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: 2398HK)

INTERIM REPORT 2006

* For identification purposes only

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHU Chih-Yaung *(Chairman)*
CHEN Hsiang-Jung
(Chief Executive Officer)
CHEN Min-Ho
WEN Chi-Tang
CHIU Rung-Hsien

Independent Non-Executive Directors

KOO Fook Sun, Louis
CHIANG Chun-Te
YU Yu-Tang

COMPANY SECRETARY

TSE Kam Fai

QUALIFIED ACCOUNTANT

KONG Sau Ha

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
TSE Kam Fai

COMPLIANCE ADVISER

Polaris Securities (Hong Kong) Limited

LEGAL ADVISERS

Chiu & Partners

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Pacific Plaza
410-8 Des Voeux Road West
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 120 Shixin North Road
Xiaoshan Economic and Technological Development Zone
Xiaoshan District
Hangzhou City
Zhejiang Province
The PRC

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
The Bank of East Asia, Limited

STOCK CODE

2398

WEBSITE

www.goodfriend.com.cn

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INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.
(incorporated in the Cayman Islands with limited liability)

Introduction
We have been instructed by the Company to review the interim financial report set out on pages 3 to 15.

Directors' responsibilities
The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed
We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion
On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 September 2006

The board (the "Board") of directors (the "Directors") of Good Friend International Holdings Inc. (the "Company") is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006 together with the comparative figures for the corresponding period in 2005. The results have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu and the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Six months ended 30 June	
		2006	2005
	Notes	RMB'000	RMB'000
		(unaudited)	(audited)
Revenue		271,299	260,184
Cost of sales		(210,631)	(204,248)
Gross profit		60,668	55,936
Other income	4	3,782	2,788
Distribution costs		(31,500)	(27,052)
Administrative expenses		(11,494)	(5,985)
Other operating expenses		(3,331)	(858)
Interest on bank borrowings wholly repayable within five years		(1,561)	(1,965)
Profit before taxation	5	16,564	22,864
Taxation	6	(885)	(2,059)
Profit for the period attributable to equity holders of the Company		15,679	20,805
Earnings per share – basic, in RMB	8	0.06	0.10

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	Notes	30 June 2006 RMB'000 (unaudited)	31 December 2005 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	96,364	91,451
Prepaid lease payments	9	10,102	3,772
Intangible asset		2,618	1,007
Long term prepayments		679	765
Deferred tax assets		1,468	936
		111,231	97,931
Current assets			
Inventories		112,764	121,196
Debtors, deposits and prepayments	10	129,911	155,462
Amounts due from customers for contract work		33,202	5,261
Amount due from immediate holding company		–	417
Amount due from ultimate holding company		–	1,833
Amount due from a fellow subsidiary		15	185
Pledged bank deposits		2,478	1,665
Bank balances and cash		59,560	21,999
		337,930	308,018
Current liabilities			
Creditors and accrued charges	11	152,884	127,760
Amounts due to customers for contract work		1,013	58
Amount due to immediate holding company		–	1,656
Amount due to ultimate holding company		–	247
Tax payable		1,631	426
Warranty provision		4,114	3,503
Bank borrowings	12	15,991	84,556
		175,633	218,206
Net current assets		162,297	89,812
Net assets		273,528	187,743
Capital and reserves			
Share capital	13	2,882	–
Reserves		270,646	187,743
Total equity		273,528	187,743

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 1)	General reserve RMB'000 (Note 2)	Enterprise expansion reserve RMB'000 (Note 2)	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	64,905	–	–	7,166	3,583	–	57,287	132,941
Issue of shares (Note 3)	414	–	–	–	–	–	–	414
Profit for the period and total income recognised for the period	–	–	–	–	–	–	20,805	20,805
At 30 June 2005 and 1 July 2005	65,319	–	–	7,166	3,583	–	78,092	154,160
Issue of shares (Note 3)	11,722	297	–	–	–	–	–	12,019
Eliminated on group reorganisation (Note 4)	(77,041)	(297)	77,338	–	–	–	–	–
Profit for the period and total income recognised for the period	–	–	–	–	–	–	21,564	21,564
Appropriations	–	–	–	4,934	2,467	–	(7,401)	–
At 31 December 2005 and 1 January 2006	–	–	77,338	12,100	6,050	–	92,255	187,743
Issue of new shares	720	80,699	–	–	–	–	–	81,419
Capitalisation issue of shares	2,162	(2,162)	–	–	–	–	–	–
Expenses relating to issue of new shares	–	(11,392)	–	–	–	–	–	(11,392)
Sub-total	2,882	67,145	77,338	12,100	6,050	–	92,255	257,770
Exchange differences arising on translation of foreign operations	–	–	–	–	–	79	–	79
Profit for the period	–	–	–	–	–	–	15,679	15,679
Total income recognised for the period	–	–	–	–	–	79	15,679	15,758
At 30 June 2006	2,882	67,145	77,338	12,100	6,050	79	107,934	273,528

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

Notes:

1. Special reserve represents the difference between the paid-in capital/share capital and share premium of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

2. The Articles of Association of the respective subsidiaries in the People's Republic of China (the "PRC") requires the appropriation of certain percentage of its profit after taxation prepared in accordance with the PRC accounting standards each year to the general reserve and enterprise expansion reserve as determined by its board of directors. The general reserve and enterprise expansion reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

3. The amount represents the increase in share capital and share premium of Winning Steps Limited ("Winning Steps") and Yu Hwa Holdings Limited ("Yu Hwa") during the year ended 31 December 2005.

4. The share capital and share premium of Winning Steps and Yu Hwa are eliminated as these companies became wholly-owned subsidiaries of the Company upon group reorganisation.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended 30 June	
	2006	2005
	(unaudited)	(audited)
	RMB'000	RMB'000
Net cash from (used in) operating activities	50,019	(5,885)
Investing activities		
Purchase of property, plant and equipment	(10,184)	(2,087)
Increase in prepaid lease payments	(6,446)	–
Proceeds from disposal of property, plant and equipment	359	–
Other investing cash flows	(1,755)	281
Net cash used in investing activities	(18,026)	(1,806)
Financing activities		
Repayments of bank borrowings	(114,004)	(41,052)
Net proceeds from issue of new shares	75,862	–
Proceeds from bank borrowings	45,439	48,078
Other financing cash flows	(1,808)	12,374
Net cash from financing activities	5,489	19,400
Net increase in cash and cash equivalents	37,482	11,709
Effect of foreign exchange rate changes	79	–
Cash and cash equivalents at beginning of the period	21,999	5,650
Cash and cash equivalents at end of the period, representing bank balances and cash	59,560	17,359

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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 ("INT") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]

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

3. SEGMENT INFORMATION

Revenue represents the 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 period.

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 six months ended 30 June 2006

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Revenue – external sales	206,517	40,449	24,333	271,299
Segment results	28,716	697	(1,422)	27,991
Unallocated corporate income				2,687
Unallocated corporate expenses				(12,553)
Finance costs				(1,561)
Profit before taxation				16,564
Taxation				(885)
Profit for the period attributable to equity holders of the Company				15,679

3. SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the six months ended 30 June 2005

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Revenue – external sales	201,739	34,227	24,218	260,184
Segment results	24,019	79	(874)	23,224
Unallocated corporate income				2,788
Unallocated corporate expenses				(1,183)
Finance costs				(1,965)
Profit before taxation				22,864
Taxation				(2,059)
Profit for the period attributable to equity holders of the Company				20,805

4. OTHER INCOME

	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000
Government subsidies	1,230	51
Bank interest income	927	115
Sales of materials	678	1,386
Repair income	417	775
Others	530	461
	3,782	2,788

5. PROFIT BEFORE TAXATION

	Six months ended 30 June 2006 RMB'000	2005 RMB'000
Profit before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts, net	1,930	1,610
Amortisation of intangible asset included in administrative expenses	258	99
Amortisation of prepaid lease payments	116	50
Depreciation	4,926	4,712
Listing expenses	2,976	–

6. TAXATION

	Six months ended 30 June 2006 RMB'000	2005 RMB'000
Enterprise income tax in the People's Republic of China (the "PRC")	1,417	2,084
Deferred tax	(532)	(25)
	885	2,059

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 periods.

Pursuant to the approvals obtained from the relevant PRC tax authorities, the preferential income tax rate for Hangzhou Good Friend Precision Machinery Co. Ltd. ("Hangzhou Good Friend") a subsidiary of the Company, 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. The applicable tax rate for Hangzhou Good Friend is 8.25% (six months ended 30 June 2005: 8.25%) for the period.

7. DIVIDENDS

No dividends were paid during the period. The directors have determined that an interim dividend of RMB0.05 per share (2005: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 5 October 2006.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the equity holders of the Company of RMB15,679,000 (six months ended 30 June 2005: RMB20,805,000) and the weighted average number of 276,132,597 shares in issue (six months ended 30 June 2005: 210,000,000 shares which represented the aggregate of the 200 ordinary shares in issue as at the date of the prospectus of the Company dated 30 December 2005 and 209,999,800 ordinary shares issued pursuant to the capitalisation issue as described more fully in note 13, as if the shares were outstanding throughout the period).

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

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group disposed of property, plant and equipment with carrying amount of approximately RMB345,000.

In addition, the Group spent approximately RMB6,446,000 for acquiring new land use rights, RMB6,379,000 on the construction in progress, and RMB3,805,000 on additions to its existing manufacturing plant in order to upgrade its manufacturing facilities.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

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

The following is an aged analysis of trade debtors at the balance sheet dates:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade debtors		
1 – 30 days	71,591	92,311
31 – 60 days	4,440	10,162
61 – 90 days	4,126	5,815
91 – 180 days	10,443	11,529
Over 180 days	16,459	6,246
	107,059	126,063
Other debtors, deposits and prepayments	22,852	29,399
Total debtors, deposits and prepayments	129,911	155,462

11. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet dates:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade creditors		
1 – 30 days	43,613	21,296
31 – 60 days	17,702	21,043
61 – 90 days	701	2,337
91 – 180 days	239	7,901
Over 180 days	3,801	5,018
	66,056	57,595
Other creditors and accrued charges	86,828	70,165
Total creditors and accrued charges	152,884	127,760

12. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately RMB45.4 million and repaid bank loans of approximately RMB114 million. The loans bear interest at market rates ranging from 5.22% to 6.35% and will be repayable in 2006. The proceeds were used to finance daily operations.

13. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each (HK$0.10 each before subdivision of shares on 20 September 2005)		
Authorised:		
Incorporation of the Company	3,800,000	380
Subdivision of shares during the period	34,200,000	–
Increase during the prior period	962,000,000	9,620
At 31 December 2005, 1 January 2006 and 30 June 2006	1,000,000,000	10,000
Issued and fully paid:		
Incorporation of the Company	1	–
Subdivision of shares during the period	9	–
Shares issued at premium upon group reorganisation	190	–
At 31 December 2005 and 1 January 2006	200	–
Capitalisation issue of shares	209,999,800	2,100
Shares issued during the period	70,000,000	700
At 30 June 2006	280,000,000	2,800

	30 June 2006 RMB'000	31 December 2005 RMB'000
Shown in the financial statements as	2,882	–

13. SHARE CAPITAL (Continued)

As at the date of incorporation of the Company on 6 September 2005, its authorised share capital was HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each, one of which was allotted and issued nil paid, to the then sole shareholder of the Company.

By a written resolution of the sole shareholder of the Company passed on 20 September 2005, every issued and unissued ordinary share of HK$0.10 each in the capital of the Company was subdivided into 10 ordinary shares of HK$0.01 each. The Company's authorised share capital became HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each.

By a written resolution of the sole shareholder of the Company passed on 22 December 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of a further 962,000,000 ordinary shares to rank pari passu with the then existing shares in all respects.

Pursuant to the group reorganisation in December 2005, the then existing 10 ordinary shares of HK$0.01 each in the Company were credited as fully paid and an additional 190 ordinary shares of HK$0.01 each in the Company were issued in exchange of shares of the subsidiaries acquired.

On 10 January 2006, 70,000,000 ordinary shares of HK$0.01 each in the Company were issued and offered for subscription at a price of HK$1.13 per share upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. On the same date, 209,999,800 ordinary shares of HK$0.01 each in the Company were issued at par, credited as fully paid, to the sole shareholder whose names appeared on the register of members of the Company on 22 December 2005 by capitalisation of HK$2,099,998 transferred from the Company's share premium account pursuant to written resolutions of the sole shareholder of the Company passed on 22 December 2005.

The shares issued above ranked pari passu with the then existing shares in all respects.

14. CAPITAL COMMITMENTS

	30 June 2006 RMB'000	31 December 2005 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	4,152	6,446

15. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with its related parties:

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000
友嘉實業股份有限公司 Fair Friend Enterprise Company Limited	Ultimate holding company	Sales of goods	2,503	1,092
友佳實業(香港)有限公司 Good Friend (H.K.) Corporation Limited	Immediate holding company	Purchase of goods	8,945	79,355
		Sales of goods	931	–
杭州友維機電有限公司 Hangzhou Fair Fine Electric & Machinery Co., Ltd	Fellow subsidiary	Sales of goods	774	15
		Rental income	–	134
杭州友嘉高松機械有限公司 Hangzhou Feeler Takamatsu Machinery Co., Ltd.	Associate of ultimate holding company	Purchase of materials	23	–
		Sales of goods	391	–
		Rental income	–	54

Details of the balances with related parties are set out in the condensed consolidated balance sheet on page 4.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June 2006 RMB'000	Six months ended 30 June 2005 RMB'000
Short-term benefits	1,329	204
Post-employment benefits	12	–
	1,341	204

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group achieved a modest increase in revenue. For the six months ended 30 June 2006, the Group recorded revenue of approximately RMB271.30 million, representing an increase of about 4.3% as compared to the corresponding period in 2005. The gross profit margin increased to approximately 22.4% from 21.5% as compared to the corresponding period last year. Since May 2006, the Group had adjusted its pricing strategy and managed to raise its selling prices of machine tools which had effectively offset the negative impact of increase in raw materials price for the first half of 2006.

Profit for the period attributable to equity holders amounted to approximately RMB15.68 million, representing a decrease of approximately 24.6% as compared to the corresponding period last year. The Group had devoted significant efforts to participate in trade fairs and expanded its local sales and distribution network. As such, distribution costs increased by approximately 16.4% to approximately RMB31.50 million. Administrative expenses increased significantly by approximately 92.0% to approximately RMB11.49 million. The Group increased its number of staff to satisfy the growing production scale and established an office in Hong Kong to further develop the overseas market. Other operating expenses inflated sharply by approximately 288.2% which included approximately RMB2.98 million of listing expenses in the first half of 2006 upon listing of the Company in January 2006.

Business review

For the first half of 2006, sales from machine tools remained the major source of revenue for the Group, amounted to approximately RMB206.52 million representing approximately 76.1% of total revenue. On the other hand, revenue of parking garage structures and forklift trucks were approximately RMB40.45 million and RMB24.33 million respectively.

The Group's major customers of machine tools are automobile and mechanical manufacturers. In the first half of 2006, the development of the automobile industry in the PRC slowed down as a result of the PRC's macroeconomic policy. Selling prices of the products of competitors dropped while costs of crude oil and raw materials remained high. Notwithstanding the foregoing, the Group's machine tools business was able to achieve a growth in revenue of approximately 2.4% as compared to the corresponding period last year. Since May 2006, the Group had adjusted its pricing strategy and managed to raise its selling prices of machine tools in a successful attempt to counter the negative impact of raw material price fluctuation. As a result, the Group was able to maintain its gross profit margin at approximately 22.4% for the period under review.

For the six months ended 30 June 2006, sales from parking garage structures and forklift trucks accounted for approximately 14.9% and 9.0% respectively of the total revenue of the Group. The sales volume of parking garage structures and revenue increased by approximately 22.6% and 18.2% respectively as compared to the corresponding period in 2005. The average selling price had reduced slightly during the period under review. For forklift trucks, the Group explored the electric forklift trucks market and developed overseas markets through OEM production. The increase in sales to such markets helps to improve the Group's overall gross profit margin in the long run.

Prospects

According to the "2006 World Machine Tool Output & Consumption Survey" issued by Gardner Publications, Inc., the PRC was the largest machine tool import and consumption country in the world in 2005. The value of machine tools imported by the PRC increased from approximately US$1,890 million in 2000 to approximately US$6,700 million in 2005, representing a compound annual growth rate of approximately 29%. In terms of the total value of machine tool imported by the top 28 countries, PRC's imports accounted for approximately 9.4% in 2000. The percentage was further increased to approximately 22% in 2005, reflecting that the PRC is an increasingly important market of machine tools over the world.

The Directors believe that many PRC enterprises are using imported machine tools for their production. While the price difference between imported and domestic machine tools stands at approximately 30% to 50%, the quality of domestic machine tools has become more comparable to that of imported machine tools. It is therefore envisaged that domestic machine tools will be able to gain increasing market share in the near future. In order to meet the growing demand for high-end precision machine tools from the automobile industry for their manufacture of vehicles components, the Group will expand its production and research and development capability to produce more higher-quality and higher-end precision machine tools.

The Group has started the first phase construction of the production plant at Xiasha, Zhejiang Province, which is expected to start its trial production in the second half of 2006. The second phase construction is expected to start at the end of 2006 and trial production will commence in the second half of 2007. The construction of the Xiasha production plant is funded by the proceeds from the initial public offerings of the Company. The Group had reallocated its resources and planned to relocate all its forklift trucks production lines to the first phase of the new production plant at Xiasha. The second phase of the new production plant will predominately be used to produce parking garage structures. The existing production plant at Xiaoshan, Zhejiang Province will be retained as a commodious expansion for the production of machine tools products. The Group plans to use the production base at Xiaoshan for the research and development of higher-end precision computer numerical control machine tools. The Directors consider that the new arrangement will (1) enable the Group to achieve a better allocation and sharing of resources and avoid duplication of resources; (2) enable the elimination of transportation costs which could increase production efficiency and lower machine tools manufacturing cost; and (3) improve utility of production machinery and equipment. As a result, the Group will be able to reduce manufacturing costs, boost production efficiency, expand production capacity and achieve a higher level of economy of scale. The Directors expect that after the completion of the Xiasha production plant, the annual production capacity of the three types of products namely, machines tools, parking garage structures and forklift trucks will increase to 1,000 units, 2,000 units and 5,000 units respectively.

Liquidity and financial resources

The working capital of the Group was generally financed by internal cash flows generated from its operation and existing banking facilities. As at 30 June 2006, the Group's cash and cash equivalents amounted to approximately RMB59.56 million (31 December 2005: RMB22.00 million). Such an increase was mainly due to the net proceeds raised from the initial public offering of the Company's shares in January 2006. As at 30 June 2006, the Group had net current assets of approximately RMB162.30 million (31 December 2005: RMB89.81 million). The Group had monitored its cash position and reduced the bank borrowings substantially by approximately 81.1% from approximately RMB84.56 million as at 31 December 2005 to approximately RMB15.99 million as at 30 June 2006. The current ratio (a ratio of total current assets to total current liabilities) of the Group as at 30 June 2006 was approximately 1.9 (31 December 2005: 1.4). The gearing ratio (a ratio of total interest bearing liabilities to total assets) was approximately 3.6% (31 December 2005: 20.8%), reflecting the Group's improved financial position.

Capital structure

The share capital of the Company as at 30 June 2006 was HK$2,800,000 divided into 280,000,000 shares of HK$0.01 each.

Staff and remuneration policies

As at 30 June 2006, the Group employed approximately 1,050 full time staff (31 December 2005: 945). The remuneration policies of the Group are determined based on market trends, future plans, and the performance of individuals. In addition, the Group also provides other staff benefit such as mandatory provident fund, state-managed social welfare scheme and a share option scheme.

Capital commitments and contingent liabilities

As at 30 June 2006, the Group had made capital expenditure commitments of approximately RMB4.15 million (31 December 2005: RMB6.45 million) mainly for property, plant and equipment, which were contracted for but not provided in the condensed consolidated financial statements.

As at 30 June 2006, the Group did not have any material contingent liabilities.

Charges on the Group's assets

As at 30 June 2006, the Group had pledged bank deposits with an amount of approximately RMB2.48 million (31 December 2005: RMB1.67 million) which was guarantee deposit in banks for the purpose of bidding contracts.

The Group had repaid all the bank borrowings that were secured by the Group's assets as at 30 June 2006.

Use of proceeds

The proceeds from the Company's issue of new shares in January 2006, less listing expenses, amounted to approximately HK$62.3 million. During the six months ended 30 June 2006, net proceeds were utilised as follows:

	HK$'million
Acquisition of land for the production base of 杭州友高精密機械有限公司(Hangzhou Global Friend Precision Machinery Co., Ltd.) ("Hangzhou Global Friend")	6.30
Construction of the production base of Hangzhou Global Friend	5.92
Repayment of bank loans	11.84
General working capital	1.81
	25.87

The remaining balance was placed in short term deposits with licensed banks in Hong Kong and the PRC.

DISCLOSURE OF INTERESTS

Directors' interest in shares

As at 30 June 2006, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

1. **Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations**

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited) ("Taiwan FF")	Beneficial owner	23,836,668 shares	15.44%
Mr. Chu Chih-Yaung (Note 1)	Taiwan FF	Spouse interest	4,737,182 shares	3.07%

DISCLOSURE OF INTERESTS (Continued)

Directors' interest in shares (Continued)

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung (Note 2)	Taiwan FF	Family interest	326,513 shares	0.21%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	4,721,413 shares	3.06%
Mr. Chu Chih-Yaung	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) (Note 4)	Beneficial owner	21,988 shares	0.22%
Mr. Chu Chih-Yaung (Note 3)	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) (Note 4)	Spouse interest	21,988 shares	0.22%
Mr. Chen Min-Ho	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) (Note 4)	Beneficial owner	43,976 shares	0.44%
Mr. Chu Chih-Yaung	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 4)	Beneficial owner	1,000 shares	0.01%
Mr. Chu Chih-Yaung (Note 5)	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 4)	Spouse interest	1,000 shares	0.01%
Mr. Chu Chih-Yaung	友嘉全球航太股份有限公司 (Turbofair Corporation) (Note 4)	Beneficial owner	600 shares	0.10%
Mr. Chu Chih-Yaung (Note 6)	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 4)	Spouse interest	50,000 shares	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 4)	Beneficial owner	10,000 shares	0.12%

DISCLOSURE OF INTERESTS (Continued)

Directors' interest in shares (Continued)

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 4)	Beneficial owner	750 shares	0.03%
Mr. Cheng Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 4)	Beneficial owner	750 shares	0.03%

Notes:

1. Ms. Wang Jin-Zu ("Ms. Wang"), Mr. Chu's spouse, holds 3.07% of the issued share capital of Taiwan FF. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

2. Mr. Chu Yi-Chia, Mr. Chu's son under the age of 18, holds 0.21% of the issued share capital of Taiwan FF, Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Mr. Chu Yi-Chia in Taiwan FF under the SFO.

3. Ms. Wang holds 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.

4. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO.

5. Ms. Wang holds 0.01% of the issued share capital of Yu Thai Xin Ent. Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Yu Thai Xin Ent. Co., Ltd. under the SFO.

6. Ms. Wang holds 0.59% of the issued share capital of Decaview Asia Corporation. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Decaview Asia Corporation under the SFO.

Save as disclosed above, as at 30 June 2006, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS (Continued)

Directors' interest in shares (Continued)

2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

As at 30 June 2006, none of the Directors or chief executive of the Company, had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Share option scheme adopted on 22 December 2005 (the "Scheme")

The Company adopted the Scheme on 22 December 2005, pursuant to which the Board may, at its discretion, grant options to Directors and other eligible persons (as defined in the Scheme) to enable them to subscribe for shares of the Company as incentives and/or rewards for their contribution to the success of the Group. No share options were granted since its adoption.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

Substantial shareholders

As at 30 June 2006, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

1. Aggregate long position in the shares and underlying shares of the Company

Name of shareholder	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Beneficial owner	210,000,000 shares (Note)	75%
Taiwan FF	Interest in a controlled corporation	210,000,000 shares (Note)	75%

Note: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF, Taiwan FF is deemed to be interested in 210,000,000 shares of the Company held by Hong Kong GF under the SFO.

DISCLOSURE OF INTERESTS (Continued)

Substantial shareholders (Continued)

2. Aggregate short position in the shares and underlying shares of the Company

As at 30 June 2006, the Company had not been notified of any short positions being held by any substantial shareholders in the shares or underlying shares of the Company.

OTHER INFORMATION

Interim dividend

The Directors declared to pay an interim dividend of RMB0.05 (equivalent to HK$0.049) per ordinary share for the six months ended 30 June 2006 (2005: Nil) on 18 October 2006 to the shareholders of the Company whose names appear on the Register of Members of the Company on 5 October 2006.

Closure of register of members

The Register of Members of the Company will be closed on Thursday, 5 October 2006 which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch 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 not later than 4:00 p.m. on Wednesday, 4 October 2006.

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2006.

Mode code for securities transactions by directors

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the period under review.

Code on corporate governance practices

The Company has adopted the code provisions in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005, as its own code of corporate governance practices.

OTHER INFORMATION (Continued)

Code on corporate governance practices (Continued)

Since the listing of the Company's shares on 11 January 2006 and up to 30 June 2006, the Company had been in compliance with code provisions set out in the CG Code except that code provision A.4.2 of the CG Code provides that all directors appointed to fill a casual vacancy by the board of directors shall hold office until the first general meeting after their appointment while the Articles of Association of the Company ("Articles") provides that any Directors so appointed by the Board shall hold office until the next following annual general meeting. A special resolution was passed at the annual general meeting of the Company held on 22 May 2006 whereby the Articles was amended to align the Articles with code provision A.4.2 of the CG Code.

Audit committee

The Company established an audit committee (the "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 unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006.

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

Hong Kong, 19 September 2006

As at the date of this report, 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; and the independent non-executive Directors are Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang.