GOOD FRIEND INTERNATIONAL HOLDINGS INC.
友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2398

Interim Report
2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

LO Tai On

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
CHIU Rung-Hsien

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China
Cathay United Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of China
KGI Bank
Mega International Commercial Bank
Yuanta Commercial Bank
Bank SinoPac
Bangkok Bank
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

2398

WEBSITE

http://www.goodfriend.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) grew by a year-on-year rate of 6.8% in the first half of 2018, representing a generally stable economic development in China.

Financial Review

Revenue

For the six months ended 30 June 2018, the Group recorded revenue of approximately RMB558.64 million, representing a decrease of approximately 14.6% as compared to the corresponding period in 2017. During the period under review, sales revenue of CNC machine tools business amounted to approximately RMB471.78 million, representing a decrease of 5.0% as compared to the corresponding period in last year. Revenue of CNC machine tools accounted for approximately 84.4% of the Group's total revenue. On the other hand, sales revenue of the Group's forklift trucks business during the period under review was decreased by 37.3%, as compared to corresponding period in last year, to approximately RMB32.76 million and approximately 5.9% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB54.10 million during the period under review, representing a decrease of approximately 48.7% as compared to corresponding period in last year and accounted for approximately 9.7% of the total revenue.

Gross profit and margin

During the period under review, gross profit of the Group amounted to approximately RMB149.11 million. Overall gross profit margin was approximately 26.7%, compared to 23.8% for the corresponding period in last year. The Group continued to improve its production efficiency and reduce its production cost during the period under review. As a result, the overall gross profit margin for the period under review increased.

Distribution and selling expenses

Distribution and selling expenses for the six months ended 30 June 2018 amounted to approximately RMB67.63 million, representing a decrease of 1.6% as compared to corresponding period in last year. During the period under review, distribution and selling expenses as a percentage of the Group's revenue was approximately 12.1%, compared to 10.5% for the corresponding period in last year.

Administrative expenses

Administrative expenses decreased by approximately 8.1% to approximately RMB34.71 million during the period under review. This was mainly attributable to the stringent control of the expenses by the management.

Finance costs

During the period under review, finance costs increased to approximately RMB6.10 million. This was primarily due to the increase of average bank borrowings of the Group during the period under review.

Share of (loss)/profit of associates

For the six months ended 30 June 2018, share of loss of associates amounted to approximately RMB9.91 million (2017 comparative figures: share of profit of approximately RMB9.91 million). The amount represented the Group's share of results of the associate located in Germany for the period under review.

Profit attributable to the equity holders of the Company

For the six months ended 30 June 2018, profit attributable to the equity holders of the Company amounted to approximately RMB19.83 million, representing a decrease of approximately 45.0% as compared to the same period last year.

Prospects

Tension on trade between China and the United States will be a key uncertainty for China's economic growth. Therefore the management remain cautious about the prospects of the economy of China for the second half of 2018. The Group will keep close track of the global economic trend and market situation in order to capture business opportunities and reduce operation risks. On the other hand, the management will continue to explore and seize various opportunities for development and strategic cooperation with a view to bringing better returns to shareholders. The management is optimistic on the Group's long-term development prospects.

Liquidity and financial resources

The working capital of the Group was mainly financed by internal cash flows generated from its operation and its existing banking facilities. As at 30 June 2018, the Group's cash and cash equivalents amounted to approximately RMB67.08 million (at 31 December 2017: RMB98.07 million). As at 30 June 2018, the Group had net current assets of approximately RMB154.64 million (at 31 December 2017: RMB185.22 million) and short-term bank borrowings of approximately RMB472.14 million (at 31 December 2017: RMB367.43 million). The current ratio (total current assets to total current liabilities) of the Group as at 30 June 2018 was approximately 1.1 (at 31 December 2017: 1.2). The gearing ratio as at 30 June 2018 (total interest bearing liabilities to total assets) was approximately 22.4% (at 31 December 2017: 18.6%), indicated that the Group's overall financial position remained solid.

Capital structure

The share capital of the Company as at 30 June 2018 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2017: HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each).

Staff and remuneration policies

As at 30 June 2018, the Group employed a total of approximately 1,180 full time employees (31 December 2017: 1,240) in Hong Kong and the PRC. The Group's emolument policies are formulated on the basis of market trends, future plans and the performance of individuals, which will be reviewed periodically. Apart from provident fund scheme and state-managed social welfare scheme, share options (if any) may also be awarded to employees according to assessment of individuals' performance.

Capital commitments and contingencies

As at 30 June 2018, the Group had capital expenditure commitments mainly for construction of buildings of approximately RMB92.42 million (at 31 December 2017: RMB2.62 million) which were contracted for but not provided in the consolidated financial statements. The Group had no material contingent liabilities as at 30 June 2018 (at 31 December 2017: Nil).

Charges on the group's assets

As at 30 June 2018, the Group had restricted bank deposits with an amount of approximately RMB16.29 million (at 31 December 2017: RMB32.72 million) which mainly represented deposits placed in banks for guarantees issued for finance facilities used by the Group or associate and subsidiaries of an associate.

Subsidiaries of the Company had pledged their land use rights and building with an aggregate carrying amount of RMB11.37 million (31 December 2017: RMB11.78 million) as at 30 June 2018 in order to secure banking facilities granted to the Group.

DISCLOSURE OF INTERESTS

Directors' interest in shares

As at 30 June 2018, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

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

(a) Interests in the Company

Name of Director	Nature of interest	Number and class of securities	Approximate percentage of the issued shares as at 30 June 2018
Mr. Chu Chih-Yaung ("Mr. Chu")	Corporate interest	20,000,000 *(Note)*	4.96%

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

(b) Interests in the associated corporations of the Company

Name of Directors	Name of associated corporations	Nature of interest	Number and class of securities	Approximate percentage of shareholdings as at 30 Jun 2018
Mr. Chu	Taiwan FF	Beneficial owner	15,618,255 ordinary shares	15.25%
	Taiwan FF	Spouse interest *(Note 1)*	2,631,926 ordinary shares	2.57%
	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 ("Ms. Wang"), the spouse of Mr. Chu, held 2.57% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

(2) Fair Fine (Hongzhou) Industrial Co., Ltd. is a non-wholly-owned subsidiary of Taiwan FF and is therefore an associated corporation of the Company for the purpose of the SFO.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interest of long position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

   As at 30 June 2018, none of the Directors or chief executive of the Company, had any interest of short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Save for the share option scheme of the Company adopted on 2 June 2016, no time during the period under review, were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age; or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement (other than the share option scheme as disclosed below) to enable the Directors to acquire such rights or benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Share option scheme

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

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

Substantial shareholders

As at 30 June 2018, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

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

Name of shareholders	Nature of interest	Number of ordinary shares held	Approximate percentage of the issued shares as at 30 June 2018
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 was owned as to approximately 99.99% by Taiwan FF. Accordingly, Taiwan FF was deemed to be interested in the long position of 232,000,000 shares of the Company held by Hong Kong GF under the SFO.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2018.

OTHER INFORMATION

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

The Company is not aware of change of information of directors of the Company since the 2017 Annual Report which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Interim dividend

The Board has declared an interim dividend of RMB0.05 (equivalent to approximately HK$0.0576 according to the average middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 30 August 2018) per share for the six months ended 30 June 2018 (2017: RMB0.05), in aggregate amounting to approximately RMB20.16 million (equivalent to approximately HK$23.22 million) (2017: RMB20.16 million).

The interim dividend is declared and calculated in Renminbi and will be paid in Hong Kong dollars. The dates of closure of register of members of the Company for the purpose of determining the identity of the shareholders of the Company entitled to the interim dividend and payment date will be announced later.

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

Model code for securities transactions by directors

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

Corporate governance

The Company has complied with the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2018 except the following.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Chu Chih-Yaung, was unable to attend the annual general meeting of the Company held on 7 June 2018 due to business trip. Mr. Chen Hsiang-Jung, an executive Director of the Company, took the chair of the annual general meeting pursuant to the Articles of Association of the Company.

Audit committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code which comprises three independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the unaudited financial information of the Group for the six months ended 30 June 2018. The Company's external auditor, Deloitte Touche Tomatsu, has conducted a review of the interim financial information of the Group for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Nomination committee

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

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

Remuneration committee

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

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

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

Hong Kong, 30 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 68, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	5A	558,638	654,396
Cost of revenue	5B	(409,529)	(498,616)
Gross profit		149,109	155,780
Other income	6	29,925	23,103
Distribution and selling expenses		(67,629)	(68,704)
Administrative expenses		(34,713)	(37,756)
Research and development costs		(15,030)	(14,355)
Other operating expenses		(688)	(3,115)
Other gains and losses		(16,444)	(14,904)
Finance costs		(6,096)	(4,156)
Share of profit of joint ventures		1,620	261
Share of (loss) profit of associates	13	(9,913)	9,914
Profit before income tax	7	30,141	46,068
Income tax expense	8	(10,316)	(10,047)
Profit attributable to owners of the Company		19,825	36,021
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income (expense) of associates		41	(26)

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Items that may be subsequently reclassified to profit or loss:			
Share of other comprehensive income (expense) of associates		11,359	(24,876)
Exchange difference arising on translation of foreign operations		(5,874)	23,829
Net fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		1,293	–
Expected credit losses on receivables at FVTOCI		2,310	–
		9,088	(1,047)
		9,129	(1,073)
Total comprehensive income attributable to owners of the Company		28,954	34,948
Earnings per share (expressed in RMB per share)			
– Basic	9	0.05	0.09

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS of 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		190,459	180,401
Prepaid lease payments		121,600	123,052
Intangible assets		2,551	3,203
Investments in joint ventures	12	20,007	18,387
Investments in associates	13	350,596	355,917
Deferred income tax assets	14	27,483	22,401
		712,696	703,361
Current assets			
Inventories		512,065	345,626
Debtors, deposits and prepayments	15	98,405	541,941
Receivables at FVTOCI	16	443,757	–
Amounts due from customers for contract work		–	50,270
Prepaid lease payments		2,905	2,905
Amount due from ultimate holding company	25	1,056	1,053
Amounts due from fellow subsidiaries and associates of ultimate holding company	25	81	1,476
Amounts due from joint ventures	25	1,329	852
Amounts due from associates and subsidiaries of an associate	25	136,831	119,083
Restricted bank deposits		16,286	32,716
Structured deposits	18	–	76,140
Financial assets at fair value through profit or loss ("FVTPL")	18	116,700	–
Bank balances and cash		67,083	98,071
		1,396,498	1,270,133

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Current liabilities			
Creditors, other payables and accrued charges	19	267,676	589,692
Contract liabilities		436,592	–
Amounts due to customers for contract work		–	42,813
Amount due to ultimate holding company	25	3,005	7,400
Amount due to immediate holding company	25	1,512	2,123
Amounts due to fellow subsidiaries and associates of ultimate holding company	25	3,404	3,673
Amounts due to an associate and subsidiaries of an associate	25	32,268	37,327
Amounts due to joint ventures	25	478	608
Current income tax liabilities		19,392	28,091
Bank borrowings	20	472,142	367,428
Warranty provision		5,387	5,755
		1,241,856	1,084,910
Net current assets		154,642	185,223
Total assets less current liabilities		867,338	888,584
Non-current liability			
Deferred income	22	61,180	61,180
Net assets		806,158	827,404
Capital and Reserves			
Share capital	21	4,022	4,022
Share premium		82,281	82,281
Capital reserves		77,338	77,338
Other reserves		51,384	39,576
Retained earnings		591,133	624,187
Total equity		806,158	827,404

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
At 1 January 2017 (audited)	4,022	82,281	77,338	61,248	579,179	804,068
Profit for the period	–	–	–	–	36,021	36,021
Other comprehensive (expense) income						
Share of other comprehensive expense of associates *(note 13)*	–	–	–	(24,876)	(26)	(24,902)
Exchange difference arising on translation of foreign operations	–	–	–	23,829	–	23,829
	–	–	–	(1,047)	(26)	(1,073)
Total comprehensive (expense) income	–	–	–	(1,047)	35,995	34,948
At 30 June 2017 (unaudited)	4,022	82,281	77,338	60,201	615,174	839,016
At 31 December 2017 (audited)	4,022	82,281	77,338	39,576	624,187	827,404
Effect arising from adoption of HKFRS 9	–	–	–	2,720	(5,755)	(3,035)
Effect arising from adoption of HKFRS 15	–	–	–	–	(22,973)	(22,973)
Adjusted balance at 1 January 2018	4,022	82,281	77,338	42,296	595,459	801,396

	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserves *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Profit for the period	–	–	–	–	19,825	19,825
Other comprehensive income (expense)						
Share of other comprehensive income of associates *(note 13)*	–	–	–	11,359	41	11,400
Exchange difference arising on translation of foreign operations	–	–	–	(5,874)	–	(5,874)
Net fair value gain on receivables at FVTOCI	–	–	–	1,293	–	1,293
Expected credit losses on receivables at FVTOCI	–	–	–	2,310	–	2,310
	–	–	–	9,088	41	9,129
Total comprehensive income	–	–	–	9,088	19,866	28,954
Dividend recognised as distributions *(note 10)*	–	–	–	–	(24,192)	(24,192)
At 30 June 2018 (unaudited)	4,022	82,281	77,338	51,384	591,133	806,158

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash used in operations	(38,873)	(10,642)
Income tax and withholding tax paid	(9,108)	(11,744)
Net cash used in operating activities	(47,981)	(22,386)
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(21,224)	(3,721)
Repayment from associates and subsidiaries of an associate	48,393	1,454
Advance to associates and subsidiaries of an associate	(63,570)	(4,371)
Proceeds from disposal of property, plant and equipment	335	403
Acquisition of prepaid lease payments	–	(5,134)
Purchase of financial assets at FVTPL	(220,210)	–
Withdrawal of financial assets at FVTPL	179,650	–
Purchase of structured deposits	–	(35,500)
Withdraw of structured deposits	–	61,130
Interest received	1,652	886
Withdrawal (placement) of restricted bank deposits	16,430	(174)
Net cash from (used in) investing activities	(58,544)	14,973

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
New bank borrowings raised	481,867	585,095
Repayment of bank borrowings	(377,153)	(587,029)
Dividend paid	(24,192)	–
Interest paid	(6,096)	(4,156)
Net cash from (used in) financing activities	74,426	(6,090)
Net decrease in cash and cash equivalents	(32,099)	(13,503)
Cash and cash equivalents at the beginning of the period	98,071	62,046
Effect of foreign exchange rate changes	1,111	992
Cash and cash equivalent at the end of the period	67,083	49,535

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. These condensed consolidated financial statements were approved for issue by the Board of Directors on 30 August 2018.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA that are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the design and production of:

- Machine Tools
- Parking Garage Structures
- Forklift Trucks

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Warranties

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

3.1.2 Summary of effects arising from initial application of HKFRS 15

The impact of transition to HKFRS 15 arising from the initial application of HKFRS 15 on the Group's machine tools and forklift trucks segments were insignificant on retained profits as of 1 January 2018.

The Group's revenue from sales of machine tools and forklift trucks are recognised when goods are delivered, title has been passed, and goods inspected and accepted by the customer.

Under HKAS 11, the Group's revenue from 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. Upon adoption of HKFRS 15, taking into account the contract terms, the legal and regulatory environment in the People's Republic of China (the "PRC"), the Group's revenue from parking garage structures does not fulfil the criteria for revenue to be recognised over time and thus the Group's revenue from parking garage structures is recognised at a point in time when the customer obtains control of the distinct good.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following table summarises the impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

	Note	Impact of adoption of HKFRS 15 at 1 January 2018 *RMB'000*
Retained earnings		
Revenue from parking garage structures recognised at a point in time	*(a)*	147,884
Recognition of cost of revenue	*(a)*	(120,857)
Deferred income tax effect	*(a)*	(4,054)
Impact at 1 January 2018		22,973

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as of 1 January 2018. Line items that were not affected by the change have not been included.

	Notes	Carrying amounts previously reported as of 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under HKFRS 15 as of 1 January 2018* RMB'000
Deferred income tax assets	*(a)*	22,401	–	4,054	26,455
Inventories	*(a)*	345,626	–	120,857	466,483
Amounts due from customers for contract work	*(a)*	50,270	–	(50,270)	–
Creditors, other payables and accrued charges	*(c)*	(589,692)	296,284	–	(293,408)
Contract liabilities	*(a) (b) (c)*	–	(339,097)	(97,614)	(436,711)
Amounts due to customers for contract work	*(b)*	(42,813)	42,813	–	–

* The amounts in this column are before the adjustments from the application of HKFRS 9.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Notes:

(a) In relation to the parking garage structures contracts that are not completed as of 1 January 2018, the amount of revenue previously recognised in profit or loss prior to 1 January 2018 amounted to RMB147,884,000 was adjusted to amounts due from customers for contract work and contract liabilities amounted to RMB50,270,000 and RMB97,614,000, respectively. The corresponding cost of revenue previously recognised in profit or loss prior to 1 January 2018 amounted to RMB120,857,000 was adjusted to inventories. The deferred income tax effect amounted to RMB4,054,000 was adjusted to deferred income tax assets.

(b) In relation to parking garage structures contracts previously accounted under HKAS 11, amounts due to customers for contract work of RMB42,813,000 were reclassified to contract liabilities.

(c) As of 1 January 2018, the Group received advance deposits from customers of RMB296,284,000 which were reclassified to contract liabilities upon adoption of HKFRS 15.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summaries the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as of 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported *RMB'000*	Adjustments *RMB'000*	Amounts without application of HKFRS 15 *RMB'000*
Non-current assets			
Deferred income tax assets	27,483	(3,779)	23,704
Current assets			
Inventories	512,065	(129,213)	382,852
Amounts due from customers for contract work	–	63,665	63,665
Current liabilities			
Contract liabilities	436,592	(436,592)	–
Amounts due to customers for contract work	–	52,414	52,414
Creditors, other payables and accrued charges	267,676	289,768	557,444
Equity			
Retained earnings	595,459	24,533	619,992

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Impact on the condensed consolidated profit or loss and other comprehensive income

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Revenue	558,638	10,191	568,829
Cost of revenue	(409,529)	(8,356)	(417,885)
Gross profit	149,109	1,835	150,944
Profit before taxation	30,141	1,835	31,976
Income tax expense	(10,316)	(275)	(10,591)
Profit attributable to owners of the Company	19,825	1,560	21,385
Total comprehensive income attributable to owners of the Company	26,644	1,560	28,204

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and financial guarantee contracts and 3) general hedge accounting.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as of 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as of 1 January 2018. The difference between carrying amounts as of 31 December 2017 and the carrying amounts as of 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the 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.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the 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.

By default, all other financial assets are subsequently measured at fair value.

Despite the aforegoing, the Group may irrevocably designate a debt investment that meets the amortised cost criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see accounting policies below) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Receivables at FVTOCI

Subsequent changes in the carrying amounts for receivables at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in OCI and accumulated under the heading of other reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables, 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 and restricted bank balances) and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade receivables from ultimate holding company, joint ventures, fellow subsidiaries, associates of ultimate holding company, associates and subsidiaries of an associate. The ECL on these assets are assessed individually for debtors with significant balances or credit rating and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

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

Definition of default

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

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Definition of default (Continued)

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

Measurement and recognition of ECL

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

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and trade nature receivables from ultimate holding company, joint ventures, fellow subsidiaries, associates of ultimate holding company, associates and subsidiaries of an associate where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in equity without reducing the carrying amounts of these receivables.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9 and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As of 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Receivables at FVTOCI *RMB'000*	Amortised cost (previously classified as loans and receivables) *RMB'000*	Deferred income tax assets *RMB'000*	Structured deposits *RMB'000*	Financial assets at FVTPL *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*
Closing balance as of 31 December 2017 – HKAS 39		–	541,941	22,401	76,140	–	39,576	624,187
Effect arising from initial application of HKFRS 15		–	–	4,054	–	–	–	(22,973)
Reclassification								
From loans and receivables		477,464	(477,464)	–	–	–	–	–
From structured deposits		–	–	–	(76,140)	76,140	–	–
Remeasurement								
From amortised cost to fair value	(i)	(3,654)	–	548	–	–	(3,106)	–
Impairment under ECL model	(ii)	–	–	71	–	–	5,826	(5,755)
Opening balance as of 1 January 2018		473,810	64,477	27,074	–	76,140	42,296	595,459

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

(i) Reclassification of trade receivables and bills receivables from loans and receivables to FVTOCI

As part of the Group's cash flow management, the Group has the practice of endorsing some of the bills receivables before the bills are due for payment. Accordingly, the Group's bills receivables of RMB128,055,000 and trade receivables of RMB387,220,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value loss of RMB3,654,000 and related deferred income tax assets of RMB548,000 were adjusted to debt instruments at FVTOCI and other reserves as of 1 January 2018.

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and trade nature receivables from ultimate holding company, joint venture, fellow subsidiaries, associates of the ultimate holding company, associates and subsidiaries of an associate. To measure the ECL, trade receivables and trade nature receivables from ultimate holding company, joint venture, fellow subsidiaries, associates of the ultimate holding company, associates and subsidiaries of an associate are assessed individually for debtors with significant balances or credit rating and/or collectively using a provision matrix with appropriate grouping.

Loss allowances for receivables at FVTOCI and other financial assets at amortised cost mainly comprise of other receivables, non-trade balance receivables from ultimate holding company, joint venture, fellow subsidiaries, associates of ultimate holding company, associates and subsidiaries of an associate, receivables at FVTOCI and restricted bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees provided to an associate and its subsidiaries of Euro9,610,000 (equivalent to RMB73,904,000), the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

(ii) Impairment under ECL model (Continued)

As of 1 January 2018, the additional credit loss allowance of RMB5,826,000 has been recognised in other reserves, and related deferred income tax credit of RMB71,000 have been recognised against retained profits. The additional loss allowance is charged against the respective asset and deferred income tax assets is recognised.

Loss allowances for financial assets at amortised cost, the trade receivables as of 31 December 2017 reconciled to the opening loss allowance as of 1 January 2018 is as follows:

	RMB'000
As of 31 December 2017 – HKAS 39	(37,811)
Amounts remeasured through opening retained earnings	(5,826)
As of 1 January 2018	(43,637)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *RMB'000*	HKFRS 9 *RMB'000*	HKFRS 15 *RMB'000*	1 January 2018 (Restated) *RMB'000*
Non-current assets				
Deferred income tax assets	22,401	619	4,054	27,074
Others with no adjustments	680,960	–	–	680,960
	703,361	619	4,054	708,034
Current assets				
Inventories	345,626	–	120,857	466,483
Debtors, deposits and prepayments	541,941	(477,464)	–	64,477
Receivables at FVTOCI	–	473,810	–	473,810
Amounts due from customers for contract work	50,270	–	(50,270)	–
Structured deposits	76,140	(76,140)	–	–
Financial assets at FVTPL	–	76,140	–	76,140
Others with no adjustments	256,156	–	–	256,156
	1,270,133	(3,654)	70,587	1,337,066
Current liabilities				
Creditors, other payables and accrued charges	589,692	–	(296,284)	293,408
Contract liabilities	–	–	436,711	436,711
Amounts due to customers for contract work	42,813	–	(42,813)	–
Others with no adjustments	452,405	–	–	452,405
	1,084,910	–	97,614	1,182,524

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation (Continued)

	31 December 2017 (Audited) RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 (Restated) RMB'000
Net current assets	185,223	(3,654)	(27,027)	154,542
Total assets less current liabilities	888,584	(3,035)	(22,973)	862,576
Non-current liability				
Deferred income	61,180	–	–	61,180
Net assets	827,404	(3,035)	(22,973)	801,396
Capital and reserves				
Other reserves	39,576	2,720	–	42,296
Retained earnings	624,187	(5,755)	(22,973)	595,459
Others with no adjustments	163,641	–	–	163,641
Total equity	827,404	(3,035)	(22,973)	801,396

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's initially adopted accounting policies in current interim period, which are described in note 3, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if revision affects both current and future periods.

Critical judgements in applying accounting policies

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

Judgement in determining the timing of satisfaction of performance obligations

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies (Continued)

Judgement in determining the timing of satisfaction of performance obligations (Continued)

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

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

Key sources of estimation uncertainty

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

Impairment of financial assets

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

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of loss allowance for ECL on trade receivables, other receivables, receivables at FVTOCI, amounts due from ultimate holding company, joint ventures, fellow subsidiaries, associates of the ultimate holding company, associates and subsidiaries of an associate based on the credit risk of the financial assets. The estimation of the credit risk of the financial assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

5A. REVENUE FROM GOODS

Disaggregation of revenue

For the six months ended 30 June 2018

	Machine Tools *RMB'000*	Parking Garage Structures *RMB'000*	Forklift Trucks *RMB'000*	Total *RMB'000*
Types of goods (recognised at a point in time)				
Machine tools	471,784	–	–	471,784
Parking garage structures	–	54,096	–	54,096
Forklift trucks	–	–	32,758	32,758
	471,784	54,096	32,758	558,638

The Group's sales are made in the PRC.

5B. SEGMENT INFORMATION

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

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

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

5B. SEGMENT INFORMATION (Continued)

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

Six months ended 30 June 2018 (unaudited)	Machine Tools *RMB'000*	Parking Garage Structures *RMB'000*	Forklift Trucks *RMB'000*	Total Group *RMB'000*
Revenue (all from external sales)	471,784	54,096	32,758	558,638
Cost of revenue	(337,150)	(43,270)	(29,109)	(409,529)
Segment profit	134,634	10,826	3,649	149,109

Six months ended 30 June 2017 (unaudited)	Machine Tools *RMB'000*	Parking Garage Structures *RMB'000*	Forklift Trucks *RMB'000*	Total Group *RMB'000*
Revenue (all from external sales)	496,774	105,401	52,221	654,396
Cost of revenue	(364,954)	(87,682)	(45,980)	(498,616)
Segment profit	131,820	17,719	6,241	155,780

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

Segment assets and liabilities

No segment assets and liabilities information is provided as no such information is regularly provided to the Executive Directors on making decision for resources allocation and performance assessment.

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**1,704**	1,425
Sales of materials	**6,736**	3,334
Repair income	**5,585**	5,870
Government subsidies*	**13,266**	10,340
Rental income	**248**	103
Others	**2,386**	2,031
	29,925	23,103

* Government subsidies mainly represent the refund of value-added tax in relation to software embedded in the sales of machine tools and parking garage structures. The Group recognised the government subsidies in the condensed consolidated statement of profit or loss and other comprehensive income which had no condition imposed in the subsidy notice or relevant law and regulations.

7. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expense	409,529	447,904
Allowance for bad and doubtful debts, net	4,597	9,678
Amortisation of intangible assets	732	692
Amortisation of prepaid lease payment	1,452	1,580
Depreciation of property, plant and equipment	10,633	11,561
Total depreciation and amortisation	12,817	13,833
Capitalised in inventories	(5,573)	(4,921)
	7,244	8,912
Analysed as:		
Charged in selling expense	466	550
Charged in administrative expenses	4,801	6,906
Charged in other operating expense	1,132	348
Charged in research expenditure	845	1,108
	7,244	8,912
Allowance for inventories, net	838	1,426
Net gain on disposal of property, plant and equipment	(117)	(162)
Net exchange loss	11,964	6,234
Provision for warranty	2,120	2,917
Direct operating expenses incurred for rental income	611	543

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 *RMB'000* (Unaudited)	2017 *RMB'000* (Unaudited)
Current Enterprise Income Tax ("EIT")	**10,953**	11,206
Deferred tax	**(637)**	(1,159)
	10,316	10,047

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

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

EIT is provided at 25% for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). Hangzhou Good Friend renewed its New and High-Tech Enterprise status in 2018, 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 2018. Accordingly, the applicable tax rate for Hangzhou Good Friend for current review period is 15% (six months ended 30 June 2017:15%).

In according to Detailed Implementation Regulations for implementation of the EIT law of PRC issued on 6 December 2007, dividends paid out by companies established in the PRC to their then foreign investors is subject to 10% withholding tax from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%. The directors of the Company have assessed that no dividends will be declared by any of the PRC subsidiaries in the foreseeable future so it is concluded that no withholding tax shall be accrued on the 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. In the interim period, no dividend was declared and paid by the PRC subsidiaries.

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company amounted to RMB19,825,000 (six months period ended 30 June 2017: RMB36,021,000) by the number of ordinary shares in issue during the period of 403,200,000 shares (six months period ended 30 June 2017: 403,200,000 shares).

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Basic earnings per share (RMB per share)	0.05	0.09

No diluted earnings per share was presented as there were no potential dilutive ordinary shares in issue for both periods.

10. DIVIDENDS

During the current interim period, a final dividend of RMB0.06 per ordinary share in respect of the year ended in 31 December 2017 (six months ended 30 June 2017: Nil) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB24,192,000 (six months ended 30 June 2017: Nil)

At a meeting of the board of directors held on 30 August 2018, the directors of the Company have declared an interim dividend of RMB0.05 per share for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB0.05 per share). The proposed interim dividend was not recognised as dividend payable in the condensed consolidated financial statements for the six months ended 30 June 2018.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and equipment with an aggregate carrying amount of RMB281,000 (six months ended 30 June 2017: RMB241,000) for proceeds of RMB335,000 (six months ended 30 June 2017: RMB403,000), resulting in a gain on disposal of RMB117,000 (six months ended 30 June 2017: net gain on disposal RMB162,000). In addition, the Group spent RMB21,143,000 (six months ended 30 June 2017: RMB3,575,000) on additions to plant and equipment.

12. INVESTMENTS IN JOINT VENTURES

	As of 30 June 2018 RMB'000 (Unaudited)	As of 31 December 2017 RMB'000 (Audited)
Cost of unlisted investments in joint ventures	27,666	27,666
Share of post-acquisition loss	(7,659)	(9,279)
	20,007	18,387

13. INVESTMENTS IN ASSOCIATES

	As of 30 June 2018 RMB'000 (Unaudited)	As of 31 December 2017 RMB'000 (Audited)
Cost of unlisted investments in associates	415,701	415,701
Share of post-acquisition loss and other comprehensive income	(90,656)	(92,143)
Exchange difference arising on translation of foreign operations	25,551	32,359
	350,596	355,917

13. INVESTMENTS IN ASSOCIATES (Continued)

The Group's share of the results in associates for the six months ended 30 June 2018 and the aggregate assets and liabilities of the associates as of 30 June 2018 are shown below:

	RMB'000
Assets	5,381,154
Liabilities	4,746,967
Revenue	2,167,394
Share of loss	(9,913)
Share of other comprehensive income (*)	11,400

* The share of other comprehensive income represents the aggregate of the share of exchange differences on translation of foreign operations of RMB11,359,000 and the re-measurement gains on defined benefit plans of RMB41,000.

14. DEFERRED TAX ASSETS

The followings are the major deferred tax assets recognised and movements thereon during the current and preceding interim periods:

	Allowance for doubtful receivables *RMB'000*	Allowance for inventories *RMB'000*	Warranty provision *RMB'000*	Sales commission *RMB'000*	Deferred income *RMB'000*	Others *RMB'000*	Total *RMB'000*
As of 1 January 2017 (audited)	3,870	753	866	917	15,295	–	21,701
Credit (charge) to profit or loss	932	209	22	(4)	–	–	1,159
As of 30 June 2017 (unaudited)	4,802	962	888	913	15,295	–	22,860
(Charge) credit to profit or loss	(557)	104	(69)	63	–	–	(459)
As of 31 December 2017 (audited)	4,245	1,066	819	976	15,295	–	22,401
Effect arising on adoption of HKFRS 15	–	–	–	–	–	4,054	4,054
Effect arising on adoption of HKFRS9	619	–	–	–	–	–	619
Adjusted balance at 1 January 2018	4,864	1,066	819	976	15,295	4,054	27,074
Credit to OCI	(228)	–	–	–	–	–	(228)
(Charge) credit to profit or loss	462	(35)	(46)	256	–	–	637
As of 30 June 2018 (unaudited)	5,098	1,031	773	1,232	15,295	4,054	27,483

15. DEBTORS, DEPOSITS AND PREPAYMENTS

	As of	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables and bills receivables	–	515,275
Less: provision for impairment of trade receivables	–	(37,811)
Trade receivables	–	477,464
Prepayments	42,595	41,662
Others	55,810	22,815
Total debtors, deposits and prepayments	98,405	541,941

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

	As of	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current – 30 days	–	397,841
31 – 60 days	–	6,943
61 – 90 days	–	8,576
91 – 180 days	–	20,052
Over 180 days	–	81,863
Trade receivables and bills receivables	–	515,275

15. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date on which the credit was initially granted and up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not changed during current reporting period.

16. RECEIVABLES AT FVTOCI

	As of 30 June 2018 *RMB'000* (Unaudited)
Receivables at FVTOCI comprise:	
Trade receivables	356,807
Trade receivables supported by bills	86,950
	443,757
The aged analysis of receivables at FVTOCI: (note)	
Current – 30 days	334,523
31 – 60 days	6,023
61 – 90 days	7,487
91 – 180 days	15,923
Over 180 days	79,801
	443,757

Note: The aged analysis of receivables at FVTOCI, net of fair value remeasurement under the requirement of HKFRS 9, was presented based on the past due date at the end of the reporting period.

16. RECEIVABLES AT FVTOCI (Continued)

Movement of ECL on receivables at FVTOCI:

	RMB'000
Balance as of 31 December 2017 (audited)	37,811
Remeasurement of loss allowance under ECL	5,826
Adjusted balance as of 1 January 2018	43,637
ECL	4,597
Amounts written off as uncollectible	(2,287)
Balance as of 30 June 2018 (unaudited)	45,947

17. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

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

As part of the Group's credit risk management, the Group assesses individually for debtors with significant balances or credit rating and/or collectively using a provision matrix with appropriate grouping. For collective assessment, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

As of 30 June 2018, the impairment allowance is provided in the amount of RMB45,947,000, among which RMB7,386,000 was made based on the provision matrix and RMB38,561,000 was assessed individually on the debtors with significant balances.

18. FINANCIAL ASSETS AT FVTPL/STRUCTURED DEPOSITS

The Group entered into structured deposits with banks, the return of these investments is not guaranteed.

On 1 January 2018, the Group adopted HKFRS 9 and the structured deposits were mandatorily measured at FVTPL.

19. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

	As of	
	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Trade creditors	178,132	196,462
Advance deposits from customers	–	296,284
Other payables	48,542	54,170
Accrued expenses	41,002	42,776
Total creditors, other payables and accrued charges	267,676	589,692

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

	As of	
	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Current – 30 days	116,230	113,021
31 – 60 days	22,724	51,625
61 – 90 days	5,924	7,592
91 – 180 days	12,597	12,499
Over 180 days	20,657	11,725
	178,132	196,462

20. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB481,867,000 (31 December 2017: RMB585,095,000). The loans carry interest at variable market rates ranging from 1.20% to 3.57% per annum and are repayable in instalments over a period of 1 year.

21. SHARE CAPITAL

	Number of shares	Nominal value
	'000	*RMB'000*
Ordinary shares of HK$0.01 each		
Authorised:		
As of 1 January 2017 (audited), 30 June 2017 (unaudited), 31 December 2017 (audited) and 30 June 2018 (unaudited)	**1,000,000**	10,211
Issued and fully paid:		
As of 1 January 2017 (audited), 30 June 2017 (unaudited), 31 December 2017 (audited) and 30 June 2018 (unaudited)	**403,200**	4,022

22. DEFERRED INCOME

	As of	
	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
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.

23. CAPITAL COMMITMENTS

	As of	
	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Capital expenditure contracted for but not provided in respect of construction of buildings	92,423	2,615

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as of 30 June 2018 (unaudited)	Fair value as of 31 December 2017 (audited)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Structured deposits	–	Structured deposits RMB76,140,000	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Actual yield from the investment
Financial assets at FVTPL	Structured deposits RMB116,700,000	–	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Actual yield from the investment
Receivables at FVTOCI	Receivables at FVTOCI RMB443,757,000	–	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the cash flows to be derived from the receivables.	Discount rate

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

The Directors consider that the carrying amount of financial assets recorded at amortised cost in the condensed consolidated financial statements approximates their fair value. There was no transfer between Level 1 and 3 during the current interim period.

The following table represents the changes in Level 3 receivables at FVTOCI and structured deposits during the six months ended 30 June 2018:

	Receivables at FVTOCI as of 30 June 2018 *RMB'000* (Unaudited)	Financial assets at FVTPL as of 30 June 2018 *RMB'000* (Unaudited)
At beginning of the period	–	–
Reclassification from debtors, deposits and prepayments	477,644	–
Reclassification from structured deposits	–	76,140
Adjusted balance at beginning of the period	477,464	76,140
Total gain in other comprehensive income	1,293	–
Addition	544,445	220,210
Disposal	(579,445)	(179,650)
At the end of the reporting period	443,757	116,700

All gains included in other comprehensive income relate to receivables at FVTOCI held at the end of the reporting period and are reported as changes of other reserves.

25. RELATED PARTY TRANSACTIONS

(1) Transaction and balances

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

Transactions

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Ultimate holding company				
Fair Friend Enterprise Company Limited ("Fair Friend")	Ultimate holding company	Sales of goods	429	84
		Purchases of goods	13,400	13,521
		Receivable of Service	–	390
Immediate holding company				
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Immediate holding company	Purchases of goods	27,027	21,347
Fellow subsidiaries and associates of ultimate holding company				
Sanco Machine & Tools Corporation ("SANCO")	Fellow subsidiary	Purchases of goods	–	5,328
EQUIPTOP HITECH CORP.	Fellow subsidiary	Sales of goods	–	1,420
Ikegai (Shanghai) Machinery & Equipment Co., Ltd	Fellow subsidiary	Purchase of goods	1,463	–
Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Feeler Takamatsu")	Associate of ultimate holding company	Purchase of goods	–	1,519
		Sales of service	93	562
		Rental income	22	–
		Sales of goods	326	–
Hangzhou Best Friend Technology Co., Ltd. ("Best Friend")	Associate of ultimate holding company	Sales of goods	–	1

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Transactions (Continued)

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Joint ventures				
Anest Iwata Feeler Corporation ("AIF")	Joint venture	Purchases of goods	39	110
		Sales of goods	17	5
		Sales of service	602	645
		Rental income	32	11
		Receivable of service	7	–
Hangzhou Feeler Mectron Machinery Co., Ltd. ("Feeler Mectron")	Joint venture	Sales of service	130	66
		Purchases of goods	834	707
		Rental income	34	34
Hangzhou Union Friend Machinery Co., Ltd ("UFM")	Joint venture	Sales of goods	4	11
		Purchase of goods	1,118	580
		Sales of service	18	18
		Interest income	12	12
Hangzhou Nippon Cable Feeler Corporation ("Nippon Cable Feeler")	Joint venture	Purchase of service	13	29
		Sales of service	9	9
Associate and subsidiary of an associate				
FFG Werke GmbH ("FFG Werke")	Associate	Purchase of goods	–	153,353
SMS Holding Co.,INC.	Subsidiary of an associate of the Group	Sales of goods	7	4

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

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances

Name of company	Relationship	Nature of balances	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Ultimate holding company				
Fair Friend	Ultimate holding company	Trade payable *(note (b))*	(2,576)	(1,460)
		Advance to *(note (b))*	1,015	1,053
		Other payable *(note (b))*	(301)	(5,812)
		Advance from *(note (b))*	(128)	(128)
		Trade receivable *(note (b))*	41	–
Amount due from ultimate holding company			1,056	1,053
Amount due to ultimate holding company			(3,005)	(7,400)
Immediate holding company				
Hong Kong GF	Immediate holding company	Trade payable *(note (b))*	(1,512)	(2,123)
Joint ventures				
AIF	Joint venture	Trade receivable *(note (a))*	1	1
		Other receivable *(note (b))*	118	114
		Trade payable *(note (b))*	(2)	(191)
Feeler Mectron	Joint venture	Trade receivable *(note (a))*	66	–
		Other receivable *(note (b))*	19	22
		Other payable *(note (b))*	–	(4)
		Advance to *(note (b))*	500	98
		Trade payable *(note (b))*	(246)	(116)

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Name of company	Relationship	Nature of balances	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
UFM	Joint venture	Trade payable *(note (b))*	(230)	(297)
		Other receivable *(note (b))*	624	612
		Trade receivable *(note (a))*	5	–
Nippon Cable Feeler	Joint venture	Other receivable *(note (b))*	(4)	5
Amounts due from joint ventures			1,329	852
Amounts due to joint ventures			(478)	(608)
Fellow subsidiaries and associates of ultimate holding company				
Hangzhou Fair Fine Electric & Machinery Co., Ltd.	Fellow subsidiary	Trade receivable *(note (b))*	–	1
SANCO	Fellow subsidiary	Trade payable *(note (b))*	(3,136)	(3,405)
EQUIPTOP HITECH CORP.	Fellow subsidiary	Trade payable *(note (b))*	(144)	(144)
		Advance from *(note (b))*	(124)	(124)
Ikegai (Shanghai) Machinery & Equipment Co., Ltd	Fellow subsidiary	Advance to *(note (a))*	–	734
FFG DMC CO., LTD	Fellow Subsidiary	Advance to *(note (a))*	–	668
Feeler Takamatsu	Associate of ultimate holding company	Other receivable *(note (b))*	41	32
		Advance to *(note (b))*	39	39
Best Friend	Associate of ultimate holding company	Trade receivable *(note (a))*	1	2
Amounts due from fellow subsidiaries and associates of ultimate holding company			81	1,476
Amounts due to fellow subsidiaries and associates of ultimate holding company			(3,404)	(3,673)

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Name of company	Relationship	Nature of balances	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited)
Associates and subsidiaries of an associate				
FFG Werke	Associate	Advance to *(note (b))*	1,357	1,357
		Trade payable *(note (b))*	(29,471)	(33,341)
		Other receivable *(note (b))*	38,420	42,377
FFG Europe S.p.A ("FFG Europe")	Associate	Other receivable *(note (b))*	35,873	17,271
Jobs	Subsidiary of an associate of the Group	Other receivable *(note (b))*	20,030	21,393
		Trade payable *(note (b))*	(2,797)	(3,075)
		Other payable *(note (b))*	–	(911)
		Advance to *(note (b))*	737	737
SMS HOLDING CO.,INC.	Subsidiary of an associate of the Group	Trade receivable *(note (a))*	6	4
MAG	Subsidiary of an associate of the Group	Other receivable *(note (b))*	575	575
FFG European and American Holdings GmbH	Associate	Other receivable *(note (b))*	30,738	26,063
Sky Thrive Rambaudi S.r.l	Subsidiary of an associate of the Group	Other receivable *(note (b))*	9,095	9,306
Amounts due from associates and subsidiaries of an associate			136,831	119,083
Amounts due to an associate and subsidiaries of an associate			(32,268)	(37,327)

25. RELATED PARTY TRANSACTIONS (Continued)

(1) Transaction and balances (Continued)

Balances (Continued)

Notes:

(a) The Group allows a normal credit period of 90 days for sales made to the fellow subsidiaries, the ultimate holding company and its associates, and subsidiaries of associated company. Balances are unsecured and interest free. As of 30 June 2018 and 31 December 2017, the ageing of above balances was mostly within 6 to 12 months.

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

(2) Compensation of directors and key management personnel

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries	1,556	1,571
Performance related bonuses	201	201
Retirement benefits scheme contributions	54	56
	1,811	1,828

26. PLEDGE OF ASSETS

	As of	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepaid lease payments	3,306	3,352
Property, plant and equipment	8,065	8,428
Restricted bank deposits	16,286	32,716
	27,657	44,496

26. PLEDGE OF ASSETS (Continued)

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 or associate and subsidiaries of an associate.

27. CONTINGENT LIABILITY

By 30 June 2018, Hangzhou Good Friend has issued standby letter of credit with a maximum amount of Euro3,075,000 (equivalent to RMB23,528,000) to guarantee the corresponding amount of credit facilities to be provided by a bank to FFG Europe. As of 30 June 2018, FFG Europe has drawn down a total amount of Euro3,000,000 (equivalent to RMB22,955,000).

On 27 November 2017, Hangzhou Good Friend issued standby letter of credit with a maximum amount of Euro4,060,000 (equivalent to RMB31,065,000) to guarantee the corresponding amount of the credit facilities to be provided by a bank to MAG. As of 30 June 2018. MAG has drawn down a total amount of Euro4,000,000 (equivalent to RMB30,606,000).

Furthermore, in September 2017, the Company issued a warranty guarantee of Euro2,475,000 (equivalent to RMB19,311,000) on behalf of MAG IAS GmbH, a wholly owned subsidiary of MAG, to its customer. Up to the date of this report as of 30 August,2018, the warranty guarantee is released.

The management of the Group estimates that the default risk of MAG, MAG IAS GmbH and FFG Europe is remote, thus the exposure to guaranty liability arising from these financial guarantees is immaterial and no guaranty liability has been recognised in the current interim period.

Furthermore, the management of the Group estimates the probability of default is remote as there was no historical instance, so the loss allowance for ECL on financial guarantee contracts has been recognised in the current interim period.