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GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the “Board”) of directors (the “Directors”) of Good Friend International Holdings Inc. (the “Company”) presents the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020 and the Group’s unaudited consolidated statement of financial position as at 31 December 2020, together with the relevant comparative figures for the previous year. For the reasons explained in the paragraph headed “Review of Unaudited Annual Results” in this announcement, the auditing process for the annual results of the Group for the year ended 31 December 2020 has not been completed.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>NOTES</i>	2020 RMB’000 (Unaudited)	2019 RMB’000 (Audited)
Revenue	<i>3A</i>	875,318	910,695
Cost of revenue	<i>3B</i>	(678,847)	(701,597)
Gross profit		196,471	209,098
Other income	<i>4</i>	56,941	157,038
Distribution and selling expenses		(94,852)	(121,928)
Administrative expenses		(57,485)	(71,562)
Research and development costs		(27,750)	(29,086)
(Impairment loss)/reversal of impairment loss on trade receivables and contract assets		(12,985)	3,009
Other gains and losses		36,509	(7,547)
Other expenses	<i>5</i>	(22,741)	(22,805)
Other operating expenses		(1,398)	(1,297)
Finance costs	<i>6</i>	(18,635)	(24,744)
Share of profit of joint ventures		615	1,141
Share of loss of associates		(278,958)	(57,089)

	<i>NOTES</i>	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
(Loss)/profit before tax	7	(224,268)	34,228
Income tax expense	8	<u>(15,848)</u>	<u>(22,069)</u>
(Loss)/profit attributable to owners of the Company		<u>(240,116)</u>	<u>12,159</u>
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		12,394	(4,790)
Net fair value (loss)/gain on receivables at fair value through other comprehensive income (“FVTOCI”)		(154)	246
Share of other comprehensive income of associates		<u>(25,587)</u>	<u>12,637</u>
		<u>(13,347)</u>	<u>8,093</u>
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income of associates		<u>(4,137)</u>	<u>(28,080)</u>
Total comprehensive income attributable to owners of the Company		<u>(257,600)</u>	<u>(7,828)</u>
(Loss)/earnings per share <i>(expressed in RMB per share)</i>			
	9		
– Basic		<u>(0.60)</u>	<u>0.03</u>
– Diluted		<u>N/A</u>	<u>N/A</u>
Dividends	10	<u>–</u>	<u>–</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	<i>NOTES</i>	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		204,098	218,344
Right-of-use assets		122,251	124,371
Intangible assets		1,047	1,407
Investments in joint ventures		22,261	21,646
Investments in associates		96,284	392,326
Deferred tax assets		28,551	27,991
		<hr/> 474,492 <hr/>	<hr/> 786,085 <hr/>
Current assets			
Inventories		431,164	493,053
Trade and other receivables and prepayments	<i>11</i>	166,688	227,096
Contract assets		52,653	44,399
Loans receivable		49,691	48,394
Receivables at FVTOCI		120,105	101,945
Amount due from ultimate holding company		1,008	–
Amount due from immediate holding company		8	–
Amounts due from fellow subsidiaries and associates of ultimate holding company		28,087	6,248
Amounts due from joint ventures		644	512
Amounts due from associates and subsidiaries of an associate		370,849	235,155
Restricted bank balances		139,426	106,333
Bank and cash balances		104,014	74,860
		<hr/> 1,464,337 <hr/>	<hr/> 1,337,995 <hr/>

	<i>NOTES</i>	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Current liabilities			
Trade and other payables and accrued expenses	12	471,137	389,300
Contract liabilities		260,711	300,336
Deferred income		1,410	1,410
Amount due to ultimate holding company		1,503	157
Amount due to immediate holding company		15,627	815
Amounts due to fellow subsidiaries and associates of ultimate holding company		2,005	2,457
Amounts due to joint ventures		517	380
Amounts due to an associate and subsidiaries of an associate		24,111	23,481
Lease liabilities		2,623	2,486
Provision for litigation claim		36,335	60,117
Refund liabilities		106,211	100,903
Current tax liabilities		25,272	17,445
Bank and other borrowings		423,814	400,071
Warranty provision		3,409	4,019
		<u>1,374,685</u>	<u>1,303,377</u>
Net current assets		<u>89,652</u>	<u>34,618</u>
Total assets less current liabilities		<u>564,144</u>	<u>820,703</u>
Non-current liabilities			
Bank and other borrowings		38,506	36,760
Deferred income		72,270	73,680
Lease liabilities		2,489	1,784
		<u>113,265</u>	<u>112,224</u>
Net assets		<u><u>450,879</u></u>	<u><u>708,479</u></u>
Capital and reserves			
Share capital		4,021	4,021
Share premium		82,183	82,183
Capital reserves		77,338	77,338
Other reserves		53,107	66,454
Retained earnings		234,230	478,483
Total equity		<u><u>450,879</u></u>	<u><u>708,479</u></u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION

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

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

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

(a) *Application of new and revised HKFRSs*

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the unaudited consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendments to HKFRS 16, COVID-19 Related Rent Concessions.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these unaudited consolidated financial statements.

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

Other than the amendments to HKFRS 16, COVID-19 Related Rent Concessions, the Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018 – 2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current	1 January 2023

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

3A. REVENUE

Disaggregation of revenue

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

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Machine tools	696,106	739,056
– Parking garage structures	157,214	107,345
– Forklift trucks	21,998	64,294
	875,318	910,695

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

3B. SEGMENT INFORMATION

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

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

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

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

	Machine tools <i>RMB’000</i> (Unaudited)	Parking garage structures <i>RMB’000</i> (Unaudited)	Forklift trucks <i>RMB’000</i> (Unaudited)	Total <i>RMB’000</i> (Unaudited)
For the year ended 31 December 2020				
Revenue (from external customers)	696,106	157,214	21,998	875,318
Cost of revenue	<u>(527,615)</u>	<u>(126,991)</u>	<u>(24,241)</u>	<u>(678,847)</u>
Segment profit/(loss)	<u><u>168,491</u></u>	<u><u>30,223</u></u>	<u><u>(2,243)</u></u>	196,471
Share of profit of joint ventures				615
Share of loss of associates				(278,958)
Unallocated amounts:				
Other income				56,941
Distribution and selling expenses				(94,852)
Administrative expenses				(57,485)
Research and development costs				(27,750)
Impairment loss on trade receivables and contract assets				(12,985)
Other gains and losses				36,509
Other expenses				(22,741)
Other operating expenses				(1,398)
Finance costs				<u>(18,635)</u>
Loss before tax				<u><u>(224,268)</u></u>

	Machine tools <i>RMB'000</i> (Audited)	Parking garage structures <i>RMB'000</i> (Audited)	Forklift trucks <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
For the year ended 31 December 2019				
Revenue (from external customers)	739,056	107,345	64,294	910,695
Cost of revenue	<u>(549,878)</u>	<u>(88,079)</u>	<u>(63,640)</u>	<u>(701,597)</u>
Segment profit	<u>189,178</u>	<u>19,266</u>	<u>654</u>	209,098
Share of profit of joint ventures				1,141
Share of loss of associates				(57,089)
Unallocated amounts:				
Other income				157,038
Distribution and selling expenses				(121,928)
Administrative expenses				(71,562)
Research and development costs				(29,086)
Reversal of impairment loss on trade receivables and contract assets				3,009
Other gains and losses				(7,547)
Other expenses				(22,805)
Other operating expenses				(1,297)
Finance costs				<u>(24,744)</u>
Profit before tax				<u>34,228</u>

For the years ended 31 December 2019 and 2020, 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

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
Compensation income from an associate	–	72,667
Sale of scrap materials	23,550	31,118
Consultancy income	2,795	4,301
Government grants and subsidies related to income*	9,069	19,890
Repair income	13,922	16,265
Rental income	593	1,261
Interest income	3,356	3,842
Others	3,656	7,694
	<u>56,941</u>	<u>157,038</u>

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

5. OTHER EXPENSES

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
Provision for refund liabilities	5,308	–
Cost of scrap materials sold	17,433	22,805
	<u>22,741</u>	<u>22,805</u>

6. FINANCE COSTS

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
Interest expenses on:		
– Bank borrowings	18,365	24,573
– Other borrowings	1,746	1,667
– Lease liabilities	270	171
Total borrowing costs	20,381	26,411
Less: amounts capitalised in the cost of qualifying assets	(1,746)	(1,667)
	<u>18,635</u>	<u>24,744</u>

Borrowing costs on other borrowings capitalised during the year are calculated by applying a capitalisation rate of 4.75% per annum (2019: 4.75%).

7. (LOSS)/PROFIT BEFORE TAX

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

	2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Audited)
Directors' remuneration	1,876	1,721
Other staff costs	133,409	146,751
Other staff's retirement benefits scheme contributions	475	5,543
	<hr/>	<hr/>
Total staff costs	135,760	154,015
Capitalised in inventories	(43,616)	(52,685)
	<hr/>	<hr/>
	92,144	101,330
	<hr/>	<hr/>
Depreciation of property, plant and equipment	17,148	18,716
Depreciation on right-of-use assets	6,424	5,602
Amortisation of intangible assets	570	824
	<hr/>	<hr/>
Total depreciation and amortisation	24,142	25,142
Capitalised in inventories	(7,688)	(9,710)
	<hr/>	<hr/>
	16,454	15,432
	<hr/>	<hr/>
Auditors' remuneration	1,937	1,893
Cost of inventories sold	675,299	695,986
Impairment of inventories	12,565	667
Loss on disposals of property, plant and equipment	(622)	(416)
Impairment loss/(reversal of impairment loss) on trade receivables and contract assets	12,985	(3,009)
Provision for warranty, net	3,549	2,985
Direct operating expenses incurred for rental income	159	469
	<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX EXPENSE

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Current Enterprise Income Tax (“EIT”)		
– Current year	14,725	26,748
– Under/(over) provision in prior years	1,683	(4,208)
	16,408	22,540
Deferred tax	(560)	(471)
	15,848	22,069

No provision for Hong Kong Profits Tax has been made since the Group did not have any assessable profit subject to Hong Kong Profits Tax for both years.

EIT is provided at 25% (2019: 25%) for subsidiaries in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. (“Hangzhou Good Friend”). Hangzhou Good Friend has been approved by the relevant government authorities and recognised as a new and high-tech enterprise. As such, Hangzhou Good Friend is entitled to a reduced tax rate of 15% for a three-year period commencing from 2018. Accordingly, the applicable tax rate for Hangzhou Good Friend in 2020 is 15% (2019: 15%).

According to Detailed Implementation Regulations for implementation of the EIT law of the PRC issued on 6 December 2007, dividends paid out by companies established in the PRC to their then foreign investors is subject to 10% withholding tax from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the “beneficial owner” and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%. No dividend was declared and paid by Hangzhou Good Friend during the year (2019: RMB281,653,000).

For the year ended 31 December 2020, the Directors of the Company have assessed that no dividends will be declared by any of the PRC subsidiaries in the foreseeable future so it is concluded that no withholding tax shall be accrued on the undistributed retained earnings of the PRC subsidiaries as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences would not be reversed in the foreseeable future.

9. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the loss attributable to owners of the Company amounted to RMB240,116,000 (2019: profit attributable to owners of the Company: RMB12,159,000) by the weighted average number of ordinary shares of 403,145,000 (2019: 403,145,000) shares in issue during the year.

	2020 (Unaudited)	2019 (Audited)
Basic (loss)/earnings per share (<i>RMB per share</i>)	(0.60)	0.03

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

10. DIVIDENDS

No dividend was proposed for ordinary shareholders of the Company for the year ended 31 December 2020 (2019: RMB Nil).

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
Trade receivables	168,234	225,452
Less: impairment of trade receivables	<u>(39,846)</u>	<u>(39,596)</u>
	128,388	185,856
Prepayments	11,224	14,749
Other receivables	<u>27,076</u>	<u>26,491</u>
Total trade and other receivables and prepayments	<u>166,688</u>	<u>227,096</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 RMB15,709,000 (2019: RMB22,696,000) of which the conditions to entitlement of consideration had been reached and became unconditional.

At 31 December 2020 and 2019, the aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
0 – 30 days	16,127	21,541
31 – 60 days	11,620	18,300
61 – 90 days	1,631	14,376
91 – 180 days	21,304	23,947
Over 180 days	<u>77,706</u>	<u>107,692</u>
	<u>128,388</u>	<u>185,856</u>

12. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
Trade payables	154,431	162,885
Bills payable	233,382	150,144
Other payables	43,719	32,152
Accrued expenses	39,605	44,119
	<hr/>	<hr/>
Total trade and other payables and accrued expenses	471,137	389,300
	<hr/> <hr/>	<hr/> <hr/>

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

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
0 – 30 days	100,386	54,647
31 - 60 days	78,736	47,414
61 - 90 days	68,407	45,400
91 -180 days	118,333	73,700
Over 180 days	21,951	91,868
	<hr/>	<hr/>
	387,813	313,029
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

China maintained a generally stable economy in 2020. 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 2.3% in 2020.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB875.32 million, representing a decrease of approximately 3.9% as compared to 2019. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 1,601 units, 9,707 units and 280 units respectively (2019 comparative figures: 1,527 units, 7,792 units and 841 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 RMB696.11 million, representing a decrease of approximately 5.8% as compared to 2019. Revenue of CNC machine tools accounted for approximately 79.5% of the Group's total revenue. On the other hand, sales revenue of the Group's parking garage structures business amounted to approximately RMB157.21 million during the year, representing an increase of approximately 46.5% as compared to 2019 and accounted for approximately 18.0% of the total revenue. Moreover, sales revenue of the Group's forklift trucks business during the year decreased by approximately 65.8%, as compared to 2019, to approximately RMB22.00 million and approximately 2.5% of the Group's total revenue.

Gross profit and margin

For the year ended 31 December 2020, gross profit of the Group amounted to approximately RMB196.47 million. Overall gross profit margin was approximately 22.4%, which remained fairly stable when compared to 23.0% for 2019.

Distribution and selling expenses

Distribution and selling expenses, amounted to approximately RMB94.85 million for the year ended 31 December 2020, representing a decrease of approximately 22.2% as compared to last year. This was mainly attributable to the stringent control of the expenses by the management. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 10.8%, compared to approximately 13.4% for 2019.

Administrative expenses

Administrative expenses for the year ended 31 December 2020 decreased by approximately 19.7% as compared to 2019. This was mainly attributable to the management's stringent control of the expenses during the year.

Other gains and losses

Other gains during the year represented approximately RMB13.35 million foreign exchange gain, as well as approximately RMB23.78 million being the reversal of provision for litigation claim following the settlement of the litigation in March 2021.

Finance costs

During the year, finance costs decreased by approximately 24.7% to approximately RMB18.64 million. This was primarily due to the decrease of the interest rates of bank borrowings of the Group during 2020.

Share of loss of associates

For the year ended 31 December 2020, share of loss of associates amounted to approximately RMB278.96 million. The amount represented the Group's share of results of "FFG European and American Holdings GmbH" (an associate located in Germany) during the year.

Loss/Profit attributable to owners of the Company

For the year ended 31 December 2020, loss attributable to owners of the Company amounted to approximately RMB240.12 million. For the year ended 31 December 2019, profit attributable to owners of the Company amounted to approximately RMB12.16 million.

Liquidity and financial resources

As at 31 December 2020, the Group had net current assets of approximately RMB89.65 million (2019: RMB34.62 million), shareholders' fund of approximately RMB450.88 million (2019: RMB708.48 million) and short-term bank borrowings of approximately RMB423.81 million (2019: RMB400.07 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 2020 amounted to approximately RMB104.01 million (2019: RMB74.86 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.1 times (2019: 1.0 times). The gearing ratio (ratio of total debts to total assets) was approximately 21.9% (2019: 18.8%), indicating that the Group's overall financial position remained solid.

Capital structure and treasury policies

The share capital of the Company as at 31 December 2020 was HK\$4,030,740 divided into 403,074,000 shares of HK\$0.01 each (at 31 December 2019: HK\$4,030,740 divided into 403,074,000 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 2020, the total outstanding short-term borrowings stood at approximately RMB423.81 million (2019: RMB400.07 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 2020, the Group employed a total of 950 (2019: 1,080) full-time employees in Hong Kong and China. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB135.76 million (2019: RMB154.02 million). The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

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

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of China and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year ended 31 December 2020, the Group contributed approximately RMB0.48 million (2019: RMB5.54 million) to the said schemes.

Capital commitments and contingencies

The Group's capital expenditure commitments for property, plant and equipment amounted to approximately RMB24.25 million (2019: RMB24.25 million) which are contracted but not provided in the unaudited consolidated financial statements for the year ended 31 December 2020. The Group had no material contingent liabilities as at 31 December 2020 (2019: Nil).

Charges on the Group's assets

As at 31 December 2020, the Group had restricted bank balances with an amount of approximately RMB139.43 million (2019: RMB106.33 million), which mainly represented bank balances being frozen by banks in relation to a litigation claim raised by a customer, as well as deposits placed in banks for acceptance bills.

Meanwhile, a subsidiary of the Company pledged its land with an aggregate carrying amount of approximately RMB80.63 million (2019: RMB82.48 million) to secure financing facilities granted to it. As at 31 December 2020, the subsidiary has utilized such secured financing facilities of approximately RMB38.51 million (2019: RMB36.76 million).

Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2020, 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

At the beginning of 2020, the COVID-19 pandemic had brought about unprecedented challenges on the production and operation of the Group. With the gains achieved by the Chinese government adopting various strict prevention and control policies coupled with the effective business strategies adopted by the Group, the business conditions continued to improve. The overall business performance of the Group notably recovered as from the second quarter of 2020. Though the Group recorded loss during the year which was due to the share of loss of associates located in Germany, the share of loss of associates is a non-cash item and hence there will be no effect on the operating cash flow of the Group. Moreover, before including this item, the Group recorded a profit before tax of approximately RMB54.69 million for the year ended 31 December 2020 under this tough operating environment. The management therefore considers that the overall financial position of the Group remain solid.

Looking ahead, the Chinese government unveiled its clear objective of implementation of the tasks of “six stables” and “six guarantees”. The China's economy is expected to improve steadily under this strategy. The Group will keep close track of the global economic trend and market situation in order to capture business opportunities and reduce operation risks. On the other hand, the management will continue to control operating costs for achieving better operating results of the Group. The management is optimistic on the long-term development prospects of the Group.

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 recommend payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting. The chairman of the Board was unable to attend the annual general meeting of the Company held on 30 June 2020 due to other business engagements and Mr. Koo Fook Sun, Louis, an independent non-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 2020, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

AUDIT COMMITTEE

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

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2020 has not been completed solely due to restrictions in force in parts of Germany and Italy to combat the COVID-19 coronavirus outbreak. As such, the unaudited annual results contained herein have not been agreed with the Company’s auditors. The Audit Committee has reviewed with the management and agreed the unaudited annual results of the Group for the year ended 31 December 2020.

FURTHER ANNOUNCEMENT

Following the completion of the auditing process, the Company will issue further announcement in relation to the audited annual results for the year ended 31 December 2020 as agreed by the Company’s auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or before 30 April 2021 if the COVID-19 coronavirus outbreak in Germany and Italy is improved.

PUBLICATION OF ANNUAL REPORT

This unaudited annual results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at <http://www.goodfriend.hk>. The annual report of the Company for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to the Company’s Shareholders and made available for review on the same websites in due course.

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

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 2020.

CAUTION STATEMENT

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

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

Hong Kong, 31 March 2021

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