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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)

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “Board”) of directors (the “Directors”) of Good Friend International Holdings Inc. (the “Company”) presents the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019 and the Group’s unaudited consolidated statement of financial position at 31 December 2019, together with the relevant comparative figures for the previous year. For the reasons explained in the paragraph headed “Review of Unaudited Annual Results” in this announcement, the auditing process for the annual results of the Group for the year ended 31 December 2019 has not been completed.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>NOTES</i>	2019 RMB’000 (Unaudited)	2018 RMB’000 (Audited)
Revenue	<i>3A</i>	915,658	1,090,693
Cost of revenue	<i>3B</i>	(695,568)	<u>(799,966)</u>
Gross profit		220,090	290,727
Other income	<i>4</i>	149,432	84,483
Distribution and selling expenses		(124,978)	(132,609)
Administrative expenses		(78,345)	(64,137)
Research and development costs		(29,086)	(37,087)
Reversal of impairment loss/(impairment loss) on trade receivables and contract assets		3,858	(8,875)
Other gains and losses		(7,547)	(28,321)
Other expenses	<i>5</i>	(22,805)	(87,968)
Other operating expenses		(1,297)	(1,458)
Finance costs	<i>6</i>	(24,839)	(14,180)
Share of profit of joint ventures		1,141	2,118
Share of loss of associates		(51,424)	<u>(45,423)</u>

	<i>NOTES</i>	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> <i>(Audited)</i>
Profit/(loss) before tax	7	34,200	(42,730)
Income tax expense	8	<u>(21,615)</u>	<u>(14,994)</u>
Profit/(loss) attributable to owners of the Company		<u>12,585</u>	<u>(57,724)</u>
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		(5,096)	2,664
Net fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		246	1,999
Share of other comprehensive income of associates		<u>14,009</u>	<u>17,228</u>
		<u>9,159</u>	<u>21,891</u>
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income of associates		<u>(29,799)</u>	<u>1,021</u>
Total comprehensive income attributable to owners of the Company		<u>(8,055)</u>	<u>(34,812)</u>
Earnings/(loss) per share (<i>expressed in RMB per share</i>)	9		
– Basic		<u>0.03</u>	<u>(0.14)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>
Dividends	10	<u>–</u>	<u>44,352</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	<i>NOTES</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		218,344	204,710
Right-of-use assets		120,147	–
Prepaid lease payments		–	120,147
Intangible assets		1,407	2,215
Investments in joint ventures		21,647	20,505
Investments in associates		397,335	331,323
Deferred tax assets		27,991	27,520
		786,871	706,420
Current assets			
Inventories		493,858	524,752
Trade and other receivables and prepayments	11	222,885	345,810
Contract assets		45,448	46,727
Loan receivable		48,394	35,627
Receivables at FVTOCI		101,945	106,400
Prepaid lease payments		–	2,905
Amounts due from fellow subsidiaries and associates of ultimate holding company		6,420	23
Amounts due from joint ventures		512	461
Amounts due from associates and subsidiaries of an associate		235,155	151,059
Restricted bank deposits and bank balances		106,702	69,987
Financial assets at fair value through profit or loss		–	108,020
Bank balances and cash		74,491	112,673
		1,335,810	1,504,444

	<i>NOTES</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Current liabilities			
Trade and other payables and accrued expenses	<i>12</i>	389,108	242,969
Contract liabilities		300,208	358,751
Amount due to ultimate holding company		285	638
Amount due to immediate holding company		815	2,832
Amounts due to fellow subsidiaries and associates of ultimate holding company		2,453	3,637
Amounts due to joint ventures		380	362
Amounts due to an associate and subsidiaries of an associate		23,481	28,435
Provision for litigation claim		60,117	60,117
Refund liabilities		100,903	100,903
Current tax liabilities		16,990	21,979
Bank borrowings		400,071	563,239
Warranty provision		4,019	5,311
		1,298,830	1,389,173
Net current assets		36,980	115,271
Total assets less current liabilities		823,851	821,691
Non-current liabilities			
Other borrowings		36,760	35,093
Deferred income		78,839	70,192
		115,599	105,285
Net assets		708,252	716,406
Capital and reserves			
Share capital		4,021	4,022
Share premium		82,183	82,281
Capital reserves		77,338	77,338
Other reserves		67,520	58,361
Retained earnings		477,190	494,404
Total equity		708,252	716,406

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION

These unaudited consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These unaudited consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these unaudited consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD

(a) Application of new and revised HKFRSs

The Group has applied HKFRS 16 Leases (“HKFRS 16”) issued by the HKICPA that is first effective for the amount according period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the unaudited consolidated financial statements.

3A. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the year is as follows:

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Revenue from contracts with customers within the scope of HKFRS 15		
Machine tools	742,948	928,341
Parking garage structures	107,981	89,814
Forklift trucks	64,729	72,538
	915,658	1,090,693

The Group derives revenue from the transfer of goods and services at a point in time in the above major product lines and mainly sells in the People's Republic of China ("PRC").

3B. SEGMENT INFORMATION

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

The Executive Directors consider that the Group has three operating and reportable segments: (1) machine tools; (2) parking garage structures; and (3) forklift trucks. No operating segments have been aggregated in arriving at the reportable segments of the Group.

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

The Group does not allocate distribution and selling expenses, administrative expenses, other operating expenses or segment assets and liabilities 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 segment assets and liabilities for each operating and reportable segment.

	Machine tools RMB'000 (Unaudited)	Parking garage structures RMB'000 (Unaudited)	Forklift trucks RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the year ended 31 December 2019				
Revenue (all from external sales)	742,948	107,981	64,729	915,658
Cost of revenue	<u>(532,848)</u>	<u>(100,869)</u>	<u>(61,851)</u>	<u>(695,568)</u>
Segment profit	<u>210,100</u>	<u>7,112</u>	<u>2,878</u>	220,090
Share of profit of joint ventures				1,141
Share of loss of associates				(51,424)
Unallocated amounts:				
Other income				149,432
Distribution and selling expenses				(124,978)
Administrative expenses				(78,345)
Research and development costs				(29,086)
Reversal of impairment loss on trade receivables and contract assets				3,858
Other gains and losses				(7,547)
Other expenses				(22,805)
Other operating expenses				(1,297)
Finance costs				<u>(24,839)</u>
Profit before tax				<u>34,200</u>

	Machine tools <i>RMB'000</i> (Audited)	Parking garage structures <i>RMB'000</i> (Audited)	Forklift trucks <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
For the year ended 31 December 2018				
Revenue (all from external sales)	928,341	89,814	72,538	1,090,693
Cost of revenue	<u>(665,102)</u>	<u>(70,291)</u>	<u>(64,573)</u>	<u>(799,966)</u>
Segment profit	<u>263,239</u>	<u>19,523</u>	<u>7,965</u>	290,727
Share of profit of joint ventures				2,118
Share of loss of associates				(45,423)
Unallocated amounts:				
Other income				84,483
Distribution and selling expenses				(132,609)
Administrative expenses				(64,137)
Research and development costs				(37,087)
Impairment loss on trade receivables and contract assets				(8,875)
Other gains and losses				(28,321)
Other expenses				(87,968)
Other operating expenses				(1,458)
Finance costs				<u>(14,180)</u>
Loss before tax				<u>(42,730)</u>

For the years ended 31 December 2018 and 2019, majority of the Group's operations and identifiable non-current assets are located in the PRC and the Group mainly sells to the PRC market. No customers contributed over 10% of total revenue of the Group for each of the years.

4. OTHER INCOME

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Compensation income from an associate, FFG Werke GmbH	72,667	–
Sale of scrap materials	31,118	38,055
Consultancy income	4,301	2,629
Government grants and subsidies related to income*	16,141	22,787
Repair income	16,265	13,780
Rental income	1,261	460
Interest income	3,842	4,496
Others	3,837	2,276
	<u>149,432</u>	<u>84,483</u>

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

5. OTHER EXPENSES

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Provision for litigation claim	–	60,117
Cost of scrap materials sold	22,805	27,851
	<u>22,805</u>	<u>87,968</u>

6. FINANCE COSTS

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Interest expense:		
– Bank borrowings	24,839	14,180
– Other borrowings	1,667	583
Total borrowing costs	26,506	14,763
Less: amounts capitalised in the cost of qualifying assets	(1,667)	(583)
	<u>24,839</u>	<u>14,180</u>

Borrowing costs capitalised during the year arose on the other borrowings and are calculated by applying a capitalisation rate of 4.75% per annum (2018: 4.75%).

7. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging:

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Directors and chief executives' remuneration	1,721	1,690
Other staff costs	146,751	145,906
Other staff's retirement benefits scheme contributions	<u>5,543</u>	<u>4,910</u>
Total staff costs	154,015	152,506
Capitalised in inventories	<u>(52,685)</u>	<u>(55,746)</u>
	101,330	96,760
Depreciation of property, plant and equipment	19,775	20,795
Depreciation on right-of-use assets	2,905	–
Amortisation of prepaid lease payments	–	2,905
Amortisation of intangible assets	<u>824</u>	<u>1,252</u>
Total depreciation and amortisation	23,504	24,952
Capitalised in inventories	<u>(9,710)</u>	<u>(10,967)</u>
	13,794	13,985
Auditor's remuneration	1,893	1,808
Cost of inventories recognised as an expense	682,616	765,594
(Reversal)/write-down of inventories	(631)	2,087
(Loss)/gain on disposals of property, plant and equipment	(416)	118
Reversal of impairment loss/(impairment loss) on trade receivables and contract assets	3,858	(8,875)
Provision for warranty	2,985	4,983
Direct operating expenses incurred for rental income	<u>469</u>	<u>330</u>

8. INCOME TAX EXPENSE

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Current Enterprise Income Tax (“EIT”)		
– Current year	26,748	16,403
– Over provision in prior years	(5,431)	(610)
	21,317	15,793
Deferred tax expense/(credit)	298	(799)
	21,615	14,994

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

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 years.

EIT is provided at 25% (2018: 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 in 2019 is 15% (2018: 15%).

In according to Detailed Implementation Regulations for implementation of the EIT law of the 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%.

9. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit attributable to owners of the Company amounted to RMB12,585,000 (2018: loss attributable to owners of the Company: RMB57,724,000) by the number of ordinary shares in issue during the year of 403,074,000 (2018: 403,200,000) shares.

	2019 (Unaudited)	2018 (Audited)
Basic earnings/(loss) per share <i>(RMB per share)</i>	0.03	(0.14)

No diluted earnings/(loss) per share was presented as there were no potential dilutive ordinary shares in issue for both years ended 31 December 2019 and 31 December 2018.

10. DIVIDENDS

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Dividends for ordinary shareholders of the Company recognised as distribution during the year: 2018: 2018 interim dividend of RMB0.05 per share and 2017 final dividend of RMB0.06 per shares	–	44,352

No final dividend was proposed for ordinary shareholders of the Company for the year ended 31 December 2019.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Trade receivables	224,551	323,790
<i>Less: provision for impairment of trade receivables</i>	(43,073)	(46,931)
	181,478	276,859
Prepayments	14,865	44,713
Other receivables	26,542	24,238
Total trade and other receivables and prepayments	222,885	345,810

The Group generally allows a credit period of 30 to 180 days to its customers. The Group also allows its customers to retain certain percentage of the outstanding balances as retention money amounted to RMB22,696,000 (2018: RMB22,699,000) of which the conditions to entitlement of consideration had been reached and became unconditional.

At 31 December 2019 and 2018, the aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Current – 30 days	22,489	32,087
31 – 60 days	17,306	9,694
61 – 90 days	15,586	27,194
91 – 180 days	23,379	29,461
Over 180 days	102,718	178,423
	181,478	276,859

12. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Trade payables	162,885	163,957
Bills payable	150,144	–
Other payables	32,650	32,474
Accrued expenses	43,429	46,538
Total trade and other payables and accrued expenses	389,108	242,969

The following is an aging analysis of trade and bills payables presented based on the invoice date:

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Current – 30 days	58,957	59,256
31 - 60 days	46,246	52,103
61 - 90 days	45,496	9,516
91 -180 days	73,519	18,589
Over 180 days	88,811	24,493
	313,029	163,957

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

China maintained a generally stable economy in 2019. 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 6.1% in 2019.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB915.66 million, representing a decrease of approximately 16.0% as compared to 2018. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,527 units, 7,792 units and 841 units respectively (2018 comparative figures: 2,028 units, 10,902 units and 999 units). CNC machine tools remained the major source of the Group's revenue. During the year, sales revenue of CNC machine tools business amounted to approximately RMB742.95 million, representing a decrease of approximately 20.0% as compared to 2018. Revenue of CNC machine tools accounted for approximately 81.1% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB107.98 million during the year, representing an increase of approximately 20.2% as compared to 2018 and accounted for approximately 11.8% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 10.8%, as compared to 2018, to approximately RMB64.73 million and approximately 7.1% of the Group's total revenue.

Gross profit and margin

For the year ended 31 December 2019, gross profit of the Group amounted to approximately RMB220.09 million. Overall gross profit margin was approximately 24.0%, compared to 26.7% for 2018. The gross profit margin of CNC machine tools (the Group's major product) during the year maintained fairly stable at approximately 28.3%.

Other income

During the year, other income included a compensation income of approximately RMB72.67 million, representing compensation from FFG Werke GmbH (supplier of the corresponding CNC machine tools products) to the Group in respect of the litigation raised by a customer to the Group's subsidiaries as disclosed in the 2018 annual report of the Company.

Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB124.98 million for the year ended 31 December 2019, decreased by approximately 5.8% as compared to last year. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 13.6%, compared to approximately 12.2% for 2018.

Administrative expenses

Administrative expenses for the year ended 31 December 2019 increased by approximately 22.2% as compared to 2018. This was mainly due to the increase of the staff costs and office expenses during the year.

Other gains and losses

Other gains and losses represented mainly foreign exchange loss during the year.

Finance costs

During the year, finance costs increased to approximately RMB24.84 million. This was primarily due to the increase of average bank borrowings of the Group during 2019.

Share of loss of associates

For the year ended 31 December 2019, share of loss of associates amounted to approximately RMB51.42 million. The amount represented the Group's share of results of "FFG European and American Holdings GmbH" (an associate located in Germany) during the year.

Profit attributable to owners of the Company

For the year ended 31 December 2019, profit attributable to owners of the Company amounted to approximately RMB12.59 million. For the year ended 31 December 2018, loss attributable to owners of the Company amounted to approximately RMB57.72 million.

Liquidity and financial resources

As at 31 December 2019, the Group had net current assets of approximately RMB36.98 million (2018: RMB115.27 million), shareholders' fund of approximately RMB708.25 million (2018: RMB716.41 million) and short-term bank borrowings of approximately RMB400.07 million (2018: RMB563.24 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Bank balances and cash as at 31 December 2019 amounted to approximately RMB74.49 million (2018: RMB112.67 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.0 times (2018: 1.1 times). The gearing ratio (ratio of total debts to total assets) was approximately 18.8% (2018: 25.5%), indicating that the Group continued to maintain solid financial position.

Capital structure and treasury policies

The share capital of the Company as at 31 December 2019 was HK\$4,030,740 divided into 403,074,000 shares of HK\$0.01 each (at 31 December 2018: HK\$4,032,000 divided into 403,200,000 shares of HK\$0.01 each).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As at 31 December 2019, the total outstanding short-term borrowings stood at approximately RMB400.07 million (2018: RMB563.24 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year.

Staff and remuneration policies

As at 31 December 2019, the Group employed a total of 1,080 (2018: 1,160) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB154.02 million (2018: RMB152.51 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

The Company had adopted on 2 June 2016 a share option scheme for the purpose of providing incentive and rewards to eligible participants for their contributions to the Group. No share option was granted by the Group since its adoption.

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year ended 31 December 2019, the Group contributed approximately RMB5.54 million (2018: RMB4.91 million) to the said schemes.

Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB24.62 million (2018: RMB53.13 million) which are contracted but not provided in the unaudited consolidated financial statements for the year ended 31 December 2019. The Group had no material contingent liabilities as at 31 December 2019 (2018: Nil).

Charges on the Group's assets

As at 31 December 2019, the Group had restricted bank deposits and bank balances with an amount of approximately RMB106.70 million (2018: RMB69.99 million), which mainly represented bank balances being frozen by banks in relation to a litigation claim raised by a customer, as well as deposits placed in banks for acceptance bills.

Meanwhile, a subsidiary of the Company pledged its land with an aggregate carrying amount of approximately RMB87.32 million (2018: RMB95.36 million) to secure financing facilities granted to it. As at 31 December 2019, the subsidiary has utilized such secured financing facilities of approximately RMB36.76 million (2018: RMB35.09 million).

Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2019, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as Hong Kong dollars, United States dollars, Euro and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group had no hedging activities during the year. However, the management of the Group has been monitoring the exchange rate risk, and will consider hedging against major foreign currency risk when required.

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

PROSPECTS

With the COVID-19 coronavirus outbreak, China's economic prospects in 2020 will be full of challenges. The management remain cautious about China's economic prospects. The Group will keep close track on market situation in order to capture business opportunity and reduce operation risks.

Looking ahead, with the current complex economic environment, the Group will continue to strengthen its business foundation under a consistent cautious manner under tough market environment, in order to weather against the volatility and uncertainty of the market condition ahead. The management is optimistic on the long-term development prospects of the Group.

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

ACKNOWLEDGEMENT

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

FINAL DIVIDEND

The Board resolved not to recommend a final dividend for the year ended 31 December 2019 (2018: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting of the Company held on 5 June 2019 due to his business trip and Mr. Chiu Rung-Hsien, an executive Director, took the chair of the annual general meeting pursuant to the articles of association of the Company.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Chen Hsiang-Jung, the then Chief Executive Officer and executive Director of the Company was pass away on 8 November 2018. Mr. Chu Chih-Yaung, the Chairman of the Board, was appointed as Chief Executive Officer on 7 December 2018. Although these two roles are performed by the same individual since 7 December 2018, certain responsibilities have been shared with other executive Directors to balance the power and authority. In addition, all major decisions have been made in consultation with members of the Board as well as senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place. The Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transaction by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 31 December 2019, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the CG Code. The duties of the Audit Committee includes review and supervise the financial reporting process and risk management and internal control systems of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Yu Yu-Tang and Mr. Kao Wen-Cheng.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China, Germany and Italy to combat the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed with the Company’s auditors. The Audit Committee has reviewed with the management and agreed the unaudited annual results of the Group for the year ended 31 December 2019.

FURTHER ANNOUNCEMENT

Following the completion of the auditing process, the Company will issue further announcement in relation to the audited annual results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or before 29 April 2020 if the COVID-19 coronavirus outbreak is improved.

PUBLICATION OF ANNUAL REPORT

This unaudited annual results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at <http://www.goodfriend.hk>. The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to the Company's Shareholders and made available for review on the same websites in due course.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company purchased a total of 126,000 shares of the Company on the Stock Exchange at an aggregate consideration of approximately HK\$113,038 and all the 126,000 repurchased shares were cancelled on delivery of the share certificates. The repurchase was effected by the Directors for the enhancement of shareholders' value. Details of the repurchases are as follows:

Month	Total number of shares	Highest price paid per share HK\$	Lowest price paid per share HK\$	Approximate aggregate consideration HK\$
26/07/2019	126,000	0.91	0.88	113,038

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year under review.

CAUTION STATEMENT

The financial information contained herein in respect of the annual results of the Group has not been audited and has not been agreed with the Company's auditors, and are subject to adjustments. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 31 March 2020

As at the date of this announcement, the Board of the Company comprises (i) four executive directors, namely Mr. Chu Chih-Yaung, Mr. Chen Min-Ho, Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien; and (ii) three independent non-executive directors, namely Mr. Koo Fook Sun, Louis, Mr. Yu Yu-Tang and Mr. Kao Wen-Cheng.