



I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the report on the results of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2006 ("the year").

FINANCIAL REVIEW

With a prospective view on the market by our management and good quality of products, we achieved encouraging results during the year. For the year ended 31 December 2006, we recorded a revenue of approximately RMB611.00 million, representing an increase of approximately 9.6% compared to the previous year; profit attributable to equity holders amounted to approximately RMB53.08 million, representing an increase of approximately 25.3% compared to 2005.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.05 (equivalent to approximately HK\$0.05) per ordinary share for the year ended 31 December 2006 (2005: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board proposed a bonus issue of shares be made to shareholders whose names appear on the register of members on 21 May 2007 in the proportion of 1 bonus share for every 5 shares held (the "Bonus Issue"). Based on the 280,000,000 shares in issue as at the date of this report, 56,000,000 bonus shares will be issued. The bonus shares will be credited as fully paid and will rank pari passu in all respects with the existing issued shares with effect from the date of issue, except for the Bonus Issue or the final dividend for the year ended 31 December 2006. No fractional shares will be issued but will be aggregated and sold. The proceeds of sale will be retained for the benefit of the Company.

Shareholders should refer to details of the Bonus Issue as disclosed in the circular of the Company of 25 April 2007.

BUSINESS REVIEW

The year 2006 marked a new beginning for our business. With our belief in credibility, accountability and perpetual operations, we have been committed to offering customers high quality products so as to

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capture business opportunities in the market and expand the scale of our business continuously. We recorded satisfactory growth in sales and sales volume for the year with all the three business segments, namely machine tools, parking garage structures and forklift trucks posting satisfactory growth, in which our key products, computer numerical controlled machine tools (CNC machine tools) achieved an increase of approximately 9.6% in sales compared to same period in 2005. For the year ended 31 December 2006, our annual sale volume of machine tools, parking garage structures and forklift trucks amounted to 1,151 units, 4,828 units and 957 units respectively.

During the year, machine tools remained the major source of our revenue, representing approximately 76.5% of the total revenue. During the period, we had developed new models of NB and FB machine tools, which are more appropriate for the processing need of automobile components that require heavy cutting. They also complement well with small-sized hard rail lathes (硬軌機床) that the Group has traditionally focused on, and help fulfilled our market demand. In 2007, we will concentrate on the research and development of high precision CNC lathe (高精度數控車床) to satisfy with the demand from high-end automobile component manufacturing sectors, and explore the application areas for machine tools.



As for parking garage structures, the Group successfully explored the markets in Hong Kong, Macau, Singapore and the United States, with the development of the overseas-accommodated NP series of pit and elevators features, which invoke huge demands in the Japanese market and is expected to export against Japan. The Group will focus on the research and development of cargo warehouse products to cope with the demands emerging from the new market pattern. As for forklift trucks, we developed tri-wheel counter balance electronic forklift truck (三支點平衡重式電瓶叉車). The low noise and flexible



turning features of this new product meet the needs of overseas high-end cargo warehouse market. We have strengthened our expansion of this product into the PRC and successfully entered into the market in Henan province so far. As a result, sales in Zhejiang province increased to approximately 45% of our total sales. In respect of the overall sales network, the number of our liaison offices in China has increased from 19 in 2005 to 26 this year to provide prompt services to customers, with the new liaison offices set up in places such as Ningbo, Dalian, Ganzhou, Hefei, etc. providing broad coverage in the PRC market. In respect of our overseas markets, the Group has sought prominent overseas sales agents, and has established long term co-operation relationship with agents in countries including United States, France and the Netherlands, to satisfy the overseas markets of forklift trucks.

To cope with the vast demand of the markets, we have already planned to expand the production capacity and the scale of production. First phase of the new factory of 杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.) ("Hangzhou Global Friend"), which is situated in Xiasha, Zhejiang province, has duly completed all the installations and ancillary facilities in December

2006, and started the production of forklift trucks instead of machine tools and parking garage structures as originally planned in the prospectus for the listing of the Company's shares dated 30 December 2005 ("Prospectus") in early 2007, while 杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.) ("Hangzhou Good Friend"), the factory for production which is originally situated in Xiaoshan will continue to expand the production and research and development of 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 new plant will help to expand the production capacity of the Group, and its contribution to the Group is expected to be reflected in 2007.

Furthermore, at the end of 2006, the Group acquired a land use right in Xiasha, Zhejiang province, with total floor area of about 70,300 sq. m., which is expected to further enhance the production capacity of the Group, with the relevant cost of approximately RMB14.07 million. The new production plant will be owned by 杭州友華精密機械有限公司 (Hangzhou Every Friend Precision Machinery Co., Ltd.) ("Hangzhou Every Friend"), and construction will be divided into two phases. The first phase is expected to commence in the second quarter of 2007, and the construction cost is expected to be RMB43.80 million.

Besides, the Group has established a trading company, namely 友盛(上海)精密機械有限公司 (Rich Friend (Shanghai) Precision Machinery Co., Ltd.) ("Rich Friend Shanghai") during the year, and has explored the domestic market with a prestigious machine tools manufacturer in France. Machine tools sold by French machine tools manufacturer are classified as high performance milling centre with portal, and target at customers who are the manufacturers of aviation, aerospace and precision mould products. By expanding the market together with manufacturers in Europe, the Group is able to provide diversified products, in order to respond to the market needs quickly and introduce state-of-the-art technology from overseas, in order to improve the quality of the products of the Group.

PROSPECTS

2006 is the first year of the "Eleventh Five-year Development Plan for National Economic and Social Development". There will be more large scale infrastructure project plans in the country. Investment in industrial fixed assets will be accelerated and there will be growing demand for technique



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improvement in manufacturing industry. China has a great demand for high quality and precision tools, especially high-end CNC machine tools. As the technique and product quality of China's CNC machine tools improves, they are gradually replacing imported machine tools. In the mean time, as the largest machine tools consuming country with low production cost, more overseas companies are producing CNC machine tools in China.

In the future, more resources of the Group will go to overseas markets and be used for improving product quality and boosting production capacity. In addition, the Group will seize opportunities, to utilize its advantage of familiarity with the China market to become partners of overseas producers, to introduce international advanced technology to the domestic market so as to improve the product quality and portfolio and help the Group enter into the overseas market. The forklift trucks business is also booming as a result of increased market demand for forklift trucks, which is used for cargo transfer. In addition, since there are more and more private cars in each developing cities there will be ample room for the Group's parking garage structure business.

As for production, the Group will expand its production capacity in the coming years. The second phase construction plan of the production plant of Hangzhou Global Friend at Xiasha started at the end of 2006 and is expected to complete in the second half of 2007 with a construction cost of approximately RMB25.00 million. It is estimated that once Hangzhou Global Friend is in full operation, maximum annual production capacity of parking garage structures and forklift trucks will reach 10,000 units and 5,000 units respectively. The maximum annual production capacity of parking garage structures is expected to increase from 2,000 units (as disclosed in the interim report for the six months ended 30 June 2006) to 10,000 units. Such increase is mainly due to the better reallocation of resources as the second phase of the production plant will predominately be used to produce parking garage structures. In addition, the newly acquired land mentioned above belonged to Hangzhou Every Friend will be used for building production plant. The construction is expected to start in the second quarter of 2007 and the first phase and second phase is expected to be completed before the end of 2007 and the end of 2008 respectively.

The Group believes that with its competitive edge in the industry and by assimilating advanced manufacture technology from abroad, together with its improved management system and measurement for manufacture techniques and quality, the Group will enhance its capability to meet customers' need and demand. We are committed to becoming an international CNC machine tools manufacturer, and bring the best return to the shareholders.

Last but not least, I, on behalf of the Board, would like to take this opportunity to thank the shareholders, customers, and business partners for their continual support for the Group. I would also like to thank the whole staff for their efforts and contributions to the Group over the last year.

By Order of the Board
Chu Chih-Yaung
Chairman

Hong Kong, 20 April 2007