

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)

<u>Name of Director</u>	<u>Name of associated corporation</u>	<u>Nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of shareholding</u>
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 (Fairseq (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 (Fairseq (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 (Fairseq (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:

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