | – |

## 35. 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 2017 and 2016, 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:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Salaries | **2,656** | 2,916 |
| Performance related bonuses | **1,347** | 1,287 |
| Retirement benefit scheme contributions | **107** | 108 |
| | **4,110** | 4,311 |

## 36. PLEDGE OF ASSETS

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Prepaid lease payments | **3,352** | 3,443 |
| Property, plant and equipment | **8,428** | 9,153 |
| Restricted bank deposits | **32,716** | 33,163 |
| | **44,496** | 45,759 |

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.

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

The statement of financial position of the Company as at 31 December 2017 is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | **52,837** | 52,837 |
| Investments in joint ventures | **27,666** | 27,666 |
| Amounts due from subsidiaries | **560,889** | 670,585 |
| | **641,392** | 751,088 |
| **Current assets** | | |
| Debtors, deposits and prepayments | **11,701** | 11,223 |
| Amounts due from associates and subsidiaries of an associate | **115,107** | 35,304 |
| Cash and cash equivalents | **9,521** | 6,817 |
| | **136,329** | 53,344 |
| **Current liabilities** | | |
| Other payables and accrued charges | **7,243** | 7,653 |
| Amounts due to an associate and subsidiaries of an associate | **3,657** | 1,400 |
| Amounts due to ultimate holding company | **5,812** | – |
| Bank borrowings | **367,428** | 280,588 |
| | **384,140** | 289,641 |
| **Net current liabilities** | **(247,811)** | (236,297) |
| **Total assets less current liabilities** | **393,581** | 514,791 |
| **Capital and reserves** | | |
| Share capital | **4,022** | 4,022 |
| Share premium | **82,281** | 82,281 |
| Other reserves | **7,973** | 7,973 |
| Retained earnings | **299,305** | 420,515 |
| **Total equity** | **393,581** | 514,791 |

## 37. 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 2017 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 2016 | 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 |
| **Loss and total comprehensive expense** | – | – | – | (101,050) | (101,050) |
| **Dividends recognised as distributions** | – | – | – | (20,160) | (20,160) |
| At 31 December 2017 | 4,022 | 82,281 | 7,973 | 299,305 | 393,581 |

# Five-Year Financial Summary

## OPERATING RESULTS

For the year ended 31 December

| | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | **2017**<br>**RMB'000** |
|---|---|---|---|---|---|
| Revenue | 1,350,271 | 1,300,119 | 990,239 | 1,082,336 | **1,294,801** |
| Gross profit | 309,771 | 344,894 | 267,925 | 295,151 | **312,515** |
| Profit before income tax | 54,388 | 125,071 | 55,952 | 87,650 | **85,066** |
| **Profit attributable to equity holders of the Company** | 36,868 | 101,313 | 46,097 | 60,749 | **65,690** |
| **Earnings per share – basic (RMB)** | 0.09 | 0.25 | 0.11 | 0.15 | **0.16** |

## ASSETS AND LIABILITIES

As at 31 December

| | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | **2017**<br>**RMB'000** |
|---|---|---|---|---|---|
| Non-current assets | 330,119 | 309,492 | 589,531 | 743,761 | **703,361** |
| Net current assets | 361,656 | 433,321 | 154,908 | 121,487 | **185,223** |
| Non-current liabilities | (18,775) | (16,118) | – | (61,180) | **(61,180)** |
| **Net assets** | 673,000 | 726,695 | 744,439 | 804,068 | **827,404** |
| Share capital | 4,022 | 4,022 | 4,022 | 4,022 | **4,022** |
| Reserves | 668,978 | 722,673 | 740,417 | 800,046 | **823,382** |
| **Shareholders' equity** | 673,000 | 726,695 | 744,439 | 804,068 | **827,404** |