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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)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the “Board”) of directors (the “Directors”) of Good Friend International Holdings Inc. (the “Company”) presents the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 and the Group’s consolidated statement of financial position at 31 December 2018, together with the relevant comparative figures for the previous year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>NOTES</i>	2018 <i>RMB’000</i>	2017 <i>RMB’000</i>
Revenue	<i>3A</i>	1,090,693	1,294,801
Cost of revenue	<i>3B</i>	(799,966)	(982,286)
Gross profit		290,727	312,515
Other income	<i>4</i>	84,483	83,483
Distribution and selling expenses		(132,609)	(139,925)
Administrative expenses		(64,137)	(71,006)
Research and development costs		(37,087)	(43,796)
Impairment loss on trade receivables and contract assets		(8,875)	(5,505)
Other gains and losses		(28,321)	883
Other expenses	<i>5</i>	(87,968)	(35,517)
Other operating expenses		(1,458)	(1,612)
Finance costs	<i>6</i>	(14,180)	(8,803)
Share of profit of joint ventures		2,118	1,893
Share of loss of associates		(45,423)	(7,544)

		2018	2017
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss) profit before income tax	7	(42,730)	85,066
Income tax expense	8	<u>(14,994)</u>	<u>(19,376)</u>
(Loss) profit attributable to owners of the Company		<u>(57,724)</u>	<u>65,690</u>
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income (expense) of associates		<u>1,021</u>	<u>(522)</u>
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expense) of associates		17,228	(47,272)
Exchange difference arising on translation of foreign operations		2,664	25,600
Net fair value gain on receivables at fair value through other comprehensive income ("FVTOCI")		<u>1,999</u>	<u>–</u>
		<u>21,891</u>	<u>(21,672)</u>
Total comprehensive (expense) income attributable to owners of the Company		<u>(34,812)</u>	<u>43,496</u>
(Loss) earnings per share (expressed in RMB per share)			
– Basic	9	<u>(0.14)</u>	<u>0.16</u>
Dividends	10	<u>44,352</u>	<u>20,160</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	<i>NOTES</i>	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		204,710	180,401
Prepaid lease payments		120,147	123,052
Intangible assets		2,215	3,203
Investments in joint ventures		20,505	18,387
Investments in associates		331,323	355,917
Deferred income tax assets		27,520	22,401
		706,420	703,361
Current assets			
Inventories		524,752	345,626
Trade and other receivables and prepayment	<i>11</i>	345,810	541,941
Contract assets		46,727	–
Loan receivable		35,627	–
Receivables at FVTOCI		106,400	–
Amounts due from customers for contract work		–	50,270
Prepaid lease payments		2,905	2,905
Amount due from ultimate holding company		–	1,053
Amounts due from fellow subsidiaries and associates of ultimate holding company		23	1,476
Amounts due from joint ventures		461	852
Amounts due from associates and subsidiaries of an associate		151,059	119,083
Restricted bank deposits and bank balances		69,987	32,716
Structured deposits		–	76,140
Financial assets at fair value through profit or loss (“FVTPL”)		108,020	–
Bank balances and cash		112,673	98,071
		1,504,444	1,270,133

	<i>NOTES</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current liabilities			
Trade and other payables and accrued expenses	<i>12</i>	242,969	589,692
Contract liabilities		358,751	–
Amounts due to customers for contract work		–	42,813
Amount due to ultimate holding company		638	7,400
Amount due to immediate holding company		2,832	2,123
Amounts due to fellow subsidiaries and associates of ultimate holding company		3,637	3,673
Amounts due to joint ventures		362	608
Amounts due to an associate and subsidiaries of an associate		28,435	37,327
Provision for litigation claim		60,117	–
Refund liabilities		100,903	–
Current income tax liabilities		21,979	28,091
Bank borrowings		563,239	367,428
Warranty provision		5,311	5,755
		<u>1,389,173</u>	<u>1,084,910</u>
Net current assets		<u>115,271</u>	<u>185,223</u>
Total assets less current liabilities		<u>821,691</u>	<u>888,584</u>
Non-current liabilities			
Other borrowings		35,093	–
Deferred income		70,192	61,180
		<u>105,285</u>	<u>61,180</u>
Net assets		<u>716,406</u>	<u>827,404</u>
Capital and reserves			
Share capital		4,022	4,022
Share premium		82,281	82,281
Capital reserves		77,338	77,338
Other reserves		58,361	39,576
Retained earnings		494,404	624,187
Total equity		<u>716,406</u>	<u>827,404</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

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

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

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

These consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

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

3A. REVENUE

Disaggregation of revenue

For the year ended 31 December 2018

	Total <i>RMB'000</i>
Machine Tools	928,341
Parking Garage Structures	89,814
Forklift Trucks	72,538
	<hr/>
	1,090,693
	<hr/> <hr/>

Transaction price allocated to the remaining performance obligations for contracts with customers

The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied as the Group's contract has an original expected duration of less than one year.

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 consolidated financial statements.

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

	Machine Tools <i>RMB'000</i>	Parking Garage Structures <i>RMB'000</i>	Forklift Trucks <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2018				
Revenue (all from external sales)	928,341	89,814	72,538	1,090,693
Cost of revenue	(665,102)	(70,291)	(64,573)	(799,966)
Segment profit	<u>263,239</u>	<u>19,523</u>	<u>7,965</u>	<u>290,727</u>
	Machine Tools <i>RMB'000</i>	Parking Garage Structures <i>RMB'000</i>	Forklift Trucks <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2017				
Revenue (all from external sales)	1,009,354	186,165	99,282	1,294,801
Cost of revenue	<u>(737,198)</u>	<u>(154,055)</u>	<u>(91,033)</u>	<u>(982,286)</u>
Segment profit	<u>272,156</u>	<u>32,110</u>	<u>8,249</u>	<u>312,515</u>

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Sale of scrap materials	38,055	44,572
Consultancy income	2,629	–
Government grants and subsidies related to income*	22,787	22,182
Repair income	13,780	10,888
Rental income	460	220
Interest income	4,496	4,261
Others	2,276	1,360
	<u>84,483</u>	<u>83,483</u>

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

5. OTHER EXPENSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Provision for litigation claim	60,117	–
Cost of scrap materials sold	27,851	35,517
	<u>87,968</u>	<u>35,517</u>

6. FINANCE COSTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest expense:		
– Bank borrowings	14,180	8,803
– Other borrowings	583	–
	<u>14,763</u>	<u>8,803</u>
Total borrowing costs	14,763	8,803
Less: amounts capitalised in the cost of qualifying assets	(583)	–
	<u>14,180</u>	<u>8,803</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.

7. (LOSS) PROFIT BEFORE INCOME TAX

(Loss) profit before income tax has been arrived at after charging:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Directors and chief executives' remuneration	1,690	1,839
Other staff costs	145,906	151,001
Other staff's retirement benefits scheme contributions	4,910	5,036
	<hr/>	<hr/>
Total staff costs	152,506	157,876
Capitalised in inventories	(55,746)	(61,632)
	<hr/>	<hr/>
	96,760	96,244
	<hr/>	<hr/>
Analysed as:		
Charged in selling expense	60,992	65,325
Charged in administrative expenses	23,987	19,057
Charged in research and development cost	11,781	11,862
	<hr/>	<hr/>
	96,760	96,244
	<hr/>	<hr/>
Depreciation of property, plant and equipment	20,795	22,343
Amortisation of prepaid lease payments	2,905	3,032
Amortisation of intangible assets	1,252	1,403
	<hr/>	<hr/>
Total depreciation and amortisation	24,952	26,778
Capitalised in inventories	(10,967)	(10,583)
	<hr/>	<hr/>
	13,985	16,195
	<hr/>	<hr/>

	2018 RMB'000	2017 <i>RMB'000</i>
Analysed as:		
Charged in selling expense	1,261	1,326
Charged in administrative expenses	9,357	11,321
Charged in other operating expense	2,263	2,258
Charged in research and development costs	1,104	1,290
	13,985	16,195
Auditor's remuneration	1,808	1,984
Cost of inventories recognised as an expense	765,594	884,532
Write-down (reversal) of inventories	2,087	(2,981)
Provision for warranty	4,983	6,282
Direct operating expenses incurred for rental income	330	137
Research and development costs		
Staff costs	11,781	11,862
Depreciation and amortisation	1,104	1,290
Cost of inventories recognised as research expenditure	21,076	19,971
Others	3,126	10,673
	37,087	43,796

8. INCOME TAX EXPENSE

	2018 RMB'000	2017 <i>RMB'000</i>
Current Enterprise Income Tax ("EIT")		
– Current year	16,403	18,347
– (Over) under provision in prior years	(610)	1,729
	15,793	20,076
Deferred tax credit	(799)	(700)
	14,994	19,376

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% 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 2018 is 15% (2017: 15%).

9. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is calculated by dividing the loss attributable to owners of the Company amounted to RMB57,724,000 (2017: profit attributable to owners of the Company: RMB65,690,000) by the number of ordinary shares in issue during the year of 403,200,000 (2017: 403,200,000) shares.

	2018	2017
Basic (loss) earnings per share (<i>RMB per share</i>)	<u>(0.14)</u>	<u>0.16</u>

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

10. DIVIDENDS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year: 2018 interim dividend of RMB0.05 per share and 2017 final dividend of RMB0.06 per share (2017: 2017 interim dividend of RMB0.05 per share)	<u>44,352</u>	<u>20,160</u>

No final dividend was proposed for ordinary shareholders of the Company for the year ended 31 December 2018.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	323,790	387,221
<i>Less: provision for impairment of trade receivables</i>	<u>(46,931)</u>	<u>(37,811)</u>
	276,859	349,410
Bills receivables	–	128,054
Prepayments	44,713	41,662
Others	<u>24,238</u>	<u>22,815</u>
Total trade and other receivables and prepayment	<u>345,810</u>	<u>541,941</u>

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 RMB22,699,000 (2017: RMB22,487,000) of which the conditions to entitlement of consideration had been reached and became unconditional.

At 31 December 2018 and 2017, the aging analysis of gross trade receivables based on past due date was as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current – 30 days	207,953	269,787
31 – 60 days	2,365	6,943
61 – 90 days	4,568	8,576
91 – 180 days	10,353	20,052
Over 180 days	98,551	81,863
	323,790	387,221

12. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade payables	163,957	196,462
Advance deposits from customers	–	296,284
Other payables	32,474	54,170
Accrued expenses	46,538	42,776
Total trade and other payables and accrued expenses	242,969	589,692

The following is an aging analysis of trade payables presented based on maturity date:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current – 30 days	92,947	113,021
31 - 60 days	44,181	51,625
61 - 90 days	5,447	7,592
91 -180 days	6,926	12,499
Over 180 days	14,456	11,725
	163,957	196,462

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

According to the economic data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) grew by a year-on-year rate of 6.6% in 2018, representing a generally stable economic development in China. For the year ended 31 December 2018, the Group's major products CNC machine tools recorded satisfactory results. Sales volume and sales revenue amounted to 2,028 units and RMB928.34 million respectively.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB1,090.69 million, representing a decrease of approximately 15.8% as compared to 2017. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,028 units, 10,902 units and 999 units respectively (2017 comparative figures: 2,067 units, 13,727 units and 1,679 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 RMB928.34 million, representing a decrease of approximately 8.0% as compared to 2017. Revenue of CNC machine tools accounted for approximately 85.1% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB89.81 million during the year, representing a decrease of approximately 51.8% as compared to 2017 and accounted for approximately 8.2% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 26.9%, as compared to 2017, to approximately RMB72.54 million and approximately 6.7% of the Group's total revenue.

Gross profit and margin

For the year ended 31 December 2018, gross profit of the Group amounted to approximately RMB290.73 million. Overall gross profit margin was approximately 26.7%, compared to 24.1% for 2017. The gross profit margin of CNC machine tools (the Group's major product) during the year increased to approximately 28.4%. As a result, the overall gross profit margin for the year increased compared to 2017.

Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB132.61 million for the year ended 31 December 2018, decreased by approximately 5.2% as compared to last year. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 12.2%, compared to approximately 10.8% for 2017.

Administrative expenses

Administrative expenses for the year ended 31 December 2018 decreased by approximately 9.7% as compared to 2017. This was mainly attributable to the strengthen of the cost control measures by the management.

Other gains and losses

Other gains and losses represented mainly foreign exchange loss.

Other expenses

For the year ended 31 December 2018, other expenses comprised mainly of approximately RMB60.12 million representing expected loss on settlement of the litigation raised by a customer to the Group's subsidiaries.

Moreover, the supplier (a connected party) of the corresponding products has undertaken in March 2019 that it will make reimbursement to the Group for the final loss on settlement of the litigation. This compensation income will be accounted for by the Group during the year ended 31 December 2019.

Finance costs

During the year, finance costs increased to approximately RMB14.18 million. The increase was primarily due to the increase of average bank borrowings of the Group during 2018.

Share of loss of associates

For the year ended 31 December 2018, share of loss of associates amounted to approximately RMB45.42 million. The amount represented the Group's share of operating results of "FFG European and American" (located in Germany) during the year.

Loss attributable to owners of the Company

For the year ended 31 December 2018, loss attributable to owners of the Company amounted to approximately RMB57.72 million. For the year ended 31 December 2017, profit attributable to owners of the Company amounted to approximately RMB65.69 million.

Liquidity and financial resources

As at 31 December 2018, the Group had net current assets of approximately RMB115.27 million (2017: RMB185.22 million), shareholders' fund of approximately RMB716.41 million (2017: RMB827.40 million) and short-term bank borrowings of approximately RMB563.24 million (2017: RMB367.43 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 2018 amounted to approximately RMB112.67 million (2017: RMB98.07 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.1 times (2017: 1.2 times). The gearing ratio (ratio of total debts to total assets) was approximately 25.5% (2017: 18.6%), indicating that the Group continued to maintain solid financial position.

Capital structure and treasury policies

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

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks. As at 31 December 2018, the total outstanding short-term borrowings stood at approximately RMB563.24 million (2017: RMB367.43 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 2018, the Group employed a total of 1,160 (2017: 1,240) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB152.51 million (2017: RMB157.88 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

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

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year ended 31 December 2018, the Group contributed approximately RMB4.91 million (2017: RMB5.04 million) to the said schemes.

Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB53.13 million (2017: RMB2.62 million) which are contracted but not provided in the consolidated financial statements for the year ended 31 December 2018. The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

Charges on the Group's assets

As at 31 December 2018, restricted bank deposits and bank balances with an amount of approximately RMB69.99 million (2017: RMB32.72 million) represented mainly bank balances being frozen by banks in relation to a litigation claim raised by a customer.

Meanwhile, subsidiaries of the Company pledged its land and buildings with an aggregate carrying amount of approximately RMB95.36 million (2017: RMB11.78 million) to secure general banking facilities granted to them. As at 31 December 2018, the subsidiary has utilized such secured bank facilities of approximately RMB35.09 million (2017: Nil).

Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2018, 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

China's economy continued to sail on against the wind. China remains as the growth engine to the world economy, China is the largest machine tools consuming country. It is anticipated that the demand of machine tools from the industries of high-speed railway, transit rails, aerospace, and energy in China, especially demand of those high-end CNC machine tools, would still be great. This in turn will benefit the Group's CNC machine tools business. The Group will continue to explore and sell those high-end CNC machine tools products (production of such primarily from Italy and Germany) to the customers. The management believes that with its extensive sales network and comprehensive after-sales service, solid business foundation as well as outstanding product quality, the Group is capable of meeting customers' different needs and continue to strengthen its market position.

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 2018 (2017: RMB0.06 per ordinary share).

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 of Hong Kong Limited (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 7 June 2018 due to his business trip and Mr. Chen Hsiang-Jung, an executive Director, took the chair of the annual general meeting pursuant to the articles of association of the Company.

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 2018, 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”) 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. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the consolidated financial statements of the Group for the year ended 31 December 2018.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect 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 Messrs. Deloitte Touche Tohmatsu 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 2018.

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

Hong Kong, 29 March 2019

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. Chiang Chun-Te and Mr. Yu Yu-Tang.