

## CHAIRMAN'S STATEMENT

I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the first annual report of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2005.

### **SUCCESSFUL LISTING**

The Company was incorporated in the Cayman Islands on 6 September 2005 and was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 January 2006. 70,000,000 new shares were successfully issued at an offer price of HK\$1.13 per share, the net proceeds raised being HK\$62,300,000 for the construction of a production base, expansion of production facilities, repayment of bank loans, and as general working capital.

### **FINANCIAL PERFORMANCE**

For the year ended 31 December 2005, the Group recorded a revenue of approximately RMB557.67 million with profit for the year attributable to equity holders of the Company of approximately RMB42.37 million.

### **FINAL DIVIDEND**

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

### **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 report, which will be used as the new production plant of 杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.) (“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 杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.) (“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.

Last but not least, I would like to take this opportunity to thank the Company's shareholders, the Group's customers, and suppliers for their continual support for and trust in the Group. I would also like to thank all the management and the whole staff for their efforts and contributions to the Group over the last year.

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.

By order of the Board

**CHU Chih-Yaung**

*Chairman*

Hong Kong, 18 April 2006