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 2011

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 2011 and the Group's audited consolidated statement of financial position at 31 December 2011, together with the relevant comparative figures for the previous year.

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Increase/
	2011	2010	(Decrease)
	RMB'000	*RMB'000*	*%*
Revenue	**1,884,132**	1,374,183	37.1%
Gross profit	**439,216**	355,535	23.5%
Profit attributable to equity holders of the Company	**153,690**	158,746	(3.2%)
Profit attributable to equity holders of the Company excluding exceptional gain	**153,690**	139,740	10.0%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	Year ended 31 December **2011** *RMB'000*	2010 *RMB'000*
Revenue	*3*	**1,884,132**	1,374,183
Cost of revenue		**(1,444,916)**	(1,018,648)
Gross profit		**439,216**	355,535
Other income	*4*	**30,386**	20,674
Distribution and selling expenses	*5*	**(149,595)**	(110,404)
Administrative expenses	*5*	**(110,127)**	(84,544)
Other operating expenses	*5*	**(3,010)**	(3,000)
Excess of the net fair value of identifiable assets, liabilities and contingent liabilities of business acquired over cost	*6*	**–**	19,006
Operating profit		**206,870**	197,267
Finance costs	*7*	**(8,821)**	(3,461)
Share of loss of jointly controlled entities		**(1,017)**	–
Profit before income tax		**197,032**	193,806
Income tax expense	*8*	**(43,342)**	(35,060)
Profit attributable to equity holders of the Company		**153,690**	158,746
Other comprehensive income:			
Currency translation differences		**(981)**	(161)
Other comprehensive income for the year		**(981)**	(161)
Total comprehensive income for the year attributable to equity holders of the Company		**152,709**	158,585
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*	**0.38**	0.41
Dividends	*10*	**88,704**	100,800

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Land use rights		**40,367**	41,310
Property, plant and equipment		**288,677**	228,404
Investment property		**1,442**	2,042
Intangible assets		**14,779**	16,623
Investments in jointly controlled entities		**19,952**	8,192
Deferred income tax assets		**4,534**	5,545
Deposits for purchases of plant and equipment		**2,178**	20,146
		371,929	322,262
Current assets			
Inventories		**532,791**	341,829
Debtors, deposits and prepayments	*11*	**622,577**	428,298
Amounts due from customers for contract work		**29,135**	22,943
Amount due from ultimate holding company		**–**	139
Amounts due from and prepayment to fellow subsidiaries and associates of ultimate holding company		**289**	3,436
Restricted bank deposits		**35,205**	29,158
Cash and cash equivalents		**140,482**	161,045
		1,360,479	986,848
Total assets		**1,732,408**	1,309,110
Equity			
Equity attributable to equity holders of the Company			
Share capital		**4,022**	4,022
Share premium	*12*	**183,088**	271,792
Capital reserves	*12*	**77,338**	77,338
Other reserves	*12*	**43,783**	44,764
Retained earnings	*12*	**374,137**	220,447
Total equity		**682,368**	618,363

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Liabilities			
Non-current liabilities			
Borrowings		**–**	6,614
Deferred income tax liabilities		**21,800**	15,788
		21,800	22,402
Current liabilities			
Creditors, other payables and accrued charges	*13*	**600,101**	454,057
Amounts due to customers for contract work		**26,364**	15,674
Amount due to ultimate holding company		**1,542**	–
Amount due to immediate holding company		**4,624**	2,213
Amount due to a jointly controlled entity		**–**	7,335
Amount due to a fellow subsidiary		**11,661**	–
Current income tax liabilities		**11,515**	11,783
Warranty provision		**8,278**	8,099
Borrowings		**364,155**	169,184
		1,028,240	668,345
Total liabilities		**1,050,040**	690,747
Total equity and liabilities		**1,732,408**	1,309,110
Net current assets		**332,239**	318,503
Total assets less current liabilities		**704,168**	640,765

Notes:

1. GENERAL INFORMATION

Good Friend International Holdings Inc. ("the Company") and its subsidiaries ("the Group") are engaged in the 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 2011 but do not have a material impact on the Group:

HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	Third annual improvements projects (2010) published in May 2010

2. BASIS OF PREPARATION (Continued)

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of HKFRS 9 and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess the full impact of HKFRS 10 and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of HKFRS 12 and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess the full impact of HKFRS 13 and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 and total assets for each reportable segment.

	Machine Tools	**Parking Garage structures**	**Forklift Trucks**	**Total Group**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
For the year ended 31 December 2011				
Revenue (all from external sales)	**1,501,751**	**121,385**	**260,996**	**1,884,132**
Cost of revenue	**(1,094,285)**	**(105,098)**	**(245,533)**	**(1,444,916)**
Segment profit	**407,466**	**16,287**	**15,463**	**439,216**

	Machine Tools	Parking Garage structures	Forklift Trucks	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*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

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

4. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
Sale of scrap materials	**5,295**	6,485
Net exchange gain	**9,143**	6,660
Government subsidies	**864**	1,825
Repair income	**8,385**	2,190
Rental income from investment properties	**239**	335
Interest income	**3,654**	1,321
Others	**2,806**	1,858
	30,386	20,674

5. EXPENSES BY NATURE

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories sold	**1,335,059**	957,498
Sales commission	**30,178**	23,285
Depreciation of property, plant and equipment	**21,233**	16,880
Depreciation of investment properties	**101**	133
Amortisation of intangible assets	**2,130**	1,836
Amortisation of land use rights	**943**	943
Operating lease rental on land and buildings	**11,173**	5,993
Employee benefit expenses	**149,248**	89,801
Allowance for bad and doubtful debts, net	**(1,061)**	5,540
Allowance for inventories, net	**1,108**	(2,903)
Auditor's remuneration	**1,659**	1,149
Provision for warranty	**7,878**	9,465
Loss on disposal of property, plant and equipment	**398**	732
Research and development expenses	**57,782**	39,428
Transportation fees	**22,346**	15,641
Others	**67,473**	51,175
Total cost of revenue, distribution and selling expenses, administrative expenses and other expenses	**1,707,648**	1,216,596

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 in 2010. As a result, the Group was able to offer a preferential bidding price to win the auction.

7. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest expense:		
– Bank borrowings wholly repayable within 5 years	**8,821**	3,461

8. INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
Enterprise income tax	**36,319**	33,225
Deferred tax	**7,023**	1,835
	43,342	35,060

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. In addition, no provision for Italian profits tax had been made in 2011 as the Italian operations of the Group did not have any assessable profits.

Enterprise income tax ("EIT") is provided for enterprises in the PRC. In 2011, Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend") renewed its New and High-Tech Enterprise status, 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 2011. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2011 is 15% (2010: 15%).

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB153,690,000 (2010: RMB158,746,000) by the weighted average number of ordinary shares in issue during the year of 403,200,000 (2010: 389,760,000).

	2011	2010
Basic and Diluted earnings per share *(RMB per share)*	**0.38**	0.41

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

10. DIVIDENDS

The dividends paid in 2011 and 2010 were RMB88,704,000 (RMB0.22 per share) and RMB108,864,000 (RMB0.27 per share) respectively. At a meeting of directors held on 27 March 2012, the directors resolved to recommend a final dividend of RMB0.10 (2010: RMB0.10) per share for the year ended 31 December 2011. This proposed final dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2011.

	2011	2010
	RMB'000	*RMB'000*
Interim dividend paid of RMB0.12 (2010: RMB0.15) per ordinary share	**48,384**	60,480
Proposed final dividend of RMB0.10 (2010: RMB0.10) per ordinary share	**40,320**	40,320
	88,704	100,800

The proposed final dividend for the year ended 31 December 2011 is to be declared out of the share premium of the Company.

The aggregate amounts of the dividends paid and proposed during 2010 and 2011 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		**Company**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade debtors and bills receivables	**553,407**	381,143	**7,319**	–
Less: provision for impairment of trade receivables	**(23,082)**	(29,656)	**–**	–
Trade receivables – net	**530,325**	351,487	**7,319**	–
Prepayments	**47,368**	42,091	**214**	–
Others	**44,884**	34,720	**25**	154
Total debtors, deposits and prepayments	**622,577**	428,298	**7,558**	154

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 2011 and 2010, the ageing analysis of trade debtors and bills receivable were as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	RMB'000
Current – 30 days	**451,349**	293,558	**7,319**	–
31 – 60 days	**10,388**	10,508	**–**	–
61 – 90 days	**9,257**	11,510	**–**	–
91 – 180 days	**25,565**	17,326	**–**	–
Over 180 days	**56,848**	48,241	**–**	–
	553,407	381,143	**7,319**	–

12. RESERVES

			Other reserves				
	Share premium	**Capital reserve**	**General reserve**	**Enterprise expansion reserve**	**Translation**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	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
Dividends paid	(88,704)	–	–	–	–	–	(88,704)
Profit for the year	–	–	–	–	–	153,690	153,690
Currency translation difference	–	–	–	–	(981)	–	(981)
At 31 December 2011	183,088	77,338	35,836	9,089	(1,142)	374,137	678,346

13. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

	Group	
	2011	2010
	RMB'000	*RMB'000*
Trade creditors	**302,299**	167,285
Advance deposits from customers	**227,222**	218,106
Other payables	**39,356**	36,103
Accrued expenses	**31,224**	32,563
	600,101	454,057

The Group normally receives credit terms of 30 to 60 days. At 31 December 2011 and 2010, the ageing analysis of the trade payables was as follows:

	2011	2010
	RMB'000	*RMB'000*
Current – 30 days	**224,490**	128,544
31 – 60 days	**57,619**	25,296
61 – 90 days	**7,752**	6,418
91 – 180 days	**2,253**	4,373
Over 180 days	**10,185**	2,654
	302,299	167,285

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Notwithstanding the tight monetary policy implemented by the Chinese Government during 2011, the gross domestic product (GDP) of the mainland China was RMB47.1 trillion in 2011, representing a growth of 9.2% over 2010. The economy of China still maintained its good momentum of development and had driven the country's fixed assets investment to leap by 23.8% year-on-year in 2011. Also consumption of machine tools in China amounted to approximately US$39.1 billion in 2011 (2010: approximately US$29.4 billion), still maintaining an encouraging growth.

The Group's mainstream product, CNC machine tools, focuses mainly on China market. That business was therefore benefited by the sustainable growth in the economy of China, coupled with the Group's advantage in the comprehensive sales services provided by its existing sales network in China. For the year ended 31 December 2011, sales volume and sales revenue of the Group's CNC machine tools business amounted to 3,542 units and approximately RMB1,501.75 million respectively (2010: 2,546 units and approximately RMB1,135.470 million), both representing encouraging growth when compared with 2010. This is also a testimonial to the good acceptance of the Group's products by the customers. On the other hand, the Group's phase one production base in Jiangdong, Hangzhou (owned by Hangzhou Glory Friend Machinery Technology Co., Ltd) had already commenced production in May 2011. This could further provide a solid backup for the Group's CNC machine tools business.

Financial review

Revenue

For the year ended 31 December 2011, the Group recorded revenue of approximately RMB1,884.13 million, representing an increase of approximately 37.1% as compared with that in 2010. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 3,542 units, 8,121 units and 4,161 units respectively (2010: 2,546 units, 5,861 units and 2,064 units). CNC machine tools remained the major source of the Group's revenue. The number of CNC machine tools sold increased from 2,546 units in 2010 to 3,542 units this year. Sales of the product rose from approximately RMB1,135.47 million in 2010 to RMB1,501.75 million this year, an increase of approximately 32.3% and representing approximately 79.7% of the Group's total revenue. CNC machine tools focuses mainly on 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 2011. Sales revenue of the Group's CNC machine tools business in 2011 therefore recorded encouraging growth. Amongst this, sales revenue of double column machining centre (manufactured at factory in Hangzhou) and milling centre (manufactured at Rambaudi factory in Italy) amounted to approximately RMB179.37 million for this year, accounted for approximately 12.0% of sales revenue of the Group's CNC machine tools, whilst selling price of the Rambaudi milling centre is approximately 9 times or more the average selling price of the Group's CNC machine tools products. The operating gross profit margin for CNC machine tools during the year was approximately 27.1%.

On the other hand, driven by robust demand in China, sales revenue of the Group's forklift trucks business increased by approximately 73.2% from RMB150.65 million in 2010 to RMB261.00 million this year, representing an increase to approximately 13.9% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB121.39 million during the year, representing an increase of approximately 37.8% as compared to 2010 and accounted for approximately 6.4% of the total revenue of the Group.

Gross profit and gross profit margin

For the year ended 31 December 2011, gross profit of the Group amounted to approximately RMB439.22 million (2010: RMB355.54 million). Overall gross profit margin of the Group was approximately 23.3% (2010: 25.9%). The gross profit margin of CNC machine tools during the year decreased as compared to the last year. As a result, the overall gross profit margin for the year decreased.

Distribution and selling expenses

Distribution and selling expenses increased by approximately 35.5% from approximately RMB110.40 million in 2010 to approximately RMB149.60 million for the year. Such increase was mainly due to the increase in sales revenue of the Group's 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 7.9% (2010: 8.0%)

Administrative expenses

Administrative expenses increased by approximately 30.3% from approximately RMB84.54 million in 2010 to approximately RMB110.13 million for the year. During the year, the relevant research & development expenses amounted to approximately RMB57.78 million (2010: RMB39.43 million). Such increase was in line with the increase in the sales revenue of CNC machine tools (the Group's major product) during the year. Despite that, general administrative expenses increased by approximately 16.0%. This was mainly attributable to the increase of the depreciation charges and the staff costs etc. deriving from the Group's operation in the mainland China.

Finance costs

During the year ended 31 December 2011, finance costs increased to approximately RMB8.82 million (2010: RMB3.46 million). The increase was primarily due to the increase in the average bank borrowings of the Group during the year, as well as the increase in the interest rate for bank borrowings in the mainland China during the year.

Exceptional gain

Pursuant to Hong Kong Financial Reporting Standard 3 (Revised) "Business combinations", the Group has to perform valuation on the Rambaudi assets (including inventories etc.) in Italy 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 were greater than the book values as at acquisition. The resulting difference amounted to approximately Euro 2.18 million or RMB19.01 million was properly accounted for in the Group's income statement of previous year (2010) in accordance with the relevant accounting standard.

Profit attributable to the equity holders of the Company

During the year ended 31 December 2011, the Company's profit attributable to equity holders of the Company amounted to approximately RMB153.69 million, representing a decrease of approximately 3.2% as compared to the previous year. Excluding the one-off exceptional gain of RMB19.01 million in 2010, the net profit for 2011 then represented an increase of approximately 10.0% as compared to that of 2010.

Liquidity and financial resources

As at 31 December 2011, the Group had net current assets of approximately RMB332.24 million (2010: RMB318.50 million), shareholders' fund of approximately RMB682.37 million (2010: RMB618.36 million) and short-term bank borrowings of approximately RMB364.16 million (2010: RMB169.18 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 2011 amounted to approximately RMB140.48 million (2010: RMB161.05 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.3 times (2010: 1.5 times). The gearing ratio (ratio of total debts to total assets) was approximately 21.0% (2010: 13.4%), 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 2011 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2010: 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 of 31 December 2011, the total outstanding short-term borrowings stood at approximately RMB364.16 million (2010: RMB169.18 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 2011, the Group employed a total of 1,900 (2010: 1,600) full-time employees in Hong Kong, China and Italy. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB166.50 million (2010: RMB99.96 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 RMB 6.98 million (2010: RMB4.10 million) to the said schemes.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB6.50 million (2010: RMB27.10 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2011 (2010: Nil).

Charges on the Group's assets

As at 31 December 2011, restricted bank deposits with an amount of approximately RMB35.21 million (2010: RMB29.16 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 RMB38.39 million (2010: RMB39.76 million) to secure general banking facilities granted to them.

Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2011, 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 their 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

The global economic environment remains volatile in 2012. In respect of the economy of China, the Chinese Government is trying to strike balance amongst growth, inflation and economic transition. Chinese Government's tight monetary policy inevitably undermines the demand of corporate capital investments. Nevertheless, China is the largest machine tools consuming country. The formulation of the 12th Five-Year Plan (2011-2015) by the central government of China would stimulate the demand for machine tools from the industries of high-speed railway, aerospace, motor vehicle and energy especially demand of those hi-tech CNC machine tools. Moreover, due to increasing labor shortage in China, manufacturers are prompted to use more automatic equipment such as CNC machines in order to raise production efficiency. This in turn will benefit the Group's CNC machine tools business. On the other hand, the Group will continue to strengthen the R&D capabilities and enhance the product mix of its CNC machine tools products, in order to provide high quality CNC machine tools to the customers as well as maintain the Group's competitive edge in the China market.

Looking ahead, the possible slower economic growth and continued tight monetary policy in China will pose challenge to the business of the Group. Despite that, the management believes that with its extensive sales network, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continues to strengthen its market position. The management will strive to strengthen the cost control and production efficiency for achieving better results, in order to bring favorable returns to the shareholders of the Company.

ACKNOWLEDGEMENT

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to the shareholders of the Company, the Group's customers and suppliers for their continued support. I would also like to thank my fellow directors and all staff for their considerable contributions to the Group.

FINAL DIVIDEND

The Board proposed, subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 25 May 2012, a final dividend out of the share premium account of the Company of RMB0.10 (equivalent to approximately HK$0.123 according to the average mean 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 2011, amounting to RMB40.32 million (equivalent to approximately HK$49.59 million) payable to shareholders whose names appear on the register of members of the Company on Thursday, 7 June 2012. The payment date of the final dividend will be announced later.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22 May 2012 to Friday, 25 May 2012, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attendance and voting at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East,Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 21 May 2012.

The register of members will be closed from Tuesday, 5 June 2012 to Thursday, 7 June 2012, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East,Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 4 June 2012.

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 20 May 2011 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 2011, 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 2011.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2011. 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 2011.

AUDITORS

The financial statements for the year ended 31 December 2011 have been audited by the Group's auditors, PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the 2012 annual general meeting.

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

Hong Kong, 27 March 2012

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.