

## REPORT OF THE DIRECTORS

The Board of Directors of the Company is pleased to submit their first report together with the audited consolidated financial statements of the Group for the year ended 31 December 2005.

### **REORGANISATION AND INITIAL PUBLIC OFFERING**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 September 2005. Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the main board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 22 December 2005.

Subsequent to the balance sheet date, on 11 January 2006, the shares of the Company successfully commenced dealings on the main board of the Stock Exchange by offering 70,000,000 new shares at an offer price of HK\$1.13 per share.

### **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 report 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.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company and the subsidiaries are principally engaged in the design and production of CNC machine tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks.

### **RESULTS AND APPROPRIATIONS**

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 29 to 71.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

### **ANNUAL GENERAL MEETING**

The 2006 annual general meeting of the Company ("2006 AGM") will be held on Monday, 22 May 2006.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to attend and vote at the 2006 AGM, 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, 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.

## SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2005 are set out in note 30 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company ("Shareholders").

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution to the shareholders amounted to approximately RMB8.09 million.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

### Executive directors

Mr. Chu Chih-Yaung ( <i>Chairman</i> )	(appointed on 9 June 2005)
Mr. Chen Hsiang-Jung ( <i>Chief Executive Officer</i> )	(appointed on 14 December 2005)
Mr. Chen Min-Ho	(appointed on 14 December 2005)
Mr. Wen Chi-Tang	(appointed on 14 December 2005)
Mr. Chiu Rung-Hsien	(appointed on 14 December 2005)

### Independent non-executive Directors

Mr. Koo Fook Sun, Louis	(appointed on 14 December 2005)
Mr. Chiang Chun-Te	(appointed on 14 December 2005)
Mr. Yu Yu-Tang	(appointed on 14 December 2005)

In accordance with article 86(3) of the Articles, all of the above Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## **INDEPENDENCE CONFIRMATION**

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). The Company considers all of the independent non-executive Directors are independent.

## **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, to grant options to the Directors and eligible persons (as defined in the Scheme) to enable them to subscribe for shares of the Company as incentives or rewards to the Group. No share options were granted since its adoption.

Save as disclosed above, at no time during the year 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.

## **DIRECTORS’ SERVICE CONTRACTS**

Each of the executive Directors has entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of three years commencing from 11 January 2006 until terminated by not less than three months’ notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the independent non-executive Directors has entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of two years commencing from 11 January 2006 until terminated by not less than three months’ notice in writing served by either party to the other.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS’ INTERESTS IN CONTRACTS**

Save as those set out in note 36 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SHARES

As at 11 January 2006 (being the date on which the Shares first commenced dealings on the Stock Exchange), 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%
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%

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

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## 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 Fairseq (Taiwan) Co., Ltd.. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Fairseq (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, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company, 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.

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

Save as disclosed above, 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.

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## SUBSTANTIAL SHAREHOLDERS

As at 11 January 2006 (being the date on which the shares of the Company first commenced dealings on the Stock Exchange), 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 (Note)	75%
Taiwan FF	Interest in a controlled corporation	210,000,000 (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.

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

As at 11 January 2006 (being the date on which the shares of the Company first commenced dealings on the Stock Exchange), 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.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2005.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to 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.

## CONNECTED TRANSACTIONS

The companies now comprising the Group have had entered into a number of transactions with parties who, upon the listing of the Company's shares on the Stock Exchange, became connected persons of the Company under the Listing Rules. Details of such transactions are set out in the section headed "Connected transactions" in the Prospectus. Save and except the continuing connected transactions as detailed below, other connected transaction as set out in the section headed "Connected transactions" in the Prospectus had been discontinued.

### Exempt continuing connected transaction

The following continuing connected transaction (as defined in the Listing Rules) for the Company is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3)(b) of the Listing Rules:

Taiwan FF has, pursuant to the trademark licence agreement ("Agreement") dated 22 December 2005 entered into between Taiwan FF and Hangzhou Good Friend, a wholly owned subsidiary of the Company, irrevocably granted to Hangzhou Good Friend a licence to use certain trademarks registered in its name in the PRC under class 7, being trademarks currently used by the Group, at a consideration of RMB1.00. The term of the Agreement commenced on 22 December 2005 and shall continue thereafter for so long as Taiwan FF remains as the owner of such trademarks and a controlling shareholder of the Company. According to the terms of the Agreement, the Agreement can only be terminated by Hangzhou Good Friend after having obtained the consent of all the independent non-executive Directors.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group focuses on developing a wide customer base which mainly includes automobile manufacturers, mould processing manufacturers, mechanical and electronics products manufacturers, other industrial manufacturers and real estate developers. Most of the suppliers of the Group were located in Taiwan and the PRC. During the year, the Group did not enter into any long-term procurement contract with its suppliers.

During the year, the percentage of sales attributable to the five largest customers of the Group is less than 30% of the Group's sales.

During the year, the five largest suppliers of the Group accounted for approximately 58% of the total purchases of the Group and the largest supplier, being Hong Kong GF, the immediate holding company of the Company, accounted for approximately 34% of the total purchases of the Group.

Save as disclosed above, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.



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## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules since the listing of its Shares on the Stock Exchange on 11 January 2006.

## **AUDIT COMMITTEE**

The Company established an audit committee (“Audit Committee”) on 22 December 2005 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in appendix 14 to 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, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed the audited consolidated 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.

## **CORPORATE GOVERNANCE**

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 27 of the 2005 Annual Report.

## **AUDITORS**

The Company was incorporated in the Cayman Islands on 6 September 2005 and there is no change to its auditors since its incorporation.

Deloitte Touche Tohmatsu shall retire at the 2006 AGM 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