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 2012

The board (the "Board") of directors (the "Directors") of Good Friend International Holdings Inc. (the "Company") presents the consolidated statement of comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 and the Group's consolidated statement of financial position at 31 December 2012, together with the relevant comparative figures for the previous year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,540,856**	1,884,132
Cost of revenue		**(1,231,909)**	(1,444,916)
Gross profit		**308,947**	439,216
Other income	*4*	**28,712**	30,386
Distribution and selling expenses	*5*	**(147,964)**	(149,595)
Administrative expenses	*5*	**(112,999)**	(110,127)
Other operating expenses	*5*	**(3,426)**	(3,010)
Operating profit		**73,270**	206,870
Finance costs	*6*	**(11,168)**	(8,821)
Share of loss of jointly controlled entities		**(1,859)**	(1,017)
Share of profit of an associate		**197**	–
Profit before income tax		**60,440**	197,032
Income tax expense	*7*	**(18,418)**	(43,342)
Profit attributable to equity holders of the Company		**42,022**	153,690
Other comprehensive income:			
Currency translation differences		**(2,012)**	(981)
Total comprehensive income for the year attributable to equity holders of the Company		**40,010**	152,709
Earnings per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	*8*	**0.10**	0.38
Dividends	*9*	**40,320**	88,704

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Land use rights		**39,424**	40,367
Property, plant and equipment		**278,454**	288,677
Investment property		**1,343**	1,442
Intangible assets		**1,406**	14,779
Investments in jointly controlled entities		**18,093**	19,952
Deferred income tax assets		**4,541**	4,534
Deposits for purchases of plant and equipment		**2,010**	2,178
		345,271	371,929
Current assets			
Inventories		**354,545**	532,791
Debtors, deposits and prepayments	*10*	**621,284**	622,577
Amounts due from customers for contract work		**27,902**	29,135
Amounts due from and prepayment to fellow subsidiaries and an associate of ultimate holding company		**2,374**	289
Amount due from an associate		**411**	–
Amount due from a jointly controlled entity		**315**	–
Restricted bank deposits		**22,964**	35,205
Cash and cash equivalents		**109,547**	140,482
		1,139,342	1,360,479
Assets of disposal companies classified as held for sale	*13*	**84,185**	–
		1,223,527	1,360,479
Total assets		**1,568,798**	1,732,408
Equity			
Equity attributable to equity holders of the Company			
Share capital		**4,022**	4,022
Share premium	*11*	**122,601**	183,088
Capital reserves	*11*	**77,338**	77,338
Other reserves	*11*	**41,771**	43,783
Retained earnings	*11*	**416,159**	374,137
Total equity		**661,891**	682,368

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**23,180**	21,800
Current liabilities			
Creditors, other payables and accrued charges	*12*	**406,327**	600,101
Amounts due to customers for contract work		**37,479**	26,364
Amount due to ultimate holding company		**5,898**	1,542
Amount due to immediate holding company		**1,980**	4,624
Amount due to a fellow subsidiary		**1,911**	11,661
Amount due to an associate		**521**	–
Current income tax liabilities		**7,903**	11,515
Warranty provision		**6,702**	8,278
Borrowings		**372,823**	364,155
		841,544	1,028,240
Liabilities of disposal companies classified as held for sale	*13*	**42,183**	–
		883,727	1,028,240
Total liabilities		**906,907**	1,050,040
Total equity and liabilities		**1,568,798**	1,732,408
Net current assets		**339,800**	332,239
Total assets less current liabilities		**685,071**	704,168

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 amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2012 but do not have a material impact on the Group:

HKAS 12 (Amendment)	Deferred tax: Recovery of Underlying Assets
Amendment to HKFRS 1	First-time adoption of HKFRSs – Serve Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendment to HKFRS 7	Disclosures – Transfers of Financial Assets

The adoption of these new/revised standards, amendments and interpretations to existing standards do not result in any substantial changes to the Group's accounting policy nor any impact on the consolidated financial statements.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for the followings:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

2 BASIS OF PREPARATION (Continued)

2.1 Changes in accounting policy and disclosures (Continued)

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted (Continued)

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 HKFRS 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 HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

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 HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 11, 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 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 HKFRS 12's full impact 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, which are largely aligned between HKFRSs and US GAAP, 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 or US GAAP. The Group is yet to assess HKFRS 13's full impact 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 2012				
Revenue (all from external sales)	**1,220,303**	**160,535**	**160,018**	**1,540,856**
Cost of revenue	**(950,634)**	**(135,401)**	**(145,874)**	**(1,231,909)**
Segment profit	**269,669**	**25,134**	**14,144**	**308,947**

	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

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

	2012	2011
	RMB'000	*RMB'000*
Sale of scrap materials	**8,455**	5,295
Net exchange gain	**–**	9,143
Government subsidies	**3,113**	864
Repair income	**10,094**	8,385
Rental income from investment properties	**292**	239
Interest income	**2,385**	3,654
Others	**4,373**	2,806
	28,712	30,386

5 EXPENSES BY NATURE

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**1,129,644**	1,335,059
Sales commission	**39,773**	30,178
Depreciation of property, plant and equipment	**24,677**	21,233
Depreciation of investment properties	**94**	101
Amortisation of intangible assets	**2,324**	2,130
Amortisation of land use rights	**943**	943
Operating lease rental on land and buildings	**13,022**	11,173
Employee benefit expenses	**141,719**	149,248
Allowance for bad and doubtful debts, net	**5,179**	(1,061)
Allowance for inventories, net	**1,885**	1,108
Auditor's remuneration	**1,427**	1,659
Provision for warranty	**4,568**	7,878
Loss on disposal of property, plant and equipment	**730**	398
Net exchange loss	**99**	–
Research and development expenses*	**50,022**	57,782
Transportation fees	**17,131**	22,346
Others	**63,061**	67,473
Total cost of revenue, distribution and selling expenses, administrative expenses and other expenses	**1,496,298**	1,707,648

* Depreciation of property, plant and equipment, amortisation of intangible assets and employee benefit expenses amounting to RMB2,369,000, RMB1,208,000 and RMB19,634,000 were included in research and development expenses (2011: RMB2,079,000, RMB330,000 and RMB17,252,000 respectively).

6 FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest expense:		
– Bank borrowings wholly repayable within one year	**11,168**	8,821

7 INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
Enterprise income tax	**17,045**	36,319
Deferred tax	**1,373**	7,023
	18,418	43,342

No provision for Hong Kong and Italian profits tax has been made as the Group did not have any assessable profits arising for both years.

Enterprise income tax ("EIT") is provided at 25% (2011: 25%) for enterprises in the PRC except for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"). In 2011, 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 2012 is 15% (2011: 15%).

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB42,022,000 (2011: RMB153,690,000) by the weighted average number of ordinary shares in issue during the year of 403,200,000 (2011: 403,200,000).

	2012	2011
Basic and diluted earnings per share *(RMB per share)*	**0.10**	0.38

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

9 DIVIDENDS

The dividends paid in 2012 and 2011 were RMB40,320,000 (RMB0.05 per share) and RMB88,704,000 (RMB0.22 per share) respectively. At a meeting of directors held on 27 March 2013, the directors resolved to recommend a final dividend of RMB0.05 (2011: RMB0.10) per share for the year ended 31 December 2012. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended 31 December 2012.

	2012	2011
	RMB'000	*RMB'000*
Interim dividend paid of RMB0.05 (2011: RMB0.12) per ordinary share	**20,160**	48,384
Proposed final dividend of RMB0.05 (2011: RMB0.10) per ordinary share	**20,160**	40,320
	40,320	88,704

The proposed final dividend for the year ended 31 December 2012 is to be declared out of the share premium of the Company.

The aggregate amounts of the dividends paid and proposed during 2011 and 2012 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

10 DEBTORS, DEPOSITS AND PREPAYMENTS

	2012	2011
	RMB'000	*RMB'000*
Trade debtors and bills receivables	**573,960**	553,407
Less: provision for impairment of trade receivables	**(23,240)**	(23,082)
Trade receivables – net	**550,720**	530,325
Prepayments	**33,089**	47,368
Others	**37,475**	44,884
	621,284	622,577
Reclassified as held for sale	**10,790**	–
Total debtors, deposits and prepayments	**632,074**	622,577

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.

10 DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

At 31 December 2012 and 2011, the ageing analysis of trade debtors and bills receivable were as follows:

	2012	2011
	RMB'000	*RMB'000*
Current – 30 days	**461,395**	451,349
31 – 60 days	**11,825**	10,388
61 – 90 days	**5,353**	9,257
91 – 180 days	**25,656**	25,565
Over 180 days	**69,731**	56,848
	573,960	553,407

Trade debtors with an aggregate carrying amount of approximately RMB10,790,000 as at 31 December 2012, which are denominated in Euro, has been reclassified as held for sale. The ageing of such trade debtors was either current or within 30 days. These trade debtors were neither passed due nor impaired and no impairment loss has been made as at 31 December 2012.

11 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 2011	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
Dividends paid	(60,487)	–	–	–	–	–	(60,487)
Profit for the year	–	–	–	–	–	42,022	42,022
Currency translation difference	–	–	–	–	(2,012)	–	(2,012)
At 31 December 2012	122,601	77,338	35,836	9,089	(3,154)	416,159	657,869

12 CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

	2012	2011
	RMB'000	*RMB'000*
Trade creditors	**160,460**	302,299
Advance deposits from customers	**185,381**	227,222
Other payables	**35,077**	39,356
Accrued expenses	**25,409**	31,224
	406,327	600,101
Reclassified as held for sale	**32,202**	–
	438,529	600,101

The Group normally receives credit terms of 30 to 60 days. At 31 December 2012 and 2011, the ageing analysis of the trade payables was as follows:

	2012	2011
	RMB'000	*RMB'000*
Current – 30 days	**107,195**	224,490
31 – 60 days	**40,426**	57,619
61 – 90 days	**5,906**	7,752
91 – 180 days	**2,645**	2,253
Over 180 days	**4,288**	10,185
	160,460	302,299

Trade creditors with an aggregate carrying amount of approximately RMB32,202,000 as at 31 December 2012, which are denominated in Euro, has been reclassified as held for sale. The ageing of such trade creditors was either current or within 30 days.

13 NON-CURRENT ASSETS HELD FOR SALE

The Group announced that on 27 September 2012, Sky Thrive Hong Kong Enterprise Limited ("Sky Thrive") (a subsidiary of the Group), Golden Friendship International Limited ("Golden Friendship") (a wholly owned subsidiary of the Company's ultimate holding company), World Ten Limited ("World Ten") (8.35% of its issued share capital held by the Company's ultimate holding company) and Alma S.r.l. (an independent third party) entered into an agreement for the formation of FFG Europe S.p.A. ("FFG Europe") by way of asset injection, pursuant to which, amongst others, Sky Thrive will provide capital contribution in the form of (i) all of its 900,000 shares held in Jobs Automazione S.p.A. ("Jobs"); and (ii) its entire 100% equity interests in Sky Thrive Rambaudi S.r.l. ("Rambaudi"), in exchange of 30.16% equity interest in FFG Europe.

The assets and liabilities related to Rambaudi and investment in Jobs, have been presented as held for sale since then. Rambaudi and Jobs are both engaged in machine tools businesses. The transaction was completed on 1 January 2013.

	2012	2011
	RMB'000	*RMB'000*
Operating cash flow	**1,705**	(553)
Investing cash flow	**(3,244)**	433
Total	**(1,539)**	(120)

(i) Assets of disposal companies classified as held for sale

	2012
	RMB'000
Property, plant and equipment	**3,417**
Intangible assets	**14,542**
Inventories	**39,588**
Debtors, deposits and prepayments	**10,790**
Cash and cash equivalents	**2,277**
Investment in an associate	**13,571**
Total	**84,185**

(ii) Liabilities of disposal companies classified as held for sale

	2012
	RMB'000
Creditors, other payables and accrued charges	**32,202**
Borrowings	**9,981**
Total	**42,183**

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

In 2012, the global economy was still in a downtown, and China's economic growth continued to slow down. According to the economic data released by National Bureau of Statistics of China, the gross domestic product (GDP) of China was approximately RMB51.9 trillion in 2012, respectively an increase of 7.8% as compared to 2011. The mainstream product of the Group CNC machine tools focus mainly on China market. Sales orders for the Group's CNC machine tools business were also affected by that. For the year ended 31 December 2012, sales volume and sales revenue of CNC machine tools amounted to 2,360 units and approximately RMB1,220.30 million respectively, both representing a decrease when compared to 2011. Moreover, the gross profit margin of CNC machine tools business decreased to approximately 20.1% during the year. This was mainly attributable to the increase in raw material prices in Mainland China.

Despite being affected by the slowdown of China's economic growth, the Group's high-end CNC machine tools products still recorded satisfactory sales revenue during the year. Sales revenue of double column machining centre (manufactured at factory in Hangzhou) and milling centre (manufactured at Rambaudi factory in Italy) amounted to approximately RMB203.87 million for the year, accounted for approximately 16.7% of sales revenue of the Group's CNC machine tools, whilst selling price of the Rambaudi milling centre is approximately 10 times or more the average selling price of the Group's CNC machine tools products. These high-end products could optimise the product portfolio of the Group, and strengthen its core competitiveness.

Financial Review

Revenue

For the year ended 31 December 2012, the Group recorded revenue of approximately RMB1,540.86 million, representing a decrease of approximately 18.2% as compared to 2011. During the year, sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 2,360 units, 9,904 units and 2,524 units respectively (2011 comparative figures: 3,542 units, 8,121 units and 4,161 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 RMB1,220.30 million, representing a decrease of 18.7% as compared to 2011. Revenue of CNC machine tools accounted for approximately 79.2% of the Group's total revenue. On the other hand, sales revenue of the Group's forklift trucks business during the year was also decreased by 38.7%, as compared to 2011, to approximately RMB160.02 million and approximately 10.4% of the Group's total revenue. Moreover, sales revenue of parking garage structures amounted to approximately RMB160.54 million during the year, representing an increase of approximately 32.3% as compared to 2011 and accounted for approximately 10.4% of the total revenue.

Gross profit and margin

For the year ended 31 December 2012, gross profit of the Group amounted to approximately RMB308.95 million. Overall gross profit margin was approximately 20.1%, compared to 23.3% for 2011. The gross profit margin of CNC machine tools (the Group's major product) during the year decreased as compared to 2011. As a result, the overall gross profit margin for the year decreased.

Distribution and selling expenses

Distribution and selling expenses decreased by approximately 1.1% to approximately RMB147.96 million for the year ended 31 December 2012. During the year, distribution and selling expenses as a percentage of the Group's revenue amounted to approximately 9.6%, compared to 7.9% for 2011.

Administrative expenses

As compared to 2011, administrative expenses increased by approximately 2.6% to approximately RMB113.00 million for the year. Included in the administrative expenses for the year were those research and development expenses amounted to approximately RMB50.02 million. (2011: RMB57.78 million). Such decrease of the research and development expenses was in line with the decrease of the sales revenue of CNC machine tools (the Group's major product) during the year. Moreover, the net allowance for bad and doubtful debts of the Group amounted to approximately RMB5.18 million (2011: RMB1.06 million written back) during the year.

Despite that, general administrative expenses increased by approximately 8.2%. This was mainly attributable to the increase of the administrative expenses of Rambaudi during the year.

Finance costs

During the year, finance costs increased to approximately RMB11.17 million. The increase was primarily due to the increase of average bank borrowings of the Group during the first half of 2012.

Profit attributable to the equity holders of the Company

For the year ended 31 December 2012, profit attributable to the equity holders of the Company amounted to approximately RMB42.02 million, representing a decrease of approximately 72.7% as compared to 2011.

Strategic Acquisition and Reorganisation

In January 2012, the Group has (together with the parent company Fair Friend Enterprise Co., Ltd.) entered into agreement for the acquisition of the share capital of Jobs Automazione S.p.A. ("JOBS"), an Italian entity. This acquisition has been completed in January 2012, with the Group holding 15% share capital of JOBS.

JOBS is a well-known Italian machine tools manufacturer and has over 30 years history. The entity was principally engaged in the design and production of 5-axis milling machines, using advanced motor technology, for aerospace, energy and mechanical engineering applications. JOBS is a leader in the machining centre in Europe. This acquisition provides an opportunity for the Group to enhance its product portfolio and its additional value in particular for the application sectors of aerospace, which is beneficial to the Group's overall business development.

In September 2012, the Group entered into the Contribution Agreement for the JV Formation and the Assets Injection (details of which have been disclosed in the circular of the Company dated 28 September 2012), pursuant to which, the Group will provide capital contribution in the form of (i) 15% of Jobs Shares held valued at Euro 1,530,000; and (ii) the entire share capital of Rambaudi, valued at the amount of Euro 2,219,300. Upon the reorganisation of its formation and capital contribution, FFG Europe would be owned approximately as to 30.16% by the Group, while Jobs and Rambaudi would be wholly owned by FFG Europe. The Group will therefore account for the investment in FFG Europe as "investment in joint venture" in the Group's consolidated financial statements for 2013.

The JV Formation and the Assets Injection would allow Jobs and Rambaudi to streamline their operation and consolidate their product portfolios, in particular, in the sectors of aerospace, automotive, mould and die and general engineering application, under the unified leadership and supervision of the Managers who possess valuable expertise and extensive experience in the industry, thereby derive economies of scale in manufacturing, sourcing, sales and after sales services and support as well as to promote synergies in research and development and production process. The terms of the JV Formation and the Assets Injection are in the interests of the Group and the Shareholders of the Company as a whole.

Liquidity and financial resources

As at 31 December 2012, the Group had net current assets of approximately RMB339.80 million (2011: RMB332.24 million), shareholders' fund of approximately RMB661.89 million (2011: RMB682.37 million) and short-term bank borrowings of approximately RMB372.82 million (2011: RMB364.16 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 2012 amounted to approximately RMB109.55 million (2011: RMB140.48 million). The current ratio (ratio of total current assets to total current liabilities) of the Group was approximately 1.4 times (2011: 1.3 times). The gearing ratio (ratio of total debts to total assets) was approximately 23.8% (2011: 21.0%), 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 2012 was HK$4,032,000 divided into 403,200,000 shares of HK$0.01 each (at 31 December 2011: 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 2012, the total outstanding short-term borrowings stood at approximately RMB372.82 million (2011: RMB364.16 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 2012, the Group employed a total of 1,600 (2011: 1,900) full-time employees in Hong Kong, China and Italy. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB161.35 million (2011: RMB166.50 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 RMB8.74 million (2011: RMB6.98 million) to the said schemes.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB2.40 million (2011: RMB6.50 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2012 (2011: Nil).

Charges on the Group's assets

As at 31 December 2012, restricted bank deposits with an amount of approximately RMB22.96 million (2011: RMB35.21 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 RMB5.53 million (2011: RMB13.54 million) to secure general banking facilities granted to them. As at 31 December 2012, the subsidiaries have not utilised such secured bank facilities (2011: RMB6.00 million).

Foreign exchange risk

The Group mainly operates in China. During the year ended 31 December 2012, 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

Looking ahead into 2013, the global economic environment remains uncertain. The Group will continue to face challenging operating environment. 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 of 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 raising production efficiency. This in turn will benefit the Group's CNC machine tools business. On the other hand, the high end CNC machine tools products of Jobs and Rambaudi not only optimise the product portfolio of the Group and increase its additional value, but also enhance application sector of customer of the Group as well as maintain the Group's competitive edge in the China market.

In future, along with the continued implementation of the stable economic policies by the central government of China, the economy of China is expected to maintain its growth momentum, the management is optimistic on the long-term development prospects of the Group. The Group will continue to strengthen its business foundation under a consistent cautions manner under tough market environment. 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. 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

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 30 May 2013, a final dividend out of the share premium account of the Company of RMB0.05 (equivalent to approximately HK$0.062 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 2012, amounting to RMB20.16 million (equivalent to approximately HK$25.00 million) payable to shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2013. The payment date of the final dividend will be announced later.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 27 May 2013 to Thursday, 30 May 2013, 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 4:30 p.m. on Friday, 24 May 2013.

The register of members will be closed from Friday, 7 June 2013 to Tuesday, 11 June 2013, 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 4:30 p.m. on Thursday, 6 June 2013.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted its own code of corporate governance practices which meets the code provisions in Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (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"). 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 following deviations:

1. 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 held on 25 May 2012 due to his business trip and Mr. Chen Hsiang-Jung, an executive Director, took the chair pursuant to the Articles of Association of the Company.

2. Two Independent Non-executive Directors did not attend the annual general meeting of the Company held on 25 May 2012 and the extraordinary general meeting held on 31 October 2012 due to other commitment. This constitutes a deviation from the code provision of A.6.7 of the CG Code which requires, inter alia, independent non-executive directors and other non-executive directors to attend the general meetings.

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 2012, 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 of 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 consolidated financial statements of the Group for the year ended 31 December 2012.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2012. 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 2012.

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

Hong Kong, 27 March 2013

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.