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)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board (the "Board") of directors (the "Directors") of Good Friend International Holdings Inc. (the "Company") is pleased to present the audited consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 and the Group's audited consolidated statement of financial position at 31 December 2010, together with the relevant comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,374,183**	776,838
Cost of revenue		**(1,018,648)**	(562,037)
Gross profit		**355,535**	214,801
Other income	*4*	**20,674**	12,695
Distribution and selling expenses	*5*	**(110,404)**	(72,738)
Administrative expenses	*5*	**(84,544)**	(40,951)
Other operating expenses	*5*	**(3,000)**	(1,559)
Excess of the net fair value of identifiable assets, liabilities and contingent liabilities of business acquired over cost	*6*	**19,006**	–
Operating profit		**197,267**	112,248
Finance costs	*7*	**(3,461)**	(4,564)
Profit before income tax		**193,806**	107,684
Income tax expense	*8*	**(35,060)**	(23,539)
Profit attributable to equity holders of the Company		**158,746**	84,145
Earnings per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
Basic and diluted earnings per share	*9*	**0.41**	0.25
Dividends	*10*	**100,800**	70,560

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2010**	2009
		RMB'000	*RMB'000*
Profit for the year		**158,746**	84,145
Other comprehensive income:			
Currency translation differences		**(161)**	–
Other comprehensive income for the year		**(161)**	–
Total comprehensive income for the year		**158,585**	84,145
Attributable to:			
– Equity holders of the company		**158,585**	84,145
Total comprehensive income for the year		**158,585**	84,145

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

		As at 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Land use rights		**41,310**	42,253
Property, plant and equipment		**228,404**	183,615
Investment property		**2,042**	8,837
Intangible assets		**16,623**	2,726
Investment in a jointly controlled entities		**8,192**	–
Deferred income tax assets		**5,545**	5,235
Deposits for purchases of plant and equipment		**20,146**	2,443
		322,262	245,109
Current assets			
Inventories		**341,829**	209,534
Debtors, deposits and prepayments	*11*	**428,298**	262,140
Amounts due from customers for contract work		**22,943**	17,198
Amount due from ultimate holding company		**139**	588
Prepayments to and amounts due from a fellow subsidiary and associates of ultimate holding company		**3,436**	–
Restricted bank deposits		**29,158**	23,919
Cash and cash equivalents		**161,045**	68,137
		986,848	581,516
Total assets		**1,309,110**	826,625
Equity and liabilities			
Equity attributable to owners of the parent			
Ordinary shares		**4,022**	3,431
Share premium	*12*	**271,792**	66,596
Capital reserves	*12*	**77,338**	77,338
Other reserves	*12*	**44,764**	37,179
Retained earnings	*12*	**220,447**	178,311
Total equity		**618,363**	362,855

		As at 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Borrowings		**6,614**	10,241
Deferred income tax liabilities		**15,788**	4,943
		22,402	15,184
Current liabilities			
Creditors, other payables and accrued charges	*13*	**454,057**	291,655
Amounts due to customers for contract work		**15,674**	18,576
Amount due to immediate holding company		**2,213**	6,448
Amount due to a joint venture company		**7,335**	–
Current income tax liabilities		**11,783**	9,406
Warranty provision		**8,099**	5,204
Borrowings		**169,184**	117,297
		668,345	448,586
Total liabilities		**690,747**	463,770
Total equity and liabilities		**1,309,110**	826,625
Net current assets		**318,503**	132,930
Total assets less current liabilities		**640,765**	378,039

Notes:

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  The revised standards were applied to the acquisition of a business and the related group of assets and employees from an Italian company during the year.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) had no significant impact on the current period, as there were no transactions with non-controlling interests.

HKAS 28 (amendment) clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The revised standards were applied to the acquisition of a business and the related group of assets and employees from an Italian company during the year.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

- HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and no classification was required to be made according to the amendment.

(b) The following new and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

• HK(IFRIC) 17	Distribution of non-cash assets to owners
• HK(IFRIC) 18	Transfers of assets from customers
• HK(IFRIC) 9 (amendment)	Reassessment of embedded derivatives
• HK(IFRIC) 16 (amendment)	Hedges of a net investment in a foreign operation
• HKAS 1 (amendment)	Presentation of financial statements
• HKAS 36 (amendment)	Impairment of assets
• HKFRS 2 (amendments)	Group cash-settled share-based payment transactions,
• HKFRS 5 (amendment)	Non-current assets held for sale and discontinued operations'

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

• HKFRS 9	Financial instruments
• HKAS 24 (revised)	Related party disclosures
• 'Classification of rights issues'	(amendment to IAS/HKAS 32)
• IFRIC/HK (IFRIC) – Int 19	'Extinguishing financial liabilities with equity instruments'
• Prepayments of a minimum funding requirement'	(amendments to IFRIC/HK (IFRIC) – Int 14)

3. SEGMENT INFORMATION

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

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

The Executive Directors assess the performance of the operating segments based on their respective gross profit.

The Group does not allocate operating costs 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.

	Machine Tools *RMB'000*	**Parking Garage structures** *RMB'000*	**Forklift Trucks** *RMB'000*	**Unallocated** *RMB'000*	**Total Group** *RMB'000*
For the year ended 31 December 2010					
Revenue (all from external sales)	**1,135,468**	**88,062**	**150,653**	**–**	**1,374,183**
Cost of revenue	**(813,991)**	**(73,254)**	**(131,403)**	**–**	**(1,018,648)**
Segment profit	**321,477**	**14,808**	**19,250**	**–**	**355,535**

	Machine Tools *RMB'000*	Parking Garage structures *RMB'000*	Forklift Trucks *RMB'000*	Unallocated *RMB'000*	Total Group *RMB'000*
For the year ended 31 December 2009					
Revenue (all from external sales)	615,450	83,776	77,612	–	776,838
Cost of revenue	(414,185)	(77,146)	(70,706)	–	(562,037)
Segment profit	201,265	6,630	6,906	–	214,801

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

4. OTHER INCOME

	2010	2009
	RMB'000	*RMB'000*
Sales of scrap materials	**6,485**	2,265
Net exchange gain	**6,660**	2,553
Government subsidies	**1,825**	774
Repair income	**2,190**	3,374
Rental income from investment properties	**335**	1,679
Interest income	**1,321**	688
Others	**1,858**	1,362
	20,674	12,695

5. EXPENSES BY NATURE

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories sold	**957,498**	529,175
Sales commission	**23,285**	15,377
Depreciation of property, plant and equipment	**16,880**	14,899
Depreciation of investment property	**133**	329
Amortisation of intangible asset	**1,836**	827
Amortisation of land use rights	**943**	943
Operating lease rental on land and buildings	**5,993**	4,437
Employee benefit expenses	**89,801**	56,500
Allowance for bad and doubtful debts, net	**5,540**	(12,311)
Allowance for inventories, net	**(2,903)**	3,765
Auditor's remuneration	**1,149**	1,220
Provision for warranty	**9,465**	4,282
Loss on disposal of property, plant and equipment	**732**	282
Research and development expense	**39,428**	22,962
Transportation Fees	**15,641**	8,000
Others	**51,175**	26,598
Total cost of revenue, distribution and selling expenses, administrative expenses and other expenses	**1,216,596**	677,285

6. EXCESS OF THE NET FAIR VALUE OF IDENTIFIABLE ASSETS, LIABILITIES AND CONTINGENT LIABILITIES OF BUSINESS ACQUIRED OVER COST

The gain of RMB19,006,000 recognised in this transaction was mainly due to the fact that it was a bargain sales of the business from a company under liquidation in an open auction during the time of the global economic crisis, As a result, the Group was able to offer a preferential bidding prior to win the auction.

7. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest expense:		
– Bank borrowings wholly repayable within 5 years	**3,461**	4,564

8. INCOME TAX EXPENSE

	2010	2009
	RMB'000	*RMB'000*
Enterprise income tax	**33,225**	17,370
Deferred tax	**1,835**	6,169
	35,060	23,539

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both years.

Enterprise income tax ("EIT") is provided for enterprises in the PRC and Italy based on the profit reported for statutory financial reporting purposes. In 2008, Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend") was approved the New and High-Tech Enterprise status by the relevant government authorities and it is entitled to a reduced tax rate of 15.0% for a three-year period commencing 2008. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2010 is 15.0% (2009: 15.0%).

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB158,746,000 (2009: RMB84,145,000) by the weighted average number of ordinary shares in issue during the year of 389,760,000 (2009: 336,000,000).

	2010	2009
Basic earnings per share *(RMB per share)*	**0.41**	0.25

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

10. DIVIDENDS

The dividends paid in 2010 and 2009 were RMB100,800,000 (RMB0.25 per share) and RMB70,560,000 (RMB0.21 per share) respectively. At a meeting of directors held on 24 March 2011, the directors resolved to recommend a final dividend of RMB0.10 (2009: RMB0.12) per share for the year ended 31 December 2010. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2010.

	2010	2009
	RMB'000	*RMB'000*
Interim dividend paid of RMB0.15 (2009: RMB0.09) per ordinary share	**60,480**	30,240
Proposed final dividend of RMB0.10 (2009: RMB0.12) per ordinary share	**40,320**	40,320
	100,800	70,560

The proposed final dividend is to be paid out of the share premium of the Company.

The aggregate amounts of the dividends paid and proposed during 2010 and 2009 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

11. DEBTORS, DEPOSITS AND PREPAYMENT

	2010	2009
	RMB'000	*RMB'000*
Trader debtors and bill receivables	**381,143**	230,114
Less: provision for impairment of trade receivables	**(29,656)**	(25,866)
Trade receivables – net	**351,487**	204,248
Prepayments	**42,091**	30,778
Other debtors	**34,720**	27,114
Total Debtors, deposits and prepayment	**428,298**	262,140

The Group generally allows a credit period of 30 to 180 days to its customers. The Group also allows its customers to retain certain percentage of the outstanding balances as retention money for a one-year warranty period of the products sold.

At 31 December 2010 and 2009, the ageing analysis of trade debtors and bills receivable were as follows:

	2010 *RMB'000*	2009 *RMB'000*
Current – 30 days	**293,558**	165,767
31 – 60 days	**10,508**	10,008
61 – 90 days	**11,510**	2,081
91 – 180 days	**17,326**	7,876
Over 180 days	**48,241**	44,382
	381,143	230,114

12. RESERVES

			Other reserve				
	Share premium *RMB'000*	Capital reserve *RMB'000*	General reserve *RMB'000*	Enterprise expansion reserve *RMB'000*	Translation *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2009	66,596	77,338	28,090	9,089	–	144,566	325,679
Dividends paid	–	–	–	–	–	(50,400)	(50,400)
Total comprehensive income	–	–	–	–	–	84,145	84,145
Appropriation to reserves	–	–	–	–	–	–	–
At 31 December 2009	66,596	77,338	28,090	9,089	–	178,311	359,424
Issuance of TDRs	205,196	–	–	–	–	–	205,196
Dividends paid	–	–	–	–	–	(108,864)	(108,864)
Profit for the year	–	–	–	–	–	158,746	158,746
Currency translation difference	–	–	–	–	(161)	–	(161)
Appropriation to reserves	–	–	7,746	–	–	(7,746)	–
At 31 December 2010	271,792	77,338	35,836	9,089	(161)	220,447	614,341

13. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

	2010	2009
	RMB'000	*RMB'000*
Trade creditors	**167,285**	157,174
Advance deposits from customers	**218,106**	95,053
Other payables	**36,103**	22,656
Accrued expenses	**32,563**	16,772
	454,057	291,655

The Group normally receives credit terms of 30 to 60 days. At 31 December 2010 and 2009, the ageing analysis of the trade payables were as follows:

	2010	2009
	RMB'000	*RMB'000*
Current – 30 days	**128,544**	108,094
31 – 60 days	**25,296**	13,224
61 – 90 days	**6,418**	14,864
91 – 180 days	**4,373**	20,846
Over 180 days	**2,654**	146
	167,285	157,174

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The gross domestic product of the mainland China was RMB39,798.3 billion in 2010, representing a growth of 10.3% over 2009 on a comparable price basis. The economy of China maintained its good momentum of development and had driven the country's fixed assets investment to leap by 23.8% year-on-year in 2010. Also purchases of machine tools in China amounted to US$27.3 billion in 2010, representing an encouraging growth when compared to that of US$19.8 billion in 2009.

The Group stands to benefit accordingly by virtue of the fact that its mainstream product CNC machine tools focuses mainly in China market. For the year ended 31 December 2010, sales volume and sales revenue of the Group's CNC machine tools business amounted to 2,546 units and approximately RMB1,135.47 million respectively (2009: 1,352 units and approximately RMB 615.45 million), representing significant growth when compared with 2009 driven by the robust demand. This is also a testimonial to the good acceptance of the Group's products by the customers, as well as the Group's advantage in the comprehensive sales services provided by its existing sales network in China.

Moreover, the Company completed the offering and listing of Taiwan Depositary Receipts ("TDR") on the Taiwan Stock Exchange Corporation in March 2010. Apart from increasing the public awareness of the Group as well as promoting the Group's corporate image, the issue of TDR also provides an additional fundraising platform for the Group. The net proceeds raised from the issue of TDR amounted to approximately RMB205.8 million. Such funds will mainly be utilized for purchases of machineries and equipments and construction of plants by Hangzhou Ever Friend Precision Machinery Co., Ltd. (in respect of its second phase production base in Xiasha, Hangzhou) and Hangzhou Glory Friend Machinery Technology Co., Ltd. (in respect of its production base in Jiangdong, Hangzhou). With such strong financial backup, the Group could therefore further expand its production capacity in respect of its CNC machine tools business.

Furthermore, the Group had acquired specific assets of the "Rambaudi" business division of Sachman Rambaudi, including tangible assets, inventories and intangible assets. The "Rambaudi" business division of Sachman Rambaudi has over 70 years history, and was principally engaged in the design and production of milling and machining centers for aerospace and mould and die. This acquisition provides an opportunity for the Group to enhance its product portfolio in particular for the application sectors of aerospace and mould and die, which is beneficial to the Group's overall business development.

In conclusion, given the encouraging growth of the operating results of its CNC machine tools (the Group's mainstream product), the Group finally recorded a profit attributable to equity holders of RMB158.75 million for the year. Coupled with the issue of TDR as well as the acquisition of assets of "Rambaudi", the Group's shareholders' equity was therefore increased from RMB362.86 million as at 31 December 2009 to RMB618.36 million as at 31 December 2010.

Financial review

For the year ended 31 December 2010, the Group recorded remarkable growth in its financial performance.

The Group's revenue and profit attributable to equity holders of the Company for the year amounted to approximately RMB1,374.18 million (2009: RMB776.84 million) and approximately 158.75 million (2009: RMB84.15 million) respectively, representing an increase of approximately 76.9% and 88.7% respectively as compared with that in 2009. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,546 units, 5,861 units and 2,064 units respectively (2009: 1,352 units, 5,668 units and 1,189 units).

Revenue

During the year, CNC machine tools remained the major source of the Group's revenue. The number of CNC machine tools sold increased from 1,352 units in 2009 to 2,546 units this year. Sales of the product rose from approximately RMB615.45 million to RMB1,135.47 million this year, an increase of approximately 84.5% and represented approximately 82.6% of the Group's total revenue. CNC machine tools focuses mainly in China, with the major customers of the product being those automobile and mechanical manufacturers. The machine tools industry in China maintained its increasing trend in 2010. Sales revenue of the Group's CNC machine tools business in 2010 therefore recorded encouraging growth under such strong demand. Amongst this, sales revenue of double column machining centre amounted to approximately RMB94.19 million for this year, whilst selling price of such product is approximately 2 times or more the average selling price of the Group's CNC machine tools products. The operating gross profit for CNC machine tools during the year was approximately 28.3%.

On the other hand, driven by robust demand in China, sales revenue of the Group's forklift trucks business increased by approximately 94.1% from RMB77.61 million to RMB150.65 million, and approximately 11.0% of the Group's total revenue. Accordingly the proportion of the domestic sales of the forklift trucks was increased to 62.0%. Moreover, sales revenue of parking garage structures amounted to approximately RMB88.06 million during the year, representing an increase of approximately 5.1% as compared to last year and accounted for approximately 6.4% of the total revenue.

Gross profit and margin

For the year ended 31 December 2010, gross profit of the Group amounted to approximately RMB355.54 million(2009: RMB214.80 million). Overall gross profit margin of the Group was approximately 25.9% (2009: 27.7%). The gross profit margin of CNC machine tools during the year decreased following the improvement of the market condition. As a result, the overall gross profit margin for the year decreased.

Distribution and selling expenses

Distribution and selling expenses increased by approximately 51.8% from approximately RMB72.74 million in 2009 to approximately RMB110.40 million for the year. Such increase was mainly due to the increase in sales volume of its major product CNC machine tools during the year. The relevant expenditures including costs of sales staff, transportation costs therefore increased accordingly. During the year, distribution and selling expenses as a percentage of the Group's revenue was approximately 8.0% (2009: 9.4%)

Administrative expenses

Administrative expenses increased by approximately 106.4% from approximately RMB40.95 million to approximately RMB84.54 million. During the year, the Group changed its mode of presentation by aggregate the total research and development expenses as a component of administrative expenses. During the year ended 31 December 2010, the relevant research & development expenses and other related items amounted to approximately RMB39.43 million(2009: RMB22.96 million). Such increase was in line with the increase of the sales revenue of CNC machine tools (the Group's major product) during the year. On the other hand, there was a provision of RMB5.54 million allowances for trade and doubtful debts during the year, compared with RMB12.31 million write-back in 2009.

Despite that, administrative expenses increased by approximately 30.6%. This was mainly attributable to the increase of those general expenses including depreciation charges and the staff costs as well as the additional expenditures in relation to the Rambadi business.

Finance costs

During the year ended 31 December 2010, finance costs decreased to approximately RMB3.46 million (2009: RMB4.56 million). The decrease was primarily due to the decrease of average bank borrowings of the Group during the year.

Excess of the net fair value of identifiable assets, liabilities and contingent liabilities of business acquired over cost

Pursuant to Hong Kong Financial Reporting Standard 3 (revised) "Business combinations", the Group has to perform valuation on those Rambaudi assets (including inventories etc.) acquired in June 2010, and to be recorded at fair values. Since discounting (in particular inventories) were offered upon the acquisition of those Rambaudi assets, accordingly the fair values after valuation was greater than the book values as at acquisition. The resulting difference amounted to EURO2.18 million or RMB19.01 million was properly accounted for in the Group's income statement of the year in accordance with the relevant accounting Standard.

Profit attributable to the equity holders of the Company

The Group's profit attributable to equity holders of the Company amounted to approximately RMB158.75 million, representing an increase of approximately 88.7% as compared to the previous year.

Liquidity and financial resources

As at 31 December 2010, the Group had net current assets of approximately RMB318.50 million (2009: RMB132.93 million), shareholders' fund of approximately RMB618.36 million (2009: RMB362.86 million) and short-term bank borrowings of approximately RMB169.18 million (2009: RMB117.30 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Cash and cash equivalents as at 31 December 2010 amounted to approximately RMB161.05 million (2009: RMB68.14 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.5 times (2009: 1.3 times). The gearing ratio (ratio of total debts to total assets) was approximately 13.4% (2009: 15.4%), 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 2010 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2009: HK$3,360,000 divided into 336,000,000 shares of HK$0.01 each).

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As of 31 December 2010, the total outstanding short-term borrowings stood at approximately RMB169.18 million (2009: RMB117.30 million). Borrowing methods used by the Group mainly include bank loans. The Group had no interest rate hedging arrangement during the year. During the year, the Company further improved its capital structure by issuing 67,200,000 ordinary shares in the form of TDRs. These TDRs have been listed on Taiwan Stock Exchange since 18 March 2010. Net proceeds of RMB155 million was received by the Company. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Staff and remuneration policies

At 31 December 2010, the Group employed a total of 1,600 (2009: 1,230) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB99.96 million (2009: RMB62.89 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 also holds 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 of the share option scheme.

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year under review, the Group contributed approximately RMB4.10 million (2009: RMB2.21 million) to the said schemes.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB27.10 million (2009: RMB3.43 million) which are contracted but not provided in the financial statements. The Group also had commitments of USD1.52 million (2009: USD0.63 million) in respect of initial capital contribution to the JVC (see "Strategic Investment" below). The Group had no material contingent liabilities as at 31 December 2010 (2009: Nil).

Charges on the Group's assets

As at 31 December 2010, restricted bank deposits with an amount of approximately RMB29.16 million (2009: RMB23.92 million) represented guarantee deposit in banks for the purpose of bidding contracts.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB39.76 million (2009: RMB67.25 million) to secure general banking facilities granted to them.

Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2010, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group has no hedging activities as it is considered that the impact to the Group is insignificant.

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

Following the formulation of the 12th Five Year Plan (2011-2015) by the central government of China, it is expected that the demand of machine tools from the industries of high-speed railway, aerospace, motor vehicle and energy will be increased considerably, especially demand of those hi-tech CNC machine tools. For the two months ended 28 February 2011, the Group received sales orders from customers of 1,098 units in respect of its CNC machine tools business, amounting to approximately RMB421.24 million (excluding tax), representing an increase of 59.0% when compared to the same period in 2010. Accordingly, the Group's CNC machine tools business continued to maintain its increasing trend.

China is the largest machine tools consuming country. The Group will continue to expand its production capacity and enhance its production efficiency, in order to meet the robust demand from the domestic market. Moreover, the relevant construction work for the Group's phase one production base located at Jiangdong, Hangzhou shall be completed in the middle of 2011 and will commence to manufacture CNC machine tools. This could further enhance the Group's production capacity in respect of its CNC machine tools business, and provide high quality CNC machine tools to the customers.

Looking ahead, the Group will continue to participate actively in machine tools fairs in China, and enhance the promotion of the Group's CNC machine tools products so as to solidify the Group's market share in China. On the other hand, the management will continue to look for appropriate investing and acquisition activities so as to increase the competitive edge of our Group. The Group is committed to becoming an international CNC machine tools manufacturer.

The management believes that with its extensive sales network, solid research and development foundation as well as advanced manufacturing facilities, the Group is capable of meeting customers' different needs. The management will strive to bring favorable returns to the shareholders of the Company.

APPRECIATION

Last but not least, I on behalf of the Board, would like to thank the Company's shareholders, the Group's customers and suppliers for their continued support. I would also like to thank all the management and staff for their efforts and contributions to the Group over the last year.

FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company, a final dividend out of the share premium account of the Company of RMB0.10 (equivalent to approximately HK$0.119 according to the average middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China at the date of this announcement) per share for the year ended 31 December 2010, amounting to RMB40.32 million (equivalent to approximately HK$47.98 million) payable to shareholders whose names appear on the register of members of the Company on Friday, 20 May 2011. The payment date of the final dividend will be announced later.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 May 2011 to Friday, 20 May 2011, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed final dividend and attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 16 May 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own code of corporate governance practices which meets the code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules. The current practices will be 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 deviations from code provision E 1.2 of the CG Code which 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 held on 31 March 2010 due to his business trip and Mr. Chen Hsiang-Jung as Executive Director of the Company took the chair pursuant to the Articles of Association of the Company.

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 2010, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") on 22 December 2005 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. 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 comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis (as Chairman), Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the audited consolidated financial statements of the Group for the year ended 31 December 2010.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amount set out in the Group's audited consolidated financial statements for the year ended 31 December 2010. The procedures performed by PricewaterhouseCoopers did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2010.

AUDITORS

The financial statements for the year ended 31 December 2010 have been audited by the Group's auditors, PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the 2011 annual general meeting.

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

Hong Kong, 24 March 2011

As at the date of this announcement, the Board of the Company comprises (i) five executive directors, namely Mr. Chu Chih-Yaung, Mr. Chen Hsiang-Jung, 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. Chiang Chun-Te and Mr. Yu Yu-Tang.