

## **Main Board Listing – Research**

友佳國際控股有限公司

Good Friend International Holdings Inc. [Stock Code: 2398]

**Sponsor** : Polaris Securities (Hong Kong) Limited  
**Joint Bookrunners and Joint Lead Managers** : GC Capital (Asia) Limited  
Polaris Securities (Hong Kong) Limited  
**Co-Lead Managers** : Kingsway Financial Services Group Limited  
Sun Hung Kai International Limited

**Sector** : Capital Goods

**Business** : Computer Numerical Control (CNC) machine tools producer

<p><b>Total share offer:</b> 70,000,000 shares (25% of the enlarged share capital)</p> <p><b>Public Offer:</b> 7,000,000 shares (10%)</p> <p><b>Placing:</b> 63,000,000 shares (90%)</p> <p><b>Greenshoe:</b> Nil</p>	<p><b><u>Business of Good Friend International</u></b></p> <p>The Group is principally engaged in (1) the design and production of Computer Numerical Control (CNC) machine tools, (2) design and construction of three-dimensional car parking garage structures, and (3) design and assembly of forklift trucks.</p> <p>For the six months ended 30<sup>th</sup> June 2005, the sale of CNC machine tools accounted for 77.54% of the Group's turnover, while the sale of three-dimensional car parking garage structures and forklift trucks accounted for 13.15% and 9.31% respectively.</p> <p>The Group's sales are substantially made inside the PRC market. The Group's customers primarily consist of manufacturers from various industries including automobile manufacturing, mechanical manufacturing, mould processing and electrical product industries.</p> <p>The Group's production base is located at Xiaoshan Development Zone in Zhejiang Province (浙江省杭州市蕭山開發區), the PRC. It houses the manufacturing facilities of all the Group's three business divisions.</p>
<p><b>Price:</b> HK\$1.13 per share</p> <p><b>Market Cap.:</b> HK\$316.40 million</p> <p><b>Pro Forma 2005E P/E:</b> 8.07x</p> <p><b>Adjusted NTA per share:</b> HK\$0.75</p> <p><b>Staffing:</b> 960</p>	
<p><b>HK Public Offer period:</b> 30<sup>th</sup> December 2005 – 5<sup>th</sup> January 2006</p> <p><b>Receiving bank:</b> The Bank of East Asia</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 11<sup>th</sup> January 2006</p>	

### **Major Shareholders after Listing**

Mr. Chu Chih-Yaung, <i>Executive Director &amp; Chairman</i> , and his relatives	27.35%
Mr. Chen Hsiang-Jung, <i>Executive Director &amp; Chief Executive Officer</i>	2.30%
Employees of the Taiwan FF Group *	3.21%
Individual investors via the Taiwan FF Group	16.82%
Corporate investors via the Taiwan FF Group	25.32%
	<u>75.00%</u>

\* The Taiwan FF Group is an unlisted conglomerate in Taiwan.

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$62.30 million.

	HK\$ million
Acquisition of land for the production base	7.00
Construction of the production base	14.40
Purchase of new production equipment and machinery	22.83
Repayment of bank loans	11.84
General working capital	6.23

### Financial Highlights

	Year ended 31 <sup>st</sup> December			6 months ended
	2002	2003	2004	30 <sup>th</sup> June 2005
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	127,437	256,187	379,590	260,184
Gross profit	33,666	74,581	100,114	55,936
Operating profit	11,056	32,854	43,187	24,829
<b>Net profit</b>	<b>9,310</b>	<b>31,257</b>	<b>36,329</b>	<b>20,805</b>
<b>EPS – Basic</b>	<b>RMB0.04</b>	<b>RMB0.15</b>	<b>RMB0.17</b>	<b>RMB0.10</b>

### Strengths/Opportunities

- ✓ The Group's turnover experienced a CAGR of 72.6% from 2002 to 2004, driven by the growth in manufacturing sector in the PRC. The percentage of the Group's turnover contributed by the machine tools business, which enjoys a higher gross margin, increased from 75.3% in 2002 to 81.2% in 2004.
- ✓ The sales of forklift trucks in the PRC increased rapidly in the past few years, recording a CAGR of 33.9% from 2002 to 2004. This helped lift the turnover of the Group's forklift truck business from RMB1.27 million in 2002 to RMB19.03 million in 2004.
- ✓ The Group has maintained its operating margin at above 11% in both 2003 and 2004, notwithstanding that the average selling price of the major machine tools products has been declining. The Group has achieved cost control by shifting a larger portion of part and component purchases towards suppliers in the PRC and will continue to do so in the future as long as the Group's required quality standards are met.

### Weaknesses/Threats

- × The industrial sector in the PRC market is highly competitive. The sale of parking garage structures, for example, competes mainly in terms of price. As such, it has restricted the Group's ability to pass on any significant increase in the price of parts and components to its customers by raising the selling price of its products.
- × Owing to a shortage and higher prices of parts and components, the cost of parts and components of the Group increased 58.2% during 2004, outpacing the growth in turnover of 48.7%.
- × Priced at 8.07x 2005E P/E, valuation of the counter is not particularly attractive compared with an average of around 9x for Taiwanese CNC machine tools producers with operating margins of 11% to 16%.

**Recommendation: Speculative Buy (in view of the small size of the issue)**