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 2005

ANNUAL RESULTS

The board of directors (the "Directors") of Good Friend International Holdings Inc. (the "Company") is pleased to present the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 and the Group's audited consolidated balance sheet at 31 December 2005, together with the relevant comparative figures for the previous year.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Revenue	4	**557,674**	379,590
Cost of sales		**(438,349)**	(279,476)
Gross profit		**119,325**	100,114
Other income	5	**6,837**	4,755
Distribution costs		**(54,548)**	(44,393)
Administrative expenses		**(18,049)**	(14,162)
Other operating expenses		**(1,229)**	(3,127)
Finance costs	6	**(5,211)**	(3,593)
Profit before taxation	7	**47,125**	39,594
Taxation	8	**(4,756)**	(3,265)
Profit for the year attributable to equity holders of the Company		**42,369**	36,329
Earnings per share – basic, in RMB	10	**0.20**	0.17

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 *RMB'000*	2004 *RMB'000*
Non-current assets			
Property, plant and equipment		**91,451**	96,457
Prepaid lease payments		**3,772**	3,880
Intangible asset		**1,007**	860
Long term prepayments		**765**	–
Deferred tax assets		**936**	1,118
		97,931	102,315
Current assets			
Inventories		**125,486**	110,928
Debtors, deposits and prepayments	11	**155,462**	103,940
Amounts due from customers for contract work		**971**	875
Amount due from immediate holding company		**417**	17
Amount due from ultimate holding company		**1,833**	1,298
Amount due from a fellow subsidiary		**185**	–
Pledged bank deposits		**1,665**	3,053
Bank balances and cash		**21,999**	5,650
		308,018	225,761
Current liabilities			
Creditors and accrued charges	12	**127,760**	89,609
Amounts due to customers for contract work		**58**	6,731
Amount due to immediate holding company		**1,656**	6,076
Amount due to ultimate holding company		**247**	59
Tax payable		**426**	61
Warranty provision		**3,503**	2,612
Bank borrowings		**84,556**	89,987
		218,206	195,135

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Net current assets		**89,812**	30,626
		187,743	132,941
Capital and reserves			
Share capital		**–**	64,905
Reserves		**187,743**	68,036
Equity attributable to equity holders of the Company		**187,743**	132,941

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 6 September 2005 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11 January 2006. Its immediate holding company is Good Friend (H.K.) Corporation Limited ("Hong Kong GF"), a company incorporated in Hong Kong and its ultimate holding company is Fair Friend Enterprise Company Limited, a company incorporated in Taiwan.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 22 December 2005. Details of the group reorganisation were set out in the prospectus issued by the Company dated 30 December 2005 ("Prospectus").

The principal steps of the group reorganisation, which involved the exchange of shares, were as follows:

(a) the shares of Winning Steps Limited ("Winning Steps") were issued and allotted to Hong Kong GF, the former holding company of 杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.) ("Hangzhou Good Friend"), in exchange for the equity interests in Hangzhou Good Friend;

(b) the shares of the Company were then issued and allotted to the then shareholder of Winning Steps in exchange for the shares in Winning Steps; and

(c) the shares of the Company were issued and allotted to Hong Kong GF at the direction of the then shareholder of Yu Hwa Holdings Limited ("Yu Hwa") in exchange for the shares in Yu Hwa, the holding company of 杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.) ("Hangzhou Global Friend").

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principle of merger accounting as if the current group structure had been in existence throughout both years and as at the respective balance sheet dates.

The consolidated financial statements are presented in Renminbi ("RMB"), which is different from the Company's functional currency of Hong Kong dollars, as majority of the Group's transactions are denominated in RMB.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new or amended Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and interpretations issued by the Hong Kong Institute of Certified Public Accountants that have been issued but are not yet effective. The Directors anticipate that the application of these standards or amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services provided to outside customers, less returns and allowances, and net of value-added tax during the year.

Business segments

For management purposes, the Group is currently organised into three operating divisions – machine tools, parking garage structures, and forklift trucks. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

For the year ended 31 December 2005

	Machine tools *RMB'000*	Parking garage structures *RMB'000*	Forklift trucks *RMB'000*	Total *RMB'000*
Revenue – external sales	**426,396**	**74,430**	**56,848**	**557,674**
Segment results	**66,395**	**1,918**	**113**	**68,426**
Unallocated corporate income				**3,500**
Unallocated corporate expenses				**(19,590)**
Finance costs				**(5,211)**
Profit before taxation				**47,125**
Taxation				**(4,756)**
Profit for the year				**42,369**

For the year ended 31 December 2004

	Machine tools *RMB'000*	Parking garage structures *RMB'000*	Forklift trucks *RMB'000*	Total *RMB'000*
Revenue – external sales	308,140	52,425	19,025	379,590
Segment results	49,699	(15)	(1,602)	48,082
Unallocated corporate income				4,755
Unallocated corporate expenses				(9,650)
Finance costs				(3,593)
Profit before taxation				39,594
Taxation				(3,265)
Profit for the year				36,329

Geographical segments

All of the Group's operations are located in the People's Republic of China (the "PRC") and the Group mainly serves the PRC market. Accordingly, no segment information by geographical market is presented.

5. OTHER INCOME

	2005 *RMB'000*	2004 *RMB'000*
Sales of materials	**1,333**	2,998
Exchange gain	**1,985**	–
Repair income	**1,689**	885
Bank interest income	**230**	96
Others	**1,600**	776
	6,837	4,755

6. FINANCE COSTS

The amounts represent interest on bank borrowings wholly repayable within five years.

7. PROFIT BEFORE TAXATION

	2005 *RMB'000*	2004 *RMB'000*
Profit before taxation has been arrived at after charging:		
Amortisation of intangible asset included in administrative expenses	**210**	85
Amortisation of prepaid lease payments	**100**	93
Depreciation	**9,550**	7,547

8. TAXATION

	2005 *RMB'000*	2004 *RMB'000*
PRC enterprise income tax	**4,574**	3,610
Deferred tax	**182**	(345)
	4,756	3,265

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

Pursuant to the approvals obtained from the relevant PRC tax authorities, the preferential income tax rate for Hangzhou Good Friend is 16.5% comprising national income tax of 15% and local income tax of 1.5%. Hangzhou Good Friend is also entitled to a tax concession period in which it is fully exempted from national and local income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the national and local income tax for the next three years. In addition, as Hangzhou Good Friend was recognised as a technologically advanced enterprise, the local income tax of Hangzhou Good Friend was specifically and fully exempted by the relevant tax authorities in 2004. The applicable tax rate for Hangzhou Good Friend was 8.25% (2004: 7.5%) for the year.

Hangzhou Global Friend did not have taxable profit for both years.

9. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB42,369,000 (2004: RMB36,329,000) and the 210,000,000 ordinary shares which represent the aggregate of the 200 ordinary shares in issue as at 31 December 2005 and 209,999,800 ordinary shares to be issued pursuant to the capitalisation issue, as if the shares were outstanding throughout both years.

No diluted earnings per share have been presented as there were no potential dilutive shares in issue for both years.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

	2005	2004
	RMB'000	*RMB'000*
Trade debtors	**129,749**	94,049
Less: Allowance for bad and doubtful debts	**(3,686)**	(5,134)
	126,063	88,915
Advance deposits to suppliers	**10,864**	6,710
Other debtors, deposits and prepayments	**18,535**	8,315
Total debtors, deposits and prepayments	**155,462**	103,940

The Group allows a credit period of 30 to 180 days to its customers.

The aging analysis of trade debtors is as follows:

	2005	2004
	RMB'000	*RMB'000*
1 – 30 days	**92,311**	61,185
31 – 60 days	**10,162**	3,038
61 – 90 days	**5,815**	3,796
91 – 180 days	**11,529**	14,347
Over 180 days	**6,246**	6,549
	126,063	88,915

12. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

	2005	2004
	RMB'000	*RMB'000*
1 – 30 days	**21,296**	17,122
31 – 60 days	**21,043**	5,472
61 – 90 days	**2,337**	118
91 – 180 days	**7,901**	1,446
Over 180 days	**5,018**	1,983
Trade creditors	**57,595**	26,141
Advance deposits from customers	**42,502**	46,238
Other creditors and accrued charges	**27,663**	17,230
	127,760	89,609

The fair value of the creditors and accrued charges was approximate to the corresponding carrying amount.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue and profit for the year attributable to equity holders of the Company amounted to approximately RMB557.67 million (2004: RMB379.59 million) and approximately RMB42.37 million (2004: RMB36.33 million) respectively representing an increase of approximately 46.9% and approximately 16.6% respectively as compared with that of the previous year.

Revenue

Sales from machine tools products represented the majority of the Group's revenue. Revenue from machine tools products amounted to approximately RMB426.40 million (2004: RMB308.14 million), representing an increase of approximately 38.4%. Such revenue contributed approximately 76.5% of the Group's revenue (2004: 81.2%). The revenue growth was mainly attributable to the sustained growth of manufacturing sector in the PRC and the Group's effort in expanding its product range and distribution networks. As at 31 December 2005, two more liaison offices as compared with that of the previous year had been established to cover additional regions in the local PRC markets.

Revenues from parking garage structures and forklift trucks products had increased by approximately 42% and 199% respectively, which amounted to approximately RMB74.43 million and approximately RMB56.85 million respectively for the financial year ended 31 December 2005 (2004: RMB52.43 million and RMB19.03 million respectively). The share of revenues for parking garage structures and forklift trucks represented approximately 13.3% and 10.2% of the Group's revenue (2004: approximately 13.8% and 5.0%). The significant increases in the revenue of these two products were mainly driven by the higher growth rate of automobile ownership and the continuing demand driven in the manufacturing sector in the PRC. In addition, the Group was able to explore new customers of forklift trucks through its export sales agents and it is expected that sales to the overseas market will increase in the future years.

Cost of sales and gross profit

For the year ended 31 December 2005, cost of sales of the Group increased to approximately RMB438.35 million (2004: RMB279.48 million). The Group's gross profit increased to approximately RMB119.33 million (2004: RMB100.11 million), representing an increase of approximately 19.2%. Such increase was due to the overall increase in the Group's turnover in all the business segments. The overall gross profit margin of the Group amounted to approximately 21.4% (2004: 26.4%). The drop was mainly due to the intense competition in the market, resulting in a reduction in the average selling prices of the Group's major products in particular the machine tools products and the increased price of parts and components as a result of supply shortage in the market.

Other income

The Group's other income accounted for approximately RMB6.84 million (2004: RMB4.76 million), representing an increase of approximately 43.8%. Exchange gain and repair income represented the major sources of the other income. The Group earned repair income when it provided repair services to its customers. The volume of the Group's repair services had been increased during 2005. Exchange gain was arisen from the year end translation of short-term bank borrowings, other assets and liabilities denominated in foreign currency into Renminbi. During the second half of the year, there was an appreciation of Renminbi currency and an increase in exchange gain was then recorded.

Operating expenses

Distribution costs of the Group comprised primarily (a) staff costs for sales representatives; (b) travelling and business development costs; (c) after-sales services expenses; (d) general office expenses incurred by the liaison offices. The distribution costs increased to approximately RMB54.55 million (2004: RMB44.39 million), representing an increase of approximately 22.9% as compared with that of the previous year. Such increase was due to a combination of increased staff costs as a result of more sales representatives hired and increased expenses for providing after-sales services.

Administrative expenses mainly included (a) staff costs; (b) general office expenses incurred in the head offices in Hangzhou and Hong Kong; and (c) professional fees. The administrative expenses increased to approximately RMB18.05 million (2004: RMB14.16 million), representing an increase of approximately 27.4% as compared with that of the previous year. Such increase was mainly due to the increase in staff costs of additional head counts and professional fees for the listing of the Company's shares.

Other operating expenses comprised primarily construction tax and contributions for local bureau. The expenses decreased to approximately RMB1.23 million (2004: RMB3.13 million), representing a drop of approximately 60.7% as compared with that of the previous year.

Finance costs increased to approximately RMB5.21 million (2004: RMB3.59 million), representing an increase of approximately 45.0% as compared with that of the previous year. The Group had increased average its short term bank borrowings during the year.

Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2005 was approximately RMB42.37 million (2004: RMB36.33 million), representing an increase of approximately 16.6%.

Net profit margin attributable to equity holders for the year was approximately 7.6% (2004: 9.6%). The decrease of net profit margin was due to the overall effect of decrease in gross profit margin and increase in operating expenses.

Liquidity and financial resources

As at 31 December 2005, the Group had net current assets of approximately RMB89.81 million (2004: RMB30.63 million), bank balances, deposits and cash (including pledged bank deposits) of approximately RMB23.66 million (2004: RMB8.70 million), shareholders' fund of RMB187.74 million (2004: RMB132.94 million) and the short-term bank borrowings of approximately RMB84.56 million (2004: RMB89.99 million). The Group's working capitals are financed by its operation with internally generated working capital and short term banks borrowings.

Cash and cash equivalents as at 31 December 2005 amounted to approximately RMB22.00 million (2004: RMB5.65 million) representing an increase of approximately RMB16.35 million. The Group had mastered its cash position by increasing the net cash from its operating activities. The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 1.4 (2004: 1.2). The gearing ratio (a ratio of total debts to total assets) was approximately 20.8% (2004: 27.4%).

Capital structure

The share capital of the Company as at 31 December 2005 was HK$2 divided into 200 shares of HK$0.01 each and increased to HK$2,800,000 divided into 280,000,000 shares of HK$0.01 each by way of the share offer and the capitalization issue upon the completion of the placing and public offer in January 2006.

Significant investment

The Group had no significant investment held for the year ended 31 December 2005.

Material acquisitions and disposals of subsidiaries

Save for the undertaking of the reorganisation in preparation of the listing of the Company's shares on the Stock Exchange as more particularly described in the Prospectus, the Group did not have any material acquisition of subsidiaries or disposal of subsidiaries or associates during the year ended 31 December 2005.

Segmental information

Details of segmental information for the year ended 31 December 2005 is set out in note 4 above.

Staff and remuneration policies

As at 31 December 2005, the Group employed a total of 945 (2004: 851) full-time employees. The Group's staff costs (excluding Directors' fee and emoluments) amounted to approximately RMB38.96 million (2004: RMB30.07 million).

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of the payroll of its staff to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group contributed RMB1.21 million (2004: RMB1.14 million) to the scheme.

The executive Directors and certain members of the senior management of the Group, being non-PRC citizens, may elect not to participate in the state-managed social welfare scheme operated by the local government of the PRC. If there is a change in the PRC rules and regulations with respect to the retirement scheme upon which the Group is required to contribute to the social welfare scheme for non-PRC citizens, the Group shall comply with such new rules and regulations within the time limit prescribed by the relevant authorities.

The Company has also adopted a share option scheme, the primary purpose of which is to motivate the eligible persons referred to in the scheme, which include employees of the Group, to optimise their future contributions to the Group and/or reward them for their contributions.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB6.45 million (2004: Nil) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2005 (2004: Nil).

Charges on Group Assets

As at 31 December 2005, pledged bank deposits with an amount of RMB1.67 million (2004: RMB3.05 million) represented guarantee deposit in banks for the purpose of bidding contracts. In addition, bank borrowings of the Group of approximately RMB84.56 million were secured and guaranteed by:

a) certain land use rights and property, plant and equipment of the Group with an aggregate net book value of approximately RMB27.42 million as at 31 December 2005 (2004: RMB48.08 million); and

b) the holding companies and certain directors with an amount of approximately RMB68.19 million (2004: RMB47.26 million). The amount guaranteed by a fellow subsidiary was RMB2.66 million (2004: RMB18.5 million).

The Group has either released or obtained letters of consent from the respective bankers for the release of guarantees given by those directors, holding companies and a fellow subsidiary upon listing of the Company's shares on the Stock Exchange and the provision of a corporate guarantee by the Company.

Future plans for material investments or capital assets

The Group is committed to become a leading machine tool supplier in the PRC and intends to expand its production capacity in Zhejiang. The Group had applied approximately HK$6.3 million of its proceeds from the share offer to obtain a land use right of a plot of land of total gross floor area of approximately 35,000 square metres in Xiasha, Zhejiang in the PRC in order to construct a new production plant. It is expected that approximately HK$14.4 million and HK$22.83 million respectively of the net proceeds from the share offer will be used to construct the production plant and purchase new production equipment (as described in the section headed "Reasons for the share offer and use of proceeds" of the Prospectus).

Foreign exchange risk

The Group mainly operates in the PRC. During the year ended 31 December 2005, the Group collected substantially all of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group has no hedging activities as it is considered that the impact to the Group's profitability is minimal.

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.

BUSINESS REVIEW

2005 was a memorable year. After a whole year's hard work, the Group's goal of listing on the Main Board of the Stock Exchange was successfully completed in January 2006. In terms of operations, the Group achieved the expected growth in revenue and net profit in 2005. Revenue grew by approximately 46.9% as compared with the same period last year, while gross profit increased by approximately 19.2%. All the three business segments, namely, machine tools, parking garage structures, and forklift trucks, achieved marked improvements as compared with the previous year. In 2005, the Group's major source of operating revenue was still from machine tools products. Machine tools and forklift trucks were expanding rapidly in terms of volume and growth rate. The annual sales for machine tools and forklift trucks rose to 960 units and 997 units respectively. By the end of 2005, the number of the Group's liaison office had grown to 19, which enables its business network to cover various cities in the PRC, such as Beijing, Shanghai, Chongqing, Changchun, Guangzhou, and other areas. In addition, the Group was also in active co-operation with export sales agents in the expansion of the forklift trucks business in overseas markets. With regard to the production, the plants have reached saturation in terms of production capacity, which necessitates the construction of a new production base in order to meet the future market demands. During the year under review, the Group had to face the fact that the costs of raw materials rose in the first half of the year. Although raw material costs showed a mild fall in the second half of 2005, the growth of the Group's earnings was still lower than the growth of revenue. The Group's gross profit margin fell from approximately 26.4% last year to approximately 21.4%.

PROSPECTS AND APPRECIATION

Looking forward to the future, the Group has embarked on, and will go on with, the plans laid down at the time of listing to raise its production capacity, expand its distribution network, and ensure the competitiveness of its products. The Group has purchased and made payments for a new production base at Xiasha, Zhejiang, the PRC as at the date of this announcement, which will be used as the new production plant of Hangzhou Global Friend. The total area of the piece of land is approximately 35,000 square metres, and the gross floor area of the plant in the first phase of construction is approximately 9,000 square metres, which is expected to be completed in the second half of 2006. It is the Group's intention that the maximum annual production capacity for machine tools and parking garage structures will be increased to approximately 1,000 units and approximately 2,000 units respectively following the commencement of commercial production.

Leveraging on its experience of designing and producing computer numerical control ("CNC") machine tools for many years, the Group is planning to strengthen the horizontal series processing centre at the production base of Hangzhou Good Friend, as well as the research and development and sales capacity of the automated series of CNC machine tools. The Group will further optimize the competitive strengths of the vertical series processing centre of CNC machine tools products so as to increase its market share. For the Group's forklift trucks products, focus will be placed on the research and development of electric forklift trucks and their market formation, and the economies of scale for diesel forklift trucks in the 3 to 5 tonne range will be enhanced. The Group will also expand its forklift trucks business in overseas markets to raise the gross profit margin of forklift trucks products. In the face of the demand for parking garage structures caused by the development of cities in the PRC, the Group will adopt appropriate marketing strategies for its parking garage structures products to establish the competitive edge of the products. To sum up, the Group is committed to improving its revenue and growth of earnings to cope with the fierce competition in the market and to bring a spectacular return to the shareholders.

The Group will continue to follow a prudent but enterprising strategy, and be ready to capture any opportunity to further expand its businesses, so as to bring the best return to the shareholders.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares in connection with its listing on the Stock Exchange, after deduction of related expenses, amounted to approximately HK$62.3 million, which are intended to be applied in accordance with the proposed applications set out in the section headed "Future plans and use of net proceeds from the Share Offer" in the Prospectus. Up to the date of this announcement and in line with the plans to expand the production capacity of the Group as set out in the Prospectus, approximately HK$6.3 million and HK$780,000 were utilised to acquire a land use right of a plot of land and the construction of new production plant of the Group respectively. Approximately HK$11.84 million was utilised to repay bank loans in accordance with the plans set out in the Prospectus. The remaining net proceeds is temporarily placed in short term deposits with licensed banks in Hong Kong and the PRC.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: Nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to attend and vote at the 2006 Annual General Meeting of the Company to be held on Monday, 22 May 2006, the register of members of the Company will be closed from Thursday, 18 May 2006 to Monday, 22 May 2006, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 17 May 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiary purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2005.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange which came into effect on 1 January 2005. Accordingly, in the opinion of the Directors, the Company has met the code provisions set out in the CG Code.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") on 22 December 2005 with written terms of reference in compliance with the CG Code. 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, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2005 which is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange requirements and other legal requirements, and that adequate disclosures have been made.

AUDITORS

Deloitte Touche Tohmatsu shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Good Friend International Holdings Inc.
Chu Chih-Yaung
Chairman

Hong Kong, 18 April 2006

As at the date of this announcement, (a) the executive Directors are Mr. Chu Chih-Yaung, Mr. Chen Hsiang-Jung, Mr. Chen Min-Ho, Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien; (b) the independent non-executive Directors are Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang.

Please also refer to the published version of this announcement in The Standard.