

2007

Interim Report

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: 2398



CONTENTS

| | PAGE |
|--|------|
| CORPORATE INFORMATION | 2 |
| MANAGEMENT DISCUSSION AND ANALYSIS | 3 |
| DISCLOSURE OF INTERESTS | 7 |
| OTHER INFORMATION | 12 |
| REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION | 14 |
| CONDENSED CONSOLIDATED INCOME STATEMENT | 15 |
| CONDENSED CONSOLIDATED BALANCE SHEET | 16 |
| CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 17 |
| CONDENSED CONSOLIDATED CASH FLOW STATEMENT | 18 |
| NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS | 19 |

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

LEUNG Pui Ki, *ACIS, ACS*

QUALIFIED ACCOUNTANT

KONG Sau Ha, *FCCA, FCCA, ACIS, ACS*

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
LEUNG Pui Ki

COMPLIANCE ADVISER

Polaris Capital (Asia) Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2003, 20th Floor
Kai Tak Commercial Building
317-319 Des Voeux Road Central
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
Hang Seng Bank Limited

STOCK CODE

2398

WEBSITE

www.goodfriend.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the first six months of 2007, the revenue of Good Friend International Holdings Inc., (the “Company”) and its subsidiaries (the “Group”) continued to grow appreciably by about 35.2% to approximately RMB366.8 million as compared to approximately RMB271.3 million in the first six months of 2006. The gross profit margin increased to approximately 26.1% from 22.4% as compared to the corresponding period last year. The increase was due to the improved sales mix of the Group’s sales of machine tools products with high margin constituting a larger proportion in the total sales of the Group.

Profit attributable to equity holders amounted to approximately RMB41.3 million, representing an increase of approximately 163.3% as compared to RMB15.7 million for the first six months of 2006. Distribution and selling costs increased by about 7.1% from approximately RMB31.5 million to approximately RMB33.7 million as compared to the corresponding period last year, primarily due to an increase in sales agency fees associated with sales activities of CNC machine tools products. Administrative expenses increased by about 52.3% from approximately RMB11.5 million to approximately RMB17.5 million as compared to the corresponding period last year, primarily due to higher fixed overhead costs for a new plant, which has commenced production from January 2007.

Business Review

For the first half of 2007, more than about 71.4% of the Group’s revenue was generated from sales of mainstream product, CNC machine tools, which amounted approximately to RMB262.0 million. Sales of parking garage structures and forklift trucks were approximately RMB59.2 million and RMB45.7 million respectively, which constituted about 16.1% and 12.5% of total revenue.

The new plant in Xiasha (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”) started the production of forklift truck early this year, whereas the plant in Xiaoshan (production base of 杭州友佳精密機械有限公司, Hangzhou Good Friend Precision Machinery Co., Ltd.) focused on the production of CNC machine tools and parking garage structures. This new arrangement had enhanced the Company’s manufacturing capacity which in turn boost overall sales performance in all products. For the first half of 2007, the sales volume of CNC machine tools, parking garage structures and forklift trucks amounted to 658 units, 2,884 units and 706 units respectively.

The Group’s major customers of CNC machine tools products are automobile and mechanical manufacturers. The Group had implemented an effective cost control policy to improve the operating margin by bringing costs down through sourcing of raw materials from local suppliers. Operating gross profit margin for CNC machine tools increased to approximately 29.6% during this period.

Sales volume and turnover of parking garage structures increased by about 23.2% and 46.2% respectively as compared to the corresponding period last year with a fairly increase in the average selling price. For forklift trucks, market share in overseas market was increased by introduction of new models of electronic forklift trucks. As a result, the revenue generated from sales of forklift trucks increased to approximately 12.5% for the Group's total revenue as compared with the corresponding period last year.

Prospects

According to the "2007 World Machine Tool Output & Consumption Survey" issued by Gardner Publication, Inc., the PRC was the largest machine tools import and consumption country in 2006. The value of machine tools imported and consumed by the PRC was approximately US\$7,100 million and US\$12,940 million in 2006, implying that over 50% of demand for machine tools in the PRC was fulfilled by overseas suppliers.

The board (the "Board") of directors (the "Directors") of the Company believes that the implementation of Eleventh Five-Year Plan will be beneficial to the Group as development of critical and generic technologies, as well as that of high-end CNC machine tools for use in aerospace and high-tech industries, will be a key focus in the coming years in the PRC. The Group will continue to expand its production, and enhance research and development capabilities to produce higher quality and higher-end precision CNC machine tools to meet the high demand of the local markets.

For the future development of the Group, the second phase construction of the production plant of Hangzhou Global Friend is expected to be completed in the second half of 2007. Upon Hangzhou Global Friend has begun full-scale operations, the Group expects its annual production capacity of CNC machine tools, parking garage structures and forklift trucks to reach 2,400 units, 10,000 units and 5,000 units respectively in 2007. Due to the changes of the development plan of the Group, 杭州友華精密機械有限公司 (Hangzhou Every Friend Precision Machinery Co., Ltd.) ("Hangzhou Every Friend") will postpone its construction of production base to the second half of 2007 and is expected to be completed in the second half of 2008. Furthermore, the Group acquired land use rights in the Hangzhou Jiangdong Industrial Park, Zhejiang province. The total floor area is about 67,000 sq.m. with a cost of approximately RMB19.2 million, and with it, the Group expects to further enhance the production capacity of CNC machine tools, parts and components of machine tools. The new production plant will be owned by 杭州友達機械科技有限公司 (Hangzhou Glory Friend Machinery Technology Co., Ltd.). The construction of such production plant is expected to start at the end of 2007.

In the long run, the Group will participate a number of worldwide/local leading machine tools fairs to explore its overseas and local markets. With its competitive edge in the industry and advanced technology and know-how, the Group will enhance its capability to meet customers' need and demand.

Liquidity and financial resources

The working capital of the Group was mainly financed by internal cash flows generated from its operation and its existing banking facilities. As at 30 June 2007, the Group's cash and cash equivalents amounted to approximately RMB59.5 million (at 31 December 2006: RMB69.2 million). As at 30 June 2007, the Group had net current assets of approximately RMB155.3 million (at 31 December 2006: RMB151.8 million) and short-term bank borrowings of approximately RMB61.1 million (at 31 December 2006: RMB46.5 million). The current ratio (total current assets to total current liabilities) of the Group as at 30 June 2007 was approximately 1.5 (at 31 December 2006: 1.8). The gearing ratio as at 30 June 2007 (total interest bearing liabilities to total assets) was approximately 9.7% (at 31 December 2006: 9.4%), indicated that the Group's overall financial position remained strong.

Capital structure

The share capital of the Company as at 30 June 2007 increased to HK\$3,360,000 divided into 336,000,000 shares of HK\$0.01 each (at 31 December 2006: HK\$2,800,000 divided into 280,000,000 shares of HK\$0.01 each). Bonus shares in the proportion of one bonus share for every five shares were issued on 28 May 2007. The bonus shares ranked pari passu in all respects to the existing issued shares.

Staff and remuneration policies

As at 30 June 2007, the Group employs a total of approximately 1,126 full time employees (31 December 2006: 1,051) in Hong Kong and the PRC. The Group's emolument policies are formulated on the basis of market trends, future plans and the performance of individuals, which will be reviewed periodically. Apart from provident fund scheme and state-managed social welfare scheme, share options (if any) will be also awarded to employees according to assessment of individuals' performance.

Capital commitments and contingencies

The Group had capital expenditure commitments mainly for property, plant and equipment of approximately RMB18.4 million (at 31 December 2006: RMB4.2 million) which were contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 30 June 2007 (at 31 December 2006: Nil).

Charges on the Group's assets

As at 30 June 2007, the Group had pledged bank deposits with an amount of approximately RMB3.6 million (at 31 December 2006: RMB2.8 million) which represented guarantee deposit in banks for the purpose of bidding contracts.

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 2007, the net proceeds were utilised (in accumulated amount) as follows:

| | <i>HK\$'million</i> |
|--|---------------------|
| Acquisition of land for the production base of Hangzhou Global Friend | 6.3 |
| Construction of the production base of Hangzhou Global Friend | 12.1 |
| Purchase of new production equipment and machinery for Hangzhou Global Friend | 1.1 |
| Repayment of bank loans | 11.8 |
| General working capital | 5.9 |
| | <hr/> |
| Total | 37.2 |
| | <hr/> <hr/> |

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 2007, 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 of Hong Kong Limited (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 | 24,512,401 shares | 15.57% |
| Mr. Chu Chih-Yaung (Note 1) | Taiwan FF | Spouse interest | 4,831,925 shares | 3.07% |
| Mr. Chu Chih-Yaung (Note 2) | Taiwan FF | Family interest | 454,283 shares | 0.29% |
| Mr. Chen Hsiang-Jung | Taiwan FF | Beneficial owner | 4,815,841 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% |

| Name of Director | Name of associated corporation | Nature of interest | Number and class of securities | Approximate percentage of shareholding |
|--------------------------------|--|--------------------|--------------------------------|--|
| 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% |

Notes:

1. Ms. Wang Jin-Zu ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung ("Mr. Chu"), holds 3.07% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
2. Mr. Chu Yi-Chia, the son of Mr. Chu under the age of 18, holds 0.29% of the issued share capital of Taiwan FF. Mr. Chu 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 Fairsq (Taiwan) Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Fairsq (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 2007, 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.

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

As at 30 June 2007, 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

At no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or chief executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire such rights or benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Share option scheme

The Company adopted a share option scheme (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. Particulars of the Scheme are summarised as follows:

- (1) The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group must not exceed 10% of issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange, i.e. 11 January 2006 (which were 280,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

As at the date of this report, the total number of shares available for issue under the Scheme is 28,000,000 shares, which represents 10% of the issued shares as at the date of listing of the Company's shares on the Stock Exchange.

- (2) The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued shares from time to time.
- (3) The subscription price for the shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares.
- (4) An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme ("Commencement Date") and expiring on such date of the expiry of the option as the Board of Directors may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

- (5) Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.
- (6) The Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Scheme, i.e. 22 December 2005.

There has been no option granted since the adoption of the Scheme.

Substantial shareholders

As at 30 June 2007, 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 | 252,000,000 shares (Note) | 75% |
| Taiwan FF | Interest of controlled corporation | 252,000,000 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 252,000,000 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 30 June 2007, 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 30 June 2007.

OTHER INFORMATION

Interim dividend

The Board declared to pay an interim dividend of RMB0.06 (equivalent to approximately HK\$0.062) per ordinary share for the six months ended 30 June 2007, amounting to approximately RMB20.2 million (equivalent to approximately HK\$20.8 million). The dividend warrants will be despatched on Thursday, 25 October 2007 to those shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 17 October 2007.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to receive the interim dividend, the register of members of the Company will be closed from Monday, 15 October 2007 to Wednesday, 17 October 2007, 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, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 12 October 2007.

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 2007.

Model 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 (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. During the period under review, the Company had been in compliance with code provisions set out in the CG Code.

Internal controls

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. Up to the date of this report, the Board engaged SHINEWING Risk Services Limited, an external professional adviser, to conduct a review of the effectiveness of the internal control system of the Group. The results and findings of such review will be covered at the Company's annual report in this year.

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 (as chairman), 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 2007.

Nomination committee

The Company established a nomination committee (the “Nomination Committee”), with written terms of reference, on 22 December 2005 in compliance with the CG Code and consists of two independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman) and Mr. Chiang Chun-Te, and one executive Director, namely Mr. Chen Hsiang-Jung.

The functions of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

Remuneration committee

The Company established a remuneration committee (the “Remuneration Committee”), with written terms of reference, on 22 December 2005 in compliance with the CG Code and consists of two independent non-executive Directors, namely Mr. Koo Fook Sun, Louis (as chairman) and Mr. Chiang Chun-Te, and one executive Director, namely Mr. Chen Hsiang-Jung.

The functions of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

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

Hong Kong, 13 September 2007

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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 15 to 26 which comprises the condensed consolidated balance sheet of Good Friend International Holdings Inc. as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

13 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2007 RMB'000 (unaudited) | 2006 RMB'000 (unaudited) |
| Revenue | | 366,834 | 271,299 |
| Cost of sales | | (271,058) | (210,631) |
| Gross profit | | 95,776 | 60,668 |
| Other income | 4 | 3,409 | 3,782 |
| Distribution and selling costs | | (33,726) | (31,500) |
| Administrative expenses | | (17,509) | (11,494) |
| Other expenses | | (534) | (3,331) |
| Interest on bank borrowings wholly repayable within five years | | (1,219) | (1,561) |
| Profit before taxation | 5 | 46,197 | 16,564 |
| Taxation | 6 | (4,911) | (885) |
| Profit for the period attributable to equity holders of the Company | | 41,286 | 15,679 |
| Dividend | 7 | 14,000 | 14,000 |
| Earnings per share – basic, in RMB | 8 | 0.12 | 0.05 |

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

| | Notes | 30 June 2007 RMB'000 (unaudited) | 31 December 2006 RMB'000 (audited) |
|---|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 118,626 | 99,961 |
| Deposits for purchase of plant and equipment | | 607 | 15,866 |
| Deposit for acquisition of land use right | | 19,200 | 14,073 |
| Prepaid lease payments | 9 | 24,359 | 9,855 |
| Intangible asset | | 2,909 | 2,313 |
| Long term prepayments | | 332 | 419 |
| Deferred tax assets | | 2,774 | 2,590 |
| | | 168,807 | 145,077 |
| Current assets | | | |
| Inventories | | 129,960 | 109,287 |
| Debtors, deposits and prepayments | 10 | 215,113 | 146,920 |
| Amounts due from customers for contract work | | 54,905 | 18,550 |
| Pledged bank deposits | | 3,559 | 2,753 |
| Bank deposits with maturity period more than three months | | - | 4,983 |
| Bank balances and cash | | 59,515 | 69,218 |
| | | 463,052 | 351,711 |
| Current liabilities | | | |
| Creditors and accrued charges | 11 | 239,266 | 142,169 |
| Amounts due to customers for contract work | | 372 | 5,698 |
| Tax payable | | 2,993 | 1,110 |
| Warranty provision | | 3,963 | 4,449 |
| Bank borrowings | 12 | 61,127 | 46,510 |
| | | 307,721 | 199,936 |
| Net current assets | | | |
| | | 155,331 | 151,775 |
| | | 324,138 | 296,852 |
| Capital and reserves | | | |
| Share capital | 13 | 3,431 | 2,882 |
| Reserves | | 320,707 | 293,970 |
| | | 324,138 | 296,852 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | Paid-in capital/ share capital <i>RMB'000</i> | Share premium <i>RMB'000</i> | Special reserve <i>RMB'000</i> <i>(Note 1)</i> | General reserve <i>RMB'000</i> <i>(Note 2)</i> | Enterprise expansion reserve <i>RMB'000</i> <i>(Note 2)</i> | Translation reserve <i>RMB'000</i> | Retained profits <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|------------------------------------|---|---|---|--|---------------------------------------|-------------------------|
| At 1 January 2006 (audited) | - | - | 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 (unaudited) | <u>2,882</u> | <u>67,145</u> | <u>77,338</u> | <u>12,100</u> | <u>6,050</u> | <u>79</u> | <u>107,934</u> | <u>273,528</u> |
| At 1 January 2007 (audited) | 2,882 | 67,145 | 77,338 | 12,100 | 6,050 | - | 131,337 | 296,852 |
| Profit for the period and total income recognised for the period | - | - | - | - | - | - | 41,286 | 41,286 |
| Bonus issue of shares | 549 | (549) | - | - | - | - | - | - |
| Dividend paid | - | - | - | - | - | - | (14,000) | (14,000) |
| Appropriations | - | - | - | 6,078 | 3,039 | - | (9,117) | - |
| At 30 June 2007 (unaudited) | <u>3,431</u> | <u>66,596</u> | <u>77,338</u> | <u>18,178</u> | <u>9,089</u> | <u>-</u> | <u>149,506</u> | <u>324,138</u> |

Notes:

- 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.
- 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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2007 (unaudited) RMB'000 | 2006 (unaudited) RMB'000 |
| Net cash from operating activities | 16,192 | 50,019 |
| Investing activities | | |
| Deposit paid for acquisition of land use right | (19,200) | – |
| Purchase of property, plant and equipment | (9,270) | (10,184) |
| Increase in prepaid lease payments | (1,011) | (6,446) |
| Decrease in fixed bank deposits | 4,983 | – |
| Proceeds from disposal of property, plant and equipment | 69 | 359 |
| Other investing cash flows | (864) | (1,755) |
| Net cash used in investing activities | (25,293) | (18,026) |
| Financing activities | | |
| Repayments of bank borrowings | (88,370) | (114,004) |
| Dividend paid | (14,000) | – |
| Proceeds from new bank borrowings raised | 102,987 | 45,439 |
| Other financing cash flows | (1,219) | (1,808) |
| Net proceeds from issue of new shares | – | 75,862 |
| Net cash (used in) from financing activities | (602) | 5,489 |
| Net (decrease) increase in cash and cash equivalents | (9,703) | 37,482 |
| Effect of foreign exchange rate changes | – | 79 |
| Cash and cash equivalents at beginning of the period | 69,218 | 21,999 |
| Cash and cash equivalents at end of the period, representing bank balances and cash | 59,515 | 59,560 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007. The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

| | |
|--------------------|---|
| HKAS 23 (Revised) | Borrowing Costs ¹ |
| HKFRS 8 | Operating Segments ¹ |
| HK(IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions ² |
| HK(IFRIC) – Int 12 | Service Concession Arrangements ³ |

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

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 2007

| | Machine tools RMB'000 | Parking garage structures RMB'000 | Forklift trucks RMB'000 | Total RMB'000 |
|---|--------------------------------------|--|--|--------------------------|
| Revenue – external sales | <u>261,953</u> | <u>59,154</u> | <u>45,727</u> | <u>366,834</u> |
| Segment results | <u>52,634</u> | <u>4,246</u> | <u>1,215</u> | <u>58,095</u> |
| Unallocated corporate income | | | | 2,313 |
| Unallocated corporate expenses | | | | (12,992) |
| Finance costs | | | | <u>(1,219)</u> |
| Profit before taxation | | | | <u>46,197</u> |
| Taxation | | | | <u>(4,911)</u> |
| Profit for the period attributable to equity holders of the Company | | | | <u><u>41,286</u></u> |

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 | <u>206,517</u> | <u>40,449</u> | <u>24,333</u> | <u>271,299</u> |
| Segment results | <u>28,716</u> | <u>697</u> | <u>(1,422)</u> | 27,991 |
| Unallocated corporate income | | | | 2,687 |
| Unallocated corporate expenses | | | | (12,553) |
| Finance costs | | | | <u>(1,561)</u> |
| Profit before taxation | | | | 16,564 |
| Taxation | | | | <u>(885)</u> |
| Profit for the period attributable to equity holders of the Company | | | | <u><u>15,679</u></u> |

4. OTHER INCOME

| | Six months ended 30 June | |
|----------------------|-----------------------------|------------------------|
| | 2007 <i>RMB'000</i> | 2006 <i>RMB'000</i> |
| Government subsidies | 460 | 1,230 |
| Bank interest income | 1,495 | 927 |
| Sales of materials | 478 | 678 |
| Repair income | 591 | 417 |
| Others | 385 | 530 |
| | <u>3,409</u> | <u>3,782</u> |

5. PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|---|-----------------------------|------------------------|
| | 2007 <i>RMB'000</i> | 2006 <i>RMB'000</i> |
| Profit before taxation has been arrived at after charging: | | |
| Allowance for inventories | 325 | 462 |
| Allowance for bad and doubtful debts, net | 3,507 | 1,930 |
| Amortisation of intangible asset included in administrative expenses | 350 | 258 |
| Amortisation of prepaid lease payments | 271 | 116 |
| Depreciation of property, plant and equipment | 6,245 | 4,926 |
| Listing expenses | - | 2,976 |
| | <u>-</u> | <u>2,976</u> |

6. TAXATION

| | Six months ended 30 June | |
|-----------------------------|-----------------------------|------------------------|
| | 2007 <i>RMB'000</i> | 2006 <i>RMB'000</i> |
| PRC enterprise income tax | | |
| Current tax | 5,640 | 1,417 |
| Overprovision in prior year | (545) | - |
| Deferred tax | (184) | (532) |
| | <u>4,911</u> | <u>885</u> |

6. TAXATION (Continued)

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 exemption expired in 2006.

Hangzhou Good Friend was recognised as a technologically advanced enterprise. Pursuant to certain policies issued by the State Tax Bureau, it is entitled to a three-year extension of tax concession period over which it is subject to a minimum tax rate of 10% for the PRC national income tax commencing from 2007. The Group also entitled to a 50% reduction in the local income tax with expiry date not specified.

The applicable tax rate for Hangzhou Good Friend is 10.75% (six months ended 30 June 2006: 8.25%) for the period.

On 16 March 2007, the 10th People's Congress of China passed the China Unified Corporate Income Tax Law (the "New Law"), which will become effective on 1 January 2008. The New Law establishes a single unified 25% income tax rate for most companies with some preferential income tax rates to be applicable to qualified hi-tech enterprises. The related detailed implementation rules and regulations (the "Detailed Rules") on the definition of various terms and the interpretation and application of the provisions of the New Law are expected to be promulgated by the State Council within 2007. As and when the State Council announces the Detailed Rules, Hangzhou Good Friend will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

Hangzhou Global Friend Precision Machinery Co., Ltd. ("Hangzhou Global Friend") did not have taxable profits for both periods.

7. DIVIDEND

On 28 May 2007, a dividend of RMB0.05 (2006: Nil) per share was paid to shareholders as the final dividend for 2006.

The Directors have determined that an interim dividend of RMB0.06 per share (2006: RMB0.05 per share) should be paid to the shareholders of the Company whose names appear in the register of members on 17 October 2007.

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 RMB41,286,000 (six months ended 30 June 2006: RMB15,679,000) and 336,000,000 shares in issue (six months ended 30 June 2006: 336,000,000 shares which represented the number of ordinary shares for the purpose of basic earnings per share adjusted for the bonus issue on 28 May 2007 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 shares in issue for both periods.

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

During the period, RMB15,866,000 of plant and equipment and RMB14,073,000 of prepaid lease payments were transferred from deposits for purchase of plant and equipment and deposit for acquisition of land use right respectively.

In addition, the Group spent approximately RMB1,011,000 (RMB6,446,000 for the six months ended 30 June 2006) for acquiring new land use right, RMB1,349,000 (RMB6,379,000 for the six months ended 30 June 2006) on construction of the new manufacturing facilities, and RMB3,601,000 (RMB3,805,000 for the six months ended 30 June 2006) on additions to its existing and new manufacturing plant in order to upgrade its manufacturing facilities.

During the period, the Group also disposed of certain plant and machinery with a carrying amount of approximately RMB226,000 (RMB345,000 for the six months ended 30 June 2006) for proceeds of RMB69,000, resulting in a loss on disposal of RMB157,000.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

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

| | 30 June 2007 RMB'000 | 31 December 2006 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Trade debtors | | |
| 1 – 30 days | 134,229 | 84,933 |
| 31 – 60 days | 3,618 | 3,204 |
| 61 – 90 days | 1,837 | 5,683 |
| 91 – 180 days | 5,516 | 11,339 |
| Over 180 days | 18,308 | 12,000 |
| | 163,508 | 117,159 |
| Other debtors, deposits and prepayments | 51,605 | 29,761 |
| Total debtors, deposits and prepayments | 215,113 | 146,920 |

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

11. CREDITORS AND ACCRUED CHARGES

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

| | 30 June 2007 RMB'000 | 31 December 2006 RMB'000 |
|-------------------------------------|-------------------------------------|--------------------------------|
| Trade creditors | | |
| 1 – 30 days | 53,853 | 31,737 |
| 31 – 60 days | 29,324 | 18,455 |
| 61 – 90 days | 1,709 | 400 |
| 91 – 180 days | 344 | 234 |
| Over 180 days | 3,911 | 2,203 |
| | 89,141 | 53,029 |
| Other creditors and accrued charges | 150,125 | 89,140 |
| Total creditors and accrued charges | 239,266 | 142,169 |

12. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately RMB103.0 million (RMB45.4 million for the six months ended 30 June 2006) and repaid bank loans of approximately RMB88.4 million (RMB114.0 million for the six months ended 30 June 2006). The loans bear interest at market rates ranging from 5.30% to 6.47% (5.22% to 6.35% for the six months ended 30 June 2006) and will be repayable in 2007. The proceeds were used to finance daily operations.

13. SHARE CAPITAL

| | Number of shares | Amount HK\$'000 |
|--|-------------------------------------|--------------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 31 December 2006, 1 January 2007 and 30 June 2007 | 1,000,000,000 | 10,000 |
| Issued and fully paid: | | |
| At 31 December 2006 and 1 January 2007 | 280,000,000 | 2,800 |
| Shares issued during the period | 56,000,000 | 560 |
| At 30 June 2007 | 336,000,000 | 3,360 |
| | 30 June 2007 RMB'000 | 31 December 2006 RMB'000 |
| Shown in the financial statements as | 3,431 | 2,882 |

On 28 May 2007, a total of 56,000,000 ordinary shares of HK\$0.01 each were issued on the basis of one bonus share for every five existing shares held, as fully paid bonus shares to the shareholders whose names appeared on the register of members of the Company on 21 May 2007 by capitalisation of RMB549,000 transferred from the Company's share premium account pursuant to an ordinary resolution of the shareholders of the Company passed on 21 May 2007.

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

14. CAPITAL COMMITMENTS

| | 30 June 2007 RMB'000 | 31 December 2006 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment | 18,430 | 4,211 |

15. RELATED PARTY TRANSACTIONS

During the period and as at balance sheet date, the Group had the following transactions and balances with its related parties:

Transactions

| Name of company | Relationship | Nature of transactions | Six months ended 30 June | |
|--|--|--|--------------------------|-----------------|
| | | | 2007 RMB'000 | 2006 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 |
| 友佳實業(香港)有限公司 Good Friend (H.K.) Corporation Limited | Immediate holding company | Purchase of goods Sales of goods | - - | 8,945 931 |
| 杭州友維機電有限公司 Hangzhou Fair Fine Electric & Machinery Co., Ltd | Fellow subsidiary | Sales of goods | - | 774 |
| 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 Sales of goods | - 4 | 23 391 |
| 富裕佳有限公司 Richest Way Limited | Director is a relative of a director of the Company | Purchase of goods Repair and maintenance expenses | 40,125 149 | - - |
| 協利國際有限公司 Profit Group International Limited | Directors are relatives of a director of the Company | Sales of goods | 7,390 | - |
| 巨利多(香港)有限公司 Giantful Corporation Limited | Director is a relative of a director of the Company | Sales of materials | 282 | - |

16. RELATED PARTY TRANSACTIONS (Continued)

Balances

| Name of company | Relationship | Nature of balances | 2007 RMB'000 | 2006 RMB'000 |
|---|--|--|-----------------|-----------------|
| 富裕佳有限公司 Richest Way Limited | Director is a relative of a director of the Company | Prepayment for purchases of inventories Other payable | - 37 | - - |
| 協利國際有限公司 Profit Group International Limited | Directors are relatives of a director of the Company | Trade receivable (Note) | - | - |
| 巨利多(香港)有限公司 Giantful Corporation Limited | Director is a relative of a director of the Company | Trade receivable (Note) | - | - |

Note: The Group allows a normal credit period of 90 days for sales to these related companies.

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 | |
|--------------------------|-----------------------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Short-term benefits | 1,318 | 1,329 |
| Post-employment benefits | 16 | 12 |
| | <u>1,334</u> | <u>1,341</u> |

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