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: 2398HK)

ANNUAL REPORT 2005

* For identification purposes only

CONTENTS

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

TSE Kam Fai, *ACIS, ACS, MHKSI, MHKIoD*

QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
TSE Kam Fai

COMPLIANCE ADVISER

Polaris Securities (Hong Kong) Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

AUDIT COMMITTEE

KOO Fook Sun, Louis *(Chairman)*
CHIANG Chun-Te
YU Yu-Tang

REMUNERATION COMMITTEE

KOO Fook Sun, Louis *(Chairman)*
CHIANG Chun-Te
CHEN Hsiang-Jung

NOMINATION COMMITTEE

KOO Fook Sun, Louis *(Chairman)*
CHIANG Chun-Te
CHEN Hsiang-Jung

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2, 23rd Floor
Pacific Plaza
410-8 Des Voeux Road West
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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

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

STOCK CODE

2398

WEBSITE

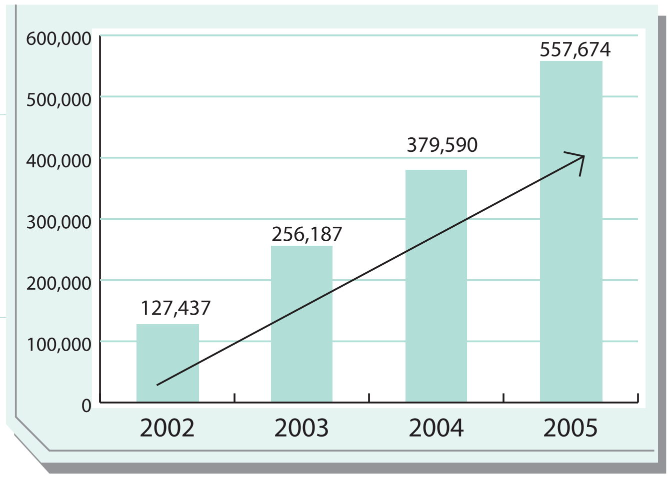
www.goodfriend.com.cn

FINANCIAL HIGHLIGHTS

STEADY GROWTH IN REVENUE

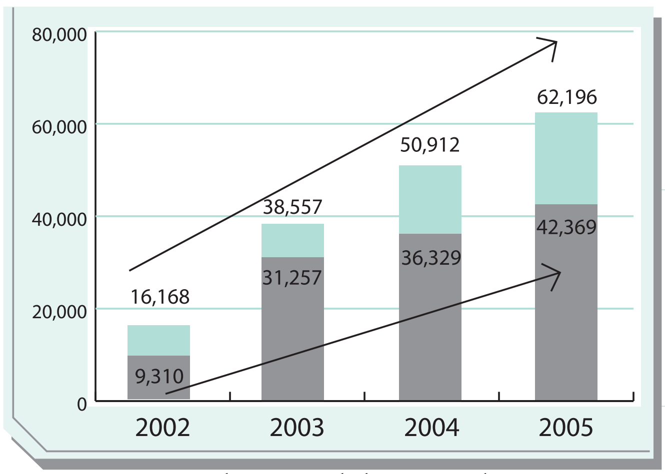
Revenue

RMB'000



For the year ended 31 December

RMB'000



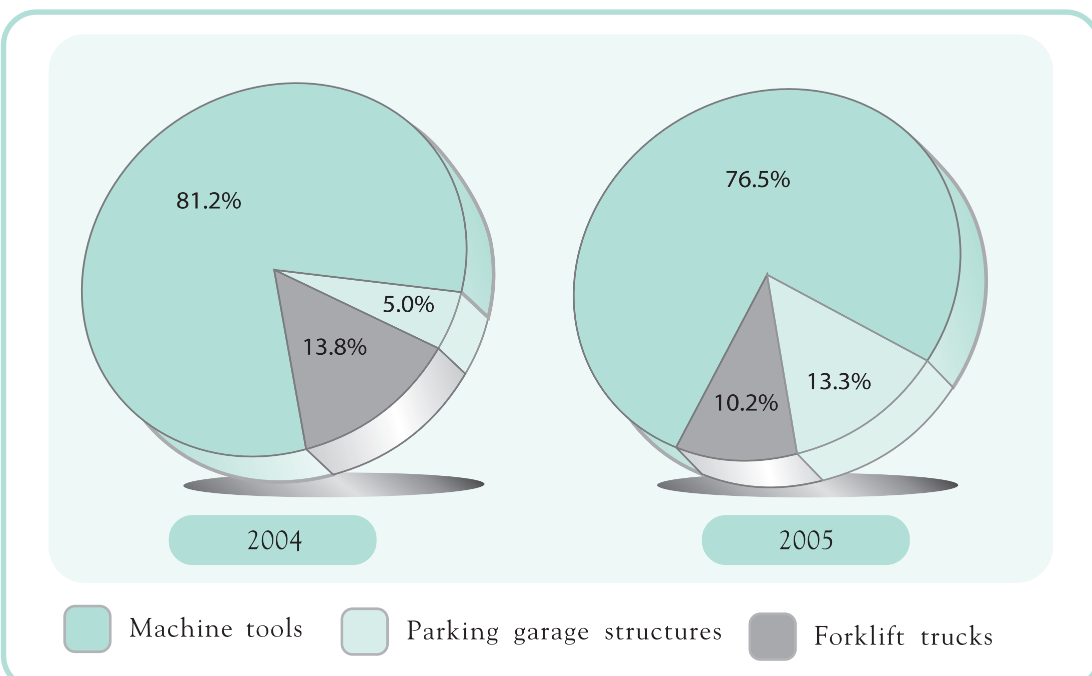
For the year ended 31 December

REMARKABLE PROFIT GROWTH

EBITDA

Profit attributable to equity holders

BUSINESS SEGMENTS
(in terms of revenue)



TWO-YEAR COMPARISON OF KEY FINANCIAL FIGURES

For the year ended 31 December

	FY2005 RMB'000	FY2004 RMB'000	Change (%)
Revenue	**557,674**	379,590	46.9%
Gross profit	**119,325**	100,114	19.2%
EBITDA	**62,196**	50,912	22.2%
Profit attributable to equity holders	**42,369**	36,329	16.6%
Earnings per share – basic (RMB)	**0.20**	0.17	16.6%
Gross profit margin	**21.4%**	26.4%	(18.9%)
Net profit margin	**7.6%**	9.6%	(20.8%)

FOUR-YEAR SUMMARY OF FINANCIAL PERFORMANCE

For the year ended 31 December

	FY2005 RMB'000	FY2004 RMB'000	FY2003 RMB'000	FY2002 RMB'000
Revenue	**557,674**	379,590	256,187	127,437
Operating costs	**(73,826)**	(61,682)	(44,579)	(23,056)
EBITDA	**62,196**	50,912	38,557	16,168
Other income	**6,837**	4,755	2,852	446
Finance costs	**(5,211)**	(3,593)	(2,370)	(1,746)
Profit attributable to equity holders	**42,369**	36,329	31,257	9,310

FOUR-YEAR SUMMARY OF FINANCIAL POSITION

For the year ended 31 December

	FY2005	FY2004	FY2003	FY2002
Total assets (RMB'000)	**405,949**	328,076	233,843	138,111
Total liabilities (RMB'000)	**(218,206)**	(195,135)	(145,892)	(85,312)
Shareholders' equity (RMB'000)	**187,743**	132,941	87,951	52,799
Current ratio (times) *Note 1*	**1.4**	1.2	1.0	0.8
Gearing ratio (%) *Note 2*	**20.8**	27.4	34.1	24.8
EBITDA/Finance costs (times) *Note 3*	**11.9**	14.2	16.3	9.3
Return on equity (%) *Note 4*	**22.6**	27.3	35.5	17.6

Note 1: Current ratio is calculated as total current assets divided by total current liabilities at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 2: Gearing ratio is calculated as total debts divided by total assets at the end of the year. Total debts refer to total interest bearing liabilities at the end of the year.

Note 3: EBITDA/Finance costs is calculated as earnings before finance costs, taxation, depreciation and amortization divided by finance costs for the year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 4: Return on equity is calculated as profit for the year divided by total shareholders' equity at the end of the corresponding year.

CHAIRMAN'S STATEMENT

I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the first annual report of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2005.

SUCCESSFUL LISTING

The Company was incorporated in the Cayman Islands on 6 September 2005 and was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 January 2006. 70,000,000 new shares were successfully issued at an offer price of HK$1.13 per share, the net proceeds raised being HK$62,300,000 for the construction of a production base, expansion of production facilities, repayment of bank loans, and as general working capital.

FINANCIAL PERFORMANCE

For the year ended 31 December 2005, the Group recorded a revenue of approximately RMB557.67 million with profit for the year attributable to equity holders of the Company of approximately RMB42.37 million.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: Nil).

BUSINESS REVIEW

2005 was a memorable year. After a whole year's hard work, the Group's goal of listing on the main board of the Stock Exchange was successfully completed in January 2006. In terms of operations, the Group achieved the expected growth in revenue and net profit in 2005. Revenue grew by approximately 46.9% as compared with the same period last year, while gross profit increased by approximately 19.2%. All the three business segments, namely, machine tools, parking garage structures, and forklift trucks, achieved marked improvements as compared with the previous year. In 2005, the Group's major source of operating revenue was still from machine tools products. Machine tools and forklift trucks were expanding rapidly in terms of volume and growth rate. The annual sales for machine tools and forklift trucks rose to 960 units and 997 units respectively. By the end of 2005, the number of the Group's liaison office had grown to 19, which enables its business network to cover various cities in the PRC, such as Beijing, Shanghai, Chongqing, Changchun, Guangzhou, and other areas. In addition, the Group was also in active co-operation with export sales agents in the expansion of the forklift trucks business in overseas markets. With regard to the production, the plants have reached saturation in terms of production capacity, which necessitates the construction of a new production base in order to meet the future market demands. During the year under review, the Group had to face the fact that the costs of raw materials rose in the first half of the year. Although raw material costs showed a mild fall in the second half of 2005, the growth of the Group's earnings was still lower than the growth of revenue. The Group's gross profit margin fell from approximately 26.4% last year to approximately 21.4%.

PROSPECTS AND APPRECIATION

Looking forward to the future, the Group has embarked on, and will go on with, the plans laid down at the time of listing to raise its production capacity, expand its distribution network, and ensure the competitiveness of its products. The Group has purchased and made payments for a new production base at Xiasha, Zhejiang, the PRC as at the date of this report, which will be used as the new production plant of 杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.) ("Hangzhou Global Friend"). The total area of the piece of land is approximately 35,000 square metres, and the gross floor area of the plant in the first phase of construction is approximately 9,000 square metres, which is expected to be completed in the second half of 2006. It is the Group's intention that the maximum annual production capacity for machine tools and parking garage structures will be increased to approximately 1,000 units and approximately 2,000 units respectively following the commencement of commercial production.

Leveraging on its experience of designing and producing computer numerical control ("CNC") machine tools for many years, the Group is planning to strengthen the horizontal series processing centre at the production base of 杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.) ("Hangzhou Good Friend"), as well as the research and development and sales capacity of the automated series of CNC machine tools. The Group will further optimize the competitive strengths of the vertical series processing centre of CNC machine tools products so as to increase its market share. For the Group's forklift trucks products, focus will be placed on the research and development of electric forklift trucks and their market formation, and the economies of scale for diesel forklift trucks in the 3 to 5 tonne range will be enhanced. The Group will also expand its forklift trucks business in overseas markets to raise the gross profit margin of forklift trucks products. In the face of the demand for parking garage structures caused by the development of cities in the PRC, the Group will adopt appropriate marketing strategies for its parking garage structures products to establish the competitive edge of the products. To sum up, the Group is committed to improving its revenue and growth of earnings to cope with the fierce competition in the market and to bring a spectacular return to the shareholders.

Last but not least, I would like to take this opportunity to thank the Company's shareholders, the Group's customers, and suppliers for their continual support for and trust in the Group. I would also like to thank all the management and the whole staff for their efforts and contributions to the Group over the last year.

The Group will continue to follow a prudent but enterprising strategy, and be ready to capture any opportunity to further expand its businesses, so as to bring the best return to the shareholders.

By order of the Board
CHU Chih-Yaung
Chairman

Hong Kong, 18 April 2006

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue and profit for the year attributable to equity holders of the Company amounted to approximately RMB557.67 million (2004: RMB379.59 million) and approximately RMB42.37 million (2004: RMB36.33 million) respectively, representing an increase of approximately 46.9% and approximately 16.6% respectively as compared with that of the previous year.

Revenue

Sales from machine tools products represented the majority of the Group's revenue. Revenue from machine tools products amounted to approximately RMB426.40 million (2004: RMB308.14 million), representing an increase of approximately 38.4%. Such revenue contributed approximately 76.5% of the Group's revenue (2004: 81.2%). The revenue growth was mainly attributable to the sustained growth of manufacturing sector in the PRC and the Group's effort in expanding its product range and distribution networks. As at 31 December 2005, two more liaison offices as compared with that of the previous year had been established to cover additional regions in the local PRC markets.

Revenues from parking garage structures and forklift trucks products had increased by approximately 42% and 199% respectively, which amounted to approximately RMB74.43 million and approximately RMB56.85 million respectively for the financial year ended 31 December 2005 (2004: RMB52.43 million and RMB19.03 million respectively). The share of revenues for parking garage structures and forklift trucks represented approximately 13.3% and 10.2% of the Group's revenue (2004: approximately 13.8% and 5.0%). The significant increases in the revenue of these two products were mainly driven by the higher growth rate of automobile ownership and the continuing demand of the manufacturing sector in the PRC. In addition, the Group was able to explore new customers of forklift trucks through its export sales agents and it is expected that sales to the overseas markets will increase in the future years.

Cost of sales and gross profit

For the year ended 31 December 2005, cost of sales of the Group increased to approximately RMB438.35 million (2004: RMB279.48 million). The Group's gross profit increased to approximately RMB119.33 million (2004: RMB100.11 million), representing an increase of approximately 19.2%. Such increase was due to the overall increase in the Group's turnover in all the business segments. The overall gross profit margin of the Group amounted to approximately 21.4% (2004: 26.4%). Such decrease was mainly caused by intense competition in the market, resulting in a reduction in the average selling prices of the Group's major products in particular the machine tools products and the increased price of parts and components as a result of supply shortage in the market.

Other income

The Group's other income accounted for approximately RMB6.84 million (2004: RMB4.76 million), representing an increase of approximately 43.8%. Exchange gain and repair income represented the major sources of the other income. The Group earned repair income when it provided repair services to its customers. The volume of the Group's repair services had been increased during 2005. Exchange gain was arisen from the year end translation of short-term bank borrowings, other assets and liabilities denominated in foreign currency into Renminbi. During the second half of the year, there was an appreciation of Renminbi currency and an increase in exchange gain was then recorded.

Operating expenses

Distribution costs of the Group comprised primarily (a) staff costs for sales representatives; (b) travelling and business development costs; (c) after-sales services expenses; and (d) general office expenses incurred by the liaison offices. The distribution costs increased to approximately RMB54.55 million (2004: RMB44.39 million), representing an increase of approximately 22.9% as compared with that of the previous year. Such increase was due to a combination of increased staff costs as a result of more sales representatives hired and increased expenses for providing after-sales services.

Administrative expenses mainly included (a) staff costs; (b) general office expenses incurred in the head offices in Hangzhou and Hong Kong; and (c) professional fees. The administrative expenses increased to approximately RMB18.05 million (2004: RMB14.16 million), representing an increase of approximately 27.4% as compared with that of the previous year. Such increase was mainly due to the increase in staff costs of additional head counts and professional fees for the listing of the Company's shares.

Other operating expenses comprised primarily construction tax and contributions for local bureau. The expenses decreased to approximately RMB1.23 million (2004: RMB3.13 million), representing a drop of approximately 60.7% as compared with that of the previous year.

Finance costs increased to approximately RMB5.21 million (2004: RMB3.59 million), representing an increase of approximately 45.0% as compared with that of the previous year. The Group had increased its average short term bank borrowings during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2005 was approximately RMB42.37 million (2004: RMB36.33 million), representing an increase of approximately 16.6%.

Net profit margin attributable to equity holders for the year was approximately 7.6% (2004: 9.6%). The decrease of net profit margin was due to the overall effect of decrease in gross profit margin and increase in operating expenses.

Liquidity and financial resources

As at 31 December 2005, the Group had net current assets of approximately RMB89.81 million (2004: RMB30.63 million), bank balances, deposits and cash (including pledged bank deposits) of approximately RMB23.66 million (2004: RMB8.70 million), shareholders' fund of RMB187.74 million (2004: RMB132.94 million) and the short-term bank borrowings of approximately RMB84.56 million (2004: RMB89.99 million). The Group's working capital is financed by its internal resources and short term bank borrowings.

Cash and cash equivalents as at 31 December 2005 amounted to approximately RMB22.00 million (2004: RMB5.65 million) representing an increase of approximately RMB16.35 million. The Group had mastered its cash position by increasing the net cash from its operating activities. The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 1.4 (2004: 1.2). The gearing ratio (a ratio of total debts to total assets) was approximately 20.8% (2004: 27.4%).

Capital structure

The share capital of the Company as at 31 December 2005 was HK$2 divided into 200 shares of HK$0.01 each and increased to HK$2,800,000 divided into 280,000,000 shares of HK$0.01 each by way of the share offer and the capitalization issue upon the completion of the placing and public offer in January 2006.

Significant investment

The Group had no significant investment held for the year ended 31 December 2005.

Material acquisitions and disposals of subsidiaries

Save for the undertaking of the reorganisation in preparation for the listing of the Company's shares on the Stock Exchange as more particularly described in the prospectus of the Company dated 30 December 2005 ("Prospectus"), the Group did not have any material acquisition of subsidiaries or disposal of subsidiaries or associates during the year ended 31 December 2005.

Segmental information

Details of segmental information for the year ended 31 December 2005 are set out in note 6 to the consolidated financial statements.

Staff and remuneration policies

As at 31 December 2005, the Group employed a total of 945 (2004: 851) full-time employees. The Group's staff costs (excluding Directors' fee and emoluments) amounted to approximately RMB38.96 million (2004: RMB30.07 million).

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of the payroll of its staff to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group contributed RMB1.21 million (2004: RMB1.14 million) to the said scheme.

The executive Directors and certain members of the senior management of the Group, being non-PRC citizens, may elect not to participate in the state-managed social welfare scheme operated by the local government of the PRC. If there is a change in the PRC rules and regulations with respect to the retirement scheme upon which the Group is required to contribute to the social welfare scheme for non-PRC citizens, the Group shall comply with such new rules and regulations within the time limit prescribed by the relevant authorities.

The Company has also adopted a share option scheme, the primary purpose of which is to motivate the eligible persons referred to in the scheme, which include employees of the Group, to optimise their future contributions to the Group and/or reward them for their contributions.

The remuneration policies of the Group are determined based on the market trends, future plans and the performance of individuals.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB6.45 million (2004: Nil) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2005 (2004: Nil).

Charges on the Group's assets

As at 31 December 2005, pledged bank deposits with an amount of approximately RMB1.67 million (2004: RMB3.05 million) represented guarantee deposit in banks for the purpose of bidding contracts. In addition, bank borrowings of the Group of approximately RMB84.56 million were secured and guaranteed by:

a) certain land use rights and property, plant and equipment of the Group with an aggregate net book value of approximately RMB27.42 million as at 31 December 2005 (2004: RMB48.08 million); and

b) the holding companies and certain directors with an amount of approximately RMB68.19 million (2004: RMB47.26 million). The amount guaranteed by a fellow subsidiary was RMB2.66 million (2004: RMB18.5 million).

The Group has either released or obtained letters of consent from the respective bankers for the release of guarantees given by those directors, holding companies and a fellow subsidiary upon listing of the Company's shares on the Stock Exchange and the provision of a corporate guarantee by the Company.

Future plans for material investments or capital assets

The Group is committed to become a leading CNC machine tool supplier in the PRC and intends to expand its production capacity in Zhejiang. The Group had applied approximately HK$6.3 million of its proceeds from the share offer to obtain a land use right of a plot of land of total gross floor area of approximately 35,000 square metres in Xiasha, Zhejiang in the PRC in order to construct a new production plant. It is expected that approximately HK$14.4 million and HK$22.83 million respectively of the net proceeds from the share offer will be used to construct the production plant and purchase new production equipment (as described in the section headed "Reasons for the share offer and use of proceeds" of the Prospectus.

Foreign exchange risk

The Group mainly operates in the PRC. During the year ended 31 December 2005, the Group collected substantially all of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group has no hedging activities as it is considered that the impact to the Group is insignificant.

Renminbi currently is not a freely convertible currency. A portion of the Group's Renminbi revenue or profit must be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chu Chih-Yaung (朱志洋先生), aged 59, was appointed as an executive Director in September 2005 and Chairman of the Board. He is responsible for the Group's overall strategic planning, management, business development, and the formulation of the Group's corporate policies. Mr. Chu has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. Mr. Chu is also a director of Hangzhou Global Friend and Hangzhou Good Friend, both are wholly-owned subsidiaries of the Company.

Mr. Chen Hsiang-Jung (陳向榮先生), aged 60, was appointed as an executive Director of the Company in December 2005 and he is also the chief executive officer of the Company. Mr. Chen is responsible for general management of the Group. He is also a director of Hangzhou Good Friend and Hangzhou Global Friend. Mr. Chen was appointed as a director of Hangzhou Good Friend in 1993.

Mr. Chen Min-Ho (陳明河先生), aged 55, was appointed as an executive Director in December 2005. He is responsible for the overall business operation of the Group. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. He was appointed as a director of Hangzhou Good Friend since 1993.

Mr. Wen Chi-Tang (溫吉堂先生), aged 41, was appointed as an executive Director in December 2005. Mr. Wen has about 10 years of experience in the machine tools industry. He joined the Group in April 2003 and is currently the vice manager of the CNC machine tools division of Hangzhou Good Friend.

Mr. Chiu Rung-Hsien (邱榮賢先生), aged 48, was appointed as an executive Director in December 2005. Mr. Chiu is the manager of the parking garage structures division of Hangzhou Good Friend since December 2001.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis (顧福身先生), aged 49, was appointed as an independent non-executive Director in December 2005. He is the founder and managing director of Hercules Capital Limited, a corporate finance advisory firm. He has more than 20 years of experience in investment banking and professional accounting. He was the managing director and head of the corporate finance department of a major international bank and a director and chief executive officer of SilverNet Group Limited (now known as Enerchina Holdings Limited), a company listed on the Main Board. Mr. Koo currently acts as an independent non-executive director of Weichai Power Co., Ltd., Li Ning Company Limited and Midland Holdings Limited, which are companies listed on the Main Board, and EVI Education Asia Limited, which is listed on the Growth Enterprise Market of the Stock Exchange. He is a certified public accountant.

Mr. Chiang Chun-Te (江俊德先生) aged 45, was appointed as an independent non-executive Director in December 2005. Mr. Chiang is the 14th Representative of the Delegates Committee of the Importers and Exporters Association of Taipei (台北市進出口商業同業公會會員代表大會代表) and the director of 特力和樂股份有限公司 (Hola Home Furnishings Co., Ltd.). He is also the director of 文華國際花苑有限公司 (Mandarin Florist Co.), 首席創業投資股份有限公司 (Premier Venture Capital Corp.), 首席財務管理顧問股份有限公司 (Premier Capital Management), 寶德科技股份有限公司 (Dexin Corp.) and the chairman and general manager of 德鎂實業股份有限公司 (Istra Corp.).

Mr. Yu Yu-Tang (余玉堂先生), aged 69, was appointed as an independent non-executive Director in December 2005. He was appointed as a provincial government consultant of the Taiwan Hsin Chu County Government (台灣新竹縣政府) in May 2004.

SENIOR MANAGEMENT

Mr. Kuo Ming Jen (郭明仁先生), aged 43, joined the Group in February 2004 as the vice general manager and is responsible for the general management functions of the Group.

Mr. Wang Gui Sheng (王桂生先生), aged 52, joined the Group in February 2003 as the vice manager of the forklift trucks division and is responsible for overseeing the forklift trucks division of the Group.

Ms. Wang Kuei-Hsiu (王桂秀女士), aged 42, is the finance manager of Hangzhou Good Friend. She joined the Group in September 2004.

Ms. Kong Sau Ha (江秀霞女士) *FCPA, FCCA, ACIS, ACS*, aged 38, was appointed as the qualified accountant of the Company in December 2005. Ms. Kong is responsible for the finance and accounting of the Group. Ms. Kong is a fellow of both the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. She is also an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Ms. Kong has over 14 years of experience in the fields of corporate finance, auditing and accounting.

Mr. Tse Kam Fai (謝錦輝) *ACIS, ACS, MHKSI, MHKIoD,* aged 42, was appointed as the company secretary of the Company in December 2005. Mr. Tse has more than 14 years of experience in regulatory compliance, corporate governance and corporate secretarial matters of listed and unlisted companies. Mr. Tse is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Companies Secretaries. He is also a member of each of Hong Kong Securities Institute and Hong Kong Institute of Directors.

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 *(Chairman)*	(appointed on 9 June 2005)
Mr. Chen Hsiang-Jung *(Chief Executive Officer)*	(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.

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.

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%

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%

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 Fairskq (Taiwan) Co., Ltd.. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Fairskq (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.

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.

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

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out 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.

The shares of the Company commenced listing on the Stock Exchange on 11 January 2006 where its Directors (except the Chairman) were appointed on 14 December 2005.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules. Having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code since the listing of the shares of the Company on 11 January 2006.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Board currently consists of eight Directors including five executive Directors and three independent non-executive Directors:

Executive Directors
Mr. CHU Chih-Yaung *(Chairman)*
Mr. CHEN Hsiang-Jung *(Chief Executive Officer)*
Mr. CHEN Min-Ho
Mr. WEN Chi-Tang
Mr. CHIU Rung-Hsien

Independent non-executive Directors
Mr. KOO Fook Sun, Louis
Mr. CHIANG Chun-Te
Mr. YU Yu-Tang

CORPORATE GOVERNANCE REPORT

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 11 to 13 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Chairman and Chief Executive Officer

The two positions are held separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman, being Mr. CHU Chih-Yaung, is in-charge of the leadership of the Board and strategies planning of the Group. The Chief Executive Officer, being Mr. CHEN Hsiang-Jung, is responsible for the day-to-day management of the Group's business.

Non-executive Directors

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting and finance. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

The three independent non-executive Directors are appointed for a term of two years and are subject to retirement by rotation in accordance with the Articles of Association of the Company.

Board Meetings

The Company was incorporated in the Cayman Islands on 6 September 2005 and registered as an oversea company under Part XI of the Companies Ordinance on 17 November 2005. During the financial year ended 31 December 2005, the Board held three meetings.

Name of Director	Number of attendance
Mr. CHU Chih-Yaung	3/3
Mr. CHEN Hsiang-Jung*	1/1
Mr. CHEN Min-Ho*	1/1
Mr. WEN Chi-Tang*	1/1
Mr. CHIU Rung-Hsien*	1/1
Mr. KOO Fook Sun, Louis*	1/1
Mr. CHIANG Chun-Te*	1/1
Mr. YU Yu-Tang*	1/1

* *All these Directors were only appointed on 14 December 2005 when two board meetings of the Company had been held before their appointment.*

The Company planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order to make sure all directors could plan in advance their availability to attend the scheduled Board meetings. Additional meetings will be held as and when required.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Appropriate insurance cover has been arranged in respect of relevant actions against its Directors.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") on 22 December 2005 with written terms of reference. The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. KOO Fook Sun, Louis (as chairman), Mr. CHIANG Chun-Te and Mr. YU Yu-Tang.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures.

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

During the financial year ended 31 December 2005, no meeting for the Audit Committee was held since all members of the Audit Committee were only appointed on 14 December 2005.

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the mechanics industry and/or other professional area.

The Company established a Nomination Committee, with written terms of reference, on 22 December 2005 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 to 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.

During the financial year ended 31 December 2005, no meeting for the Nomination Committee was held since all members of the Nomination Committee were only appointed on 14 December 2005.

REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee, with written terms of reference, on 22 December 2005 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 to establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

During the financial year ended 31 December 2005, no meeting for the Remuneration Committee was held since all members of the Remuneration Committee were only appointed on 14 December 2005.

The Company has adopted a share option scheme on 22 December 2005. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants to motivate them and to optimize their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in note 31 to the consolidated financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the consolidated financial statements.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Deloitte Touche Tohmatsu, is set out below:

Services rendered	**Fee paid/payable** HK$'000
Audit services	1,170
Non-audit services	–

INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors acknowledges its responsibility to prepare the Company's account for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2005, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

AUDITORS' STATEMENT

The auditors of the Company acknowledge their responsibilities in the auditors' report on the financial statements of the Group for the year ended 31 December 2005.

18 April 2006

AUDITORS' REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF GOOD FRIEND INTERNATIONAL HOLDINGS INC.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements on pages 29 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors
The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Revenue	6	**557,674**	379,590
Cost of sales		**(438,349)**	(279,476)
Gross profit		**119,325**	100,114
Other income	7	**6,837**	4,755
Distribution costs		**(54,548)**	(44,393)
Administrative expenses		**(18,049)**	(14,162)
Other operating expenses		**(1,229)**	(3,127)
Finance costs	8	**(5,211)**	(3,593)
Profit before taxation	9	**47,125**	39,594
Taxation	11	**(4,756)**	(3,265)
Profit for the year attributable to equity holders of the Company		**42,369**	36,329
Earnings per share – basic, in RMB	13	**0.20**	0.17

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	14	**91,451**	96,457
Prepaid lease payments	15	**3,772**	3,880
Intangible asset	16	**1,007**	860
Long term prepayments		**765**	–
Deferred tax assets	17	**936**	1,118
		97,931	102,315
Current assets			
Inventories	18	**125,486**	110,928
Debtors, deposits and prepayments	19	**155,462**	103,940
Amounts due from customers for contract work	20	**971**	875
Amount due from immediate holding company	21	**417**	17
Amount due from ultimate holding company	22	**1,833**	1,298
Amount due from a fellow subsidiary	21	**185**	–
Pledged bank deposits	23	**1,665**	3,053
Bank balances and cash	24	**21,999**	5,650
		308,018	225,761
Current liabilities			
Creditors and accrued charges	25	**127,760**	89,609
Amounts due to customers for contract work	20	**58**	6,731
Amount due to immediate holding company	26	**1,656**	6,076
Amount due to ultimate holding company	27	**247**	59
Tax payable		**426**	61
Warranty provision	28	**3,503**	2,612
Bank borrowings	29	**84,556**	89,987
		218,206	195,135
Net current assets		**89,812**	30,626
		187,743	132,941

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Capital and reserves			
Share capital	30	–	64,905
Reserves		**187,743**	68,036
		187,743	132,941

The financial statements on pages 29 to 71 were approved and authorised for issue by the Board of Directors on 18 April 2006 and are signed on its behalf by:

CHU CHIH-YAUNG	**CHEN HSIANG-JUNG**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 1)*	General reserve RMB'000 *(Note 2)*	Enterprise expansion reserve RMB'000 *(Note 2)*	Retained profits RMB'000	Total RMB'000
At 1 January 2004	56,244	–	–	3,337	1,669	26,701	87,951
Capital injection	8,661	–	–	–	–	–	8,661
Profit for the year and total income recognised for the year	–	–	–	–	–	36,329	36,329
Appropriations	–	–	–	3,829	1,914	(5,743)	–
At 31 December 2004 and 1 January 2005	64,905	–	–	7,166	3,583	57,287	132,941
Issue of shares *(Note 3)*	12,136	297	–	–	–	–	12,433
Eliminated on group reorganisation *(Note 4)*	(77,041)	(297)	77,338	–	–	–	–
Profit for the year and total income recognised for the year	–	–	–	–	–	42,369	42,369
Appropriations	–	–	–	4,934	2,467	(7,401)	–
At 31 December 2005	–	–	77,338	12,100	6,050	92,255	187,743

Notes:

1. 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.

2. 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.

3. The amount represents the increase in share capital and share premium of Winning Steps Limited ("Winning Steps") and Yu Hwa Holdings Limited ("Yu Hwa") during the year ended 31 December 2005.

4. The share capital and share premium of Winning Steps and Yu Hwa are eliminated as these companies became wholly-owned subsidiaries of the Company upon group reorganisation. Details of group reorganisation are set out in Note 1 to the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit before taxation	47,125	39,594
Adjustments for:		
Finance costs	5,211	3,593
Interest income	(230)	(96)
Depreciation of property, plant and equipment	9,550	7,547
Amortisation of intangible asset	210	85
Amortisation of prepaid lease payments	100	93
Allowance for bad and doubtful debts	92	994
(Reversal of) write-down of inventories	(103)	685
Loss on disposal of property, plant and equipment	29	79
Operating cash flows before movements in working capital	61,984	52,574
Increase in inventories	(14,455)	(51,668)
Increase in debtors, deposits and prepayments	(51,606)	(28,977)
Increase in long term prepayments	(765)	–
(Increase) decrease in amounts due from customers for contract work	(96)	2,990
Increase in amount due from immediate holding company	(400)	(17)
Increase in amount due from ultimate holding company	(535)	(855)
(Increase) decrease in amount due from a fellow subsidiary	(185)	900
Increase in creditors and accrued charges	38,151	29,850
(Decrease) increase in amounts due to customers for contract work	(6,673)	3,714
(Decrease) increase in amount due to immediate holding company	(4,420)	4,965
Increase in warranty provision	891	641
Cash generated from operations	21,891	14,117
PRC income tax paid	(4,209)	(3,549)
Net cash from operating activities	17,682	10,568

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Investing activities		
Purchase of property, plant and equipment	**(4,641)**	(21,223)
Acquisition of intangible asset	**(357)**	(789)
Decrease in pledged bank deposits	**1,388**	984
Interest received	**230**	96
Proceeds on disposal of property, plant and equipment	**68**	41
Increase in prepaid lease payments	**–**	(296)
Net cash used in investing activities	**(3,312)**	(21,187)
Financing activities		
Proceeds from new bank borrowings	**134,838**	167,570
Capital injected from a shareholder	**12,433**	3,394
Repayment of bank borrowings	**(140,269)**	(157,342)
Interest paid	**(5,211)**	(3,593)
Increase (decrease) in amount due to ultimate holding company	**188**	(216)
Net cash from financing activities	**1,979**	9,813
Net increase (decrease) in cash and cash equivalents	**16,349**	(806)
Cash and cash equivalents at beginning of the year	**5,650**	6,456
Cash and cash equivalents at end of the year, representing bank balances and cash	**21,999**	5,650

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 6 September 2005 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11 January 2006. Its immediate holding company is Good Friend (H.K.) Corporation Limited ("Hong Kong GF"), a company incorporated in Hong Kong and its ultimate holding company is Fair Friend Enterprise Company Limited, a company incorporated in Taiwan. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 22 December 2005. Details of the group reorganisation were set out in the prospectus issued by the Company dated 30 December 2005.

The principal steps of the group reorganisation, which involved the exchange of shares, were as follows:

(a) the shares of Winning Steps Limited ("Winning Steps") were issued and allotted to Hong Kong GF, the former holding company of Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend"), in exchange for the equity interests in Hangzhou Good Friend;

(b) the shares of the Company were then issued and allotted to the then shareholder of Winning Steps in exchange for the shares in Winning Steps; and

(c) the shares of the Company were issued and allotted to Hong Kong GF at the direction of the then shareholder of Yu Hwa Holdings Limited ("Yu Hwa") in exchange for the shares in Yu Hwa, the holding company of Hangzhou Global Friend Precision Machinery Co., Ltd. ("Hangzhou Global Friend").

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principle of merger accounting as if the current group structure had been in existence throughout both years and as at the respective balance sheet dates.

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37.

The consolidated financial statements are presented in Renminbi ("RMB"), which is different from the Company's functional currency of Hong Kong dollars, as majority of the Group's transactions are denominated in RMB.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new or amended Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and interpretations issued by the Hong Kong Institute of Certified Public Accountants that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of machine tools and forklift trucks are recognised when goods are delivered and title has been passed.

Revenue from sale of parking garage structures is recognised based on the percentage of completion of the contract, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the contract. Provision is made for foreseeable losses as soon as they are anticipated by the management.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Repair income is recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment under construction and is stated at cost less any identified impairment loss. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use and depreciated in accordance with the above policy.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amount billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under debtors, deposits and prepayments.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is immediately recognised as income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets represent software with definite useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the terms of the relevant leases. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits scheme contribution

Payment to state-managed retirement benefit schemes, which are defined contribution schemes, are charged as expenses as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted in respect of the Group's financial assets is set out below:

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, deposits, bank balances, pledged bank deposits, and amounts due from immediate holding company, ultimate holding company and a fellow subsidiary) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including creditors and accrued charges, amounts due to immediate holding company and ultimate holding company, and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgements that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Revenue from sale of parking garage structures

When the outcome of a parking garage structures contract can be estimated reliably, the Group recognises the revenue based on the percentage of completion method, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Estimated total costs to be incurred under the contract are regularly reviewed during the life of the contract. The recognition of this revenue based on a proportional performance basis involves an estimation process and is subject to risks and uncertainties inherent in projecting future events. A number of internal and external factors can affect our estimates, including the complexity of the parking garage structures being constructed, and the utilisation and efficiency of the Group's employees. Recognised revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Accordingly, any changes in the Group's estimates would impact the Group's future operating results.

Warranty provision

The Group makes warranty provision where information available prior to the issuance of the financial statements indicates that it is probable that the Group will be required to settle the present obligations. As disclosed in note 28, the Group makes the provision based on the best estimation of management. The actual settlement of these warranty costs may differ from the estimation made by management. If the costs are settled for an amount greater than management's estimation, a future charge to income statement will result. Likewise, if the costs are settled for an amount that is less that the estimation, a future credit to income statement will result.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Depreciation

The Group's net book value of property, plant and equipment as at December 31, 2005 was approximately RMB91 million. The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful lives of five to twenty years, and after taking into account of their estimated residual value, using the straight line method, at the rate of 5% to 20% per annum, commencing from the date the asset is placed into productive use. The estimated useful lives and dates that the Group places the assets into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such difference will impact the deprecation in the year in which such estimate has been changed.

Allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Income taxes

As at 31 December 2005, deferred tax assets of RMB936,000 in relation to allowance for bad and doubtful debts and inventories and warranty provision have been recognised in the Group's balance sheet. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, deposits, creditors and accrued charges, and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has certain purchase and borrowings denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank balances and deposits is limited because the counterparties are of high credit-worthiness.

Interest rate risk

The Group has exposure to interest rate risk through the impact of rate changes on interest bearing bank borrowings. Bank borrowings at fixed rate expose the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

6. SEGMENT INFORMATION

Revenue represents the net 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 year.

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 year ended 31 December 2005

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Revenue – external sales	426,396	74,430	56,848	557,674
Segment results	66,395	1,918	113	68,426
Unallocated corporate income				3,500
Unallocated corporate expenses				(19,590)
Finance costs				(5,211)
Profit before taxation				47,125
Taxation				(4,756)
Profit for the year				42,369

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At 31 December 2005

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Balance sheet				
Assets				
Segment assets	266,334	73,897	38,588	378,819
Unallocated corporate assets				27,130
Consolidated total assets				405,949
Liabilities				
Segment liabilities	77,742	23,532	25,007	126,281
Unallocated corporate liabilities				91,925
Consolidated total liabilities				218,206

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Corporate RMB'000	Total RMB'000
Other information					
Capital expenditure	2,470	1,228	715	585	4,998
Depreciation and amortisation	6,816	944	307	1,693	9,760
(Reversal of) allowance for bad and doubtful debts	(584)	(30)	706	–	92
Loss on disposal of property, plant and equipment	17	3	–	9	29

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2004

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Revenue – external sales	308,140	52,425	19,025	379,590
Segment results	49,699	(15)	(1,602)	48,082
Unallocated corporate income				4,755
Unallocated corporate expenses				(9,650)
Finance costs				(3,593)
Profit before taxation				39,594
Taxation				(3,265)
Profit for the year				36,329

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At 31 December 2004

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Balance sheet				
Assets				
Segment assets	237,412	54,991	25,852	318,255
Unallocated corporate assets				9,821
Combined total assets				328,076
Liabilities				
Segment liabilities	72,934	23,668	8,485	105,087
Unallocated corporate liabilities				90,048
Combined total liabilities				195,135

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Corporate RMB'000	Total RMB'000
Other information					
Capital expenditure	16,390	1,250	436	9,203	27,279
Depreciation and amortisation	4,861	1,519	167	1,085	7,632
Allowance for (reversal of) bad and doubtful debts	1,014	(232)	212	–	994
Write-down of inventories	642	36	7	–	685
Loss on disposal of property, plant and equipment	30	26	–	23	79

Geographical segments

All of the Group's operations are located in the People's Republic of China (the "PRC") and the Group mainly serves the PRC market. Accordingly, no segment information by geographical market is presented.

7. OTHER INCOME

	2005 RMB'000	2004 RMB'000
Exchange gain	**1,985**	–
Repair income	**1,689**	885
Sales of materials	**1,333**	2,998
Bank interest income	**230**	96
Others	**1,600**	776
	6,837	4,755

8. FINANCE COSTS

The amounts represent interest on bank borrowings wholly repayable within five years.

9. PROFIT BEFORE TAXATION

	2005 RMB'000	2004 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration *(note 10)*	**345**	203
Other staff costs	**37,753**	28,930
Retirement benefit scheme contributions	**1,205**	1,143
Total staff costs	**39,303**	30,276
Auditors' remuneration	**1,212**	781
Amortisation of intangible asset included in administrative expenses	**210**	85
Amortisation of prepaid lease payments	**100**	93
Cost of inventories recognised as expenses	**390,956**	247,465
Depreciation	**9,550**	7,547
Exchange loss, net	**–**	159
Loss on disposal of property, plant and equipment	**29**	79
Operating lease rentals in respect of rented premises	**1,455**	1,552
Allowance for bad and doubtful debts, net	**92**	994
(Reversal of) write-down of inventories, net	**(103)**	685

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2004: eight) directors were as follows:

Year ended 31 December 2005

	Chu Chih-Yaung RMB'000	Chen Hsiang-Jung RMB'000	Chen Min-Ho RMB'000	Wen Chi-Tang RMB'000	Chiu Rung-Hsien RMB'000	Koo Fook-Sun, Louis RMB'000	Chiang Chun-Te RMB'000	Yu Yu-Tang RMB'000	Total RMB'000
Fee	–	–	–	–	–	–	–	–	–
Other emoluments									
Salaries and other benefits	–	121	–	73	68	–	–	–	262
Performance related incentive bonus *(Note)*	–	–	–	17	66	–	–	–	83
Retirement benefit scheme contributions	–	–	–	–	–	–	–	–	–
Total emoluments	–	121	–	90	134	–	–	–	345

Year ended 31 December 2004

	Chu Chih-Yaung RMB'000	Chen Hsiang-Jung RMB'000	Chen Min-Ho RMB'000	Wen Chi-Tang RMB'000	Chiu Rung-Hsien RMB'000	Koo Fook-Sun, Louis RMB'000	Chiang Chun-Te RMB'000	Yu Yu-Tang RMB'000	Total RMB'000
Fee	–	–	–	–	–	–	–	–	–
Other emoluments									
Salaries and other benefits	–	86	–	48	42	–	–	–	176
Performance related incentive bonus *(Note)*	–	–	–	13	14	–	–	–	27
Retirement benefit scheme contributions	–	–	–	–	–	–	–	–	–
Total emoluments	–	86	–	61	56	–	–	–	203

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are included in the disclosures in note 10(a) above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries and allowances	**789**	732
Performance related incentive bonus *(Note)*	**1,211**	385
Retirement benefit scheme contributions	**54**	42
	2,054	1,159

Their emoluments were within the following band:

	Number of employees	
	2005	2004
Up to HK$1,000,000	2	2

Note: The performance related incentive bonus is determined based on the market trends, future plans of the Group and the performance of individuals.

None of the directors has waived any emoluments for both years.

11. TAXATION

	2005 RMB'000	2004 RMB'000
PRC enterprise income tax	**4,574**	3,610
Deferred tax *(note 17)*	**182**	(345)
	4,756	3,265

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 years.

Pursuant to the approvals obtained from the relevant PRC tax authorities, the preferential income tax rate for Hangzhou Good Friend 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. In addition, as Hangzhou Good Friend was recognised as a technologically advanced enterprise, the local income tax of Hangzhou Good Friend was specifically and fully exempted by the relevant tax authorities in 2004. The applicable tax rate for Hangzhou Good Friend is 8.25% (2004: 7.5%) for the year.

Hangzhou Global Friend did not have taxable profits for both years.

11. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2005 RMB'000	2004 RMB'000
Profit before taxation	**47,125**	39,594
Tax at the domestic tax rate at 16.5% (2004: 16.5%)	**7,776**	6,533
Tax effect of expenses not deductible for tax purpose	**1,422**	1,907
Tax effect of income not taxable for tax purpose	**–**	(498)
Tax effect of tax concession period	**(4,442)**	(4,677)
Tax charge for the year	**4,756**	3,265

12. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB42,369,000 (2004: RMB36,329,000) and the 210,000,000 ordinary shares which represent the aggregate of the 200 ordinary shares in issue as at 31 December 2005 and 209,999,800 ordinary shares to be issued pursuant to the capitalisation issue as described more fully in note 30, as if the shares were outstanding throughout both years.

No diluted earnings per share have been presented as there were no potential dilutive shares in issue for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2004	37,699	42,075	5,356	1,933	6,978	94,041
Additions	1,181	3,113	1,968	2,226	12,735	21,223
Contribution from a shareholder	–	4,968	299	–	–	5,267
Transfer	17,632	242	1,721	8	(19,603)	–
Disposals	–	–	(400)	(214)	–	(614)
At 31 December 2004 and 1 January 2005	56,512	50,398	8,944	3,953	110	119,917
Additions	644	470	1,977	1,153	397	4,641
Transfer	162	10	–	–	(172)	–
Disposals	–	–	(42)	(88)	–	(130)
At 31 December 2005	57,318	50,878	10,879	5,018	335	124,428
DEPRECIATION						
At 1 January 2004	4,551	9,620	1,522	714	–	16,407
Provided for the year	2,004	3,956	1,154	433	–	7,547
Eliminated on disposals	–	–	(302)	(192)	–	(494)
At 31 December 2004 and 1 January 2005	6,555	13,576	2,374	955	–	23,460
Provided for the year	2,563	4,582	1,619	786	–	9,550
Eliminated on disposals	–	–	(29)	(4)	–	(33)
At 31 December 2005	9,118	18,158	3,964	1,737	–	32,977
NET BOOK VALUES						
At 31 December 2005	48,200	32,720	6,915	3,281	335	91,451
At 31 December 2004	49,957	36,822	6,570	2,998	110	96,457

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight line basis over their estimated useful lives as follows:

Buildings	20 years
Machinery and equipment	10 years
Office equipment	5 years
Motor vehicles	5 years

15. PREPAID LEASE PAYMENTS

	2005	2004
	RMB'000	RMB'000
The amounts represent costs paid for land use rights in the PRC for a period of 50 years, and is analysed for reporting purposes as follows:		
Non-current	**3,772**	3,880
Current (included in debtors, deposits and prepayments)	**101**	93
	3,873	3,973

16. INTANGIBLE ASSET

	Software
	RMB'000
COST	
At 1 January 2004	199
Additions	789
At 31 December 2004 and 1 January 2005	988
Additions	357
At 31 December 2005	1,345
AMORTISATION	
At 1 January 2004	43
Amortised for the year	85
At 31 December 2004 and 1 January 2005	128
Amortised for the year	210
At 31 December 2005	338
CARRYING VALUES	
At 31 December 2005	1,007
At 31 December 2004	860

Software is amortised on a straight line basis over its estimated useful lives of 5 years.

17. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the current and prior years:

	Allowance for bad and doubtful debts RMB'000	Allowance for inventories RMB'000	Warranty provision RMB'000	Total RMB'000
At 1 January 2004	625	–	148	773
Credit to income for the year *(note 11)*	164	113	68	345
At 31 December 2004	789	113	216	1,118
(Charge) credit to income for the year *(note 11)*	(239)	(16)	73	(182)
At 31 December 2005	550	97	289	936

The Group has no unrecognised deferred taxation during the year or at the balance sheet date.

18. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**54,457**	38,635
Work-in-progress	**26,262**	30,588
Finished goods	**44,767**	41,705
	125,486	110,928

19. DEBTORS, DEPOSITS AND PREPAYMENTS

	2005 RMB'000	2004 RMB'000
Trade debtors	129,749	94,049
Less: Allowance for bad and doubtful debts	(3,686)	(5,134)
	126,063	88,915
Advance deposits to suppliers	10,864	6,710
Other debtors, deposits and prepayments	18,535	8,315
Total debtors, deposits and prepayments	155,462	103,940

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

The aging analysis of trade debtors is as follows:

	2005 RMB'000	2004 RMB'000
1 – 30 days	92,311	61,185
31 – 60 days	10,162	3,038
61 – 90 days	5,815	3,796
91 – 180 days	11,529	14,347
Over 180 days	6,246	6,549
	126,063	88,915

The fair value of the debtors and deposits was approximate to the corresponding carrying amount.

20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2005 RMB'000	2004 RMB'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profit less recognised loss	**24,590**	19,901
Less: Progress billings	**(23,677)**	(25,757)
	913	(5,856)
Analysed for reporting purposes as:		
Amounts due from contract customers	**971**	875
Amounts due to contract customers	**(58)**	(6,731)
	913	(5,856)

At 31 December 2005, retentions held by customers for contract work which have been included in debtors amounted to RMB7,820,000 (2004: RMB3,944,000). Advances received from customers for contract work which have been included in creditors amounted to RMB8,645,000 (2004: RMB8,110,000).

21. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY AND A FELLOW SUBSIDIARY

The amounts are unsecured, interest free and are repayable on demand.

The fair value of the amounts due from immediate holding company and a fellow subsidiary approximates to their corresponding carrying amounts.

22. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount is of trading nature and the Group allows a normal credit period of 120 days for sales to its ultimate holding company. The amount is unsecured, interest free and aged below 90 days.

The fair value of the amount due from ultimate holding company was approximate to its carrying amount.

23. PLEDGED BANK DEPOSITS

The amounts represent guarantee deposits in banks for the purpose of bidding contracts with maturity date within one year.

The deposits carry fixed interest rate of 0.72% (2004: 0.72%) per annum. The fair value of bank deposits approximates to the corresponding carrying amount.

24. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits with an original maturity of three months or less and fixed market interest rate and cash held by the Group. The carrying amount of the bank balances was approximate to their fair value.

25. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

	2005 RMB'000	2004 RMB'000
1 – 30 days	21,296	17,122
31 – 60 days	21,043	5,472
61 – 90 days	2,337	118
91 – 180 days	7,901	1,446
Over 180 days	5,018	1,983
Trade creditors	57,595	26,141
Advance deposits from customers	42,502	46,238
Other creditors and accrued charges	27,663	17,230
	127,760	89,609

The fair value of the creditors and accrued charges was approximate to the corresponding carrying amount.

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is of trading nature and is unsecured, interest free and aged below 30 days.

The fair value of the amount due to immediate holding company was approximate to its carrying amount.

27. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest free and is repayable on demand.

The fair value of the amount due to ultimate holding company was approximate to its carrying amount.

28. WARRANTY PROVISION

	RMB'000
At 1 January 2004	1,971
Provision for the year	3,082
Utilisation of provision	(2,441)
At 31 December 2004 and 1 January 2005	2,612
Provision for the year	4,482
Utilisation of provision	(3,591)
At 31 December 2005	3,503

The warranty provision represents management's best estimate of the Group's liability under one year warranties granted on its products, based on prior experience and industry averages for defective products.

29. BANK BORROWINGS

	2005 RMB'000	2004 RMB'000
Secured bank loans *(note a)*	**9,500**	24,228
Unsecured bank loans *(note b)*	**75,056**	65,759
	84,556	89,987

(a) At 31 December 2005, the amount bears interests at commercial rates and is secured by certain land use rights and property, plant and equipment of the Group with an aggregate net book value of RMB27,421,000 (2004: RMB48,080,000).

(b) At 31 December 2005, the amount guaranteed by the holding companies and certain directors is RMB68,193,000 (2004: RMB47,259,000). The amount guaranteed by a fellow subsidiary is RMB2,663,000 (2004 RMB18,500,000).

The Group has either released or obtained letters of consent from the respective bankers for the release of guarantees given by those directors, holding companies, and a fellow subsidiary upon listing of the Company's shares on the Stock Exchange and the provision of a corporate guarantee by the Company.

The Group has fixed-rate borrowings and the contractual maturity dates are within one year.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005	2004
Effective interest rates:		
Fixed-rate borrowings	**5.22% to 5.79%**	3.33% to 5.74%

29. BANK BORROWINGS *(Continued)*

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD '000
As at 31 December 2005	8,450
As at 31 December 2004	5,710

During the year, the Group obtained new bank loans in the amount of approximately RMB134,838,000 (2004: RMB167,570,000). The loans bear interest at market rates and will be repayable in 2006. The proceeds were used to finance the acquisition of property, plant and equipment and daily operations.

30. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each (HK$0.10 each before subdivision of shares on 20 September 2005)		
Authorised:		
Incorporation of the Company	3,800,000	380
Subdivision of shares during the year	34,200,000	–
Increase during the year	962,000,000	9,620
Balance at 31 December 2005	1,000,000,000	10,000
Issued and fully paid:		
Incorporation of the Company	1	–
Subdivision of shares during the year	9	–
Shares issued upon group reorganisation	190	–
Balance at 31 December 2005	200	–

	RMB'000
Shown in the financial statements as	–

30. SHARE CAPITAL OF THE COMPANY *(Continued)*

As at the date of incorporation of the Company on 6 September 2005, its authorised share capital was HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each, one of which was allotted and issued nil paid, to the then sole shareholder of the Company.

By a written resolution of the sole shareholder of the Company passed on 20 September 2005, every issued and unissued ordinary share of HK$0.10 each in the capital of the Company was subdivided into 10 ordinary shares of HK$0.01 each. The Company's authorised share capital became HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each.

By a written resolution of the sole shareholder of the Company passed on 22 December 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of a further 962,000,000 ordinary shares to rank pari passu with the then existing shares in all respects.

Pursuant to the group reorganisation in December 2005, the then existing 10 ordinary shares of HK$0.01 each in the Company were credited as fully paid and an additional 190 ordinary shares of HK$0.01 each in the Company were issued in exchange of shares of the subsidiaries acquired.

On 10 January 2006, 70,000,000 ordinary shares of HK$0.01 each in the Company were issued and offered for subscription at a price of HK$1.13 per share upon the listing of the Company's shares on the Stock Exchange. On the same date, 209,999,800 ordinary shares of HK$0.01 each in the Company were issued at par, credited as fully paid, to the shareholders whose names appeared on the register of members of the Company of 22 December 2005 by capitalisation of HK$2,099,998 standing to the credit of the Company's share premium account pursuant to written resolutions of the sole shareholder of the Company passed on 22 December 2005.

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

For the purpose of the preparation of the comparative figures, the balance of share capital shown as at 31 December 2004 represented the paid-in capital of Hangzhou Good Friend as at 31 December 2004.

31. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 22 December 2005. The purpose of the Scheme is to motivate eligible persons to optimise their future contributions to the Group, to reward them for their past contributions, to attract and maintain on-going relationships with such eligible persons who contribute to the performance, growth or success of the Group. Eligible persons of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entity that provides research, development or other technological support to the Group, any minority shareholder in the Company's subsidiaries, and adviser to business development of the Group and an associate of any of the foregoing persons.

The principal terms 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.

No share option was granted by the Company since its adoption.

32. MAJOR NON-CASH TRANSACTION

For the year ended 31 December 2004, the sole shareholder of Hangzhou Good Friend contributed property, plant and equipment amounting to RMB5,267,000 as capital injection.

33. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2005 RMB'000	2004 RMB'000
Within one year	572	987
In the second to fifth years inclusive	433	380
	1,005	1,367

The Group leases certain of its office premises and staff quarters in the PRC under operating lease arrangements. The leases are negotiated for an average term of two years with fixed monthly rentals.

34. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	6,446	–

35. RETIREMENT BENEFITS SCHEME

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately RMB1,205,000 (2004: RMB1,143,000) represents contributions payable to this scheme by the Group in respect of the current accounting period.

36. RELATED PARTY TRANSACTIONS

Apart from those set out in note 29, during the year, the Group also had the following transactions with its related parties:

Name of company	Relationship	Nature of transactions	2005 RMB'000	2004 RMB'000
友嘉實業股份有限公司 Fair Friend Enterprise Company Limited	Ultimate holding company	Sales of goods	**3,212**	836
Good Friend (H.K.) Corporation Limited	Immediate holding company	Purchase of goods	**133,130**	120,709
		Sales of goods	**266**	248
杭州友維機電有限公司 Hangzhou Fair Fine Electric & Machinery Co., Ltd.	Fellow subsidiary	Sales of goods	**15**	14
		Rental income	**269**	269
		Reimbursement of expenses	**185**	–
杭州友嘉高松機械有限公司 Hangzhou Feeler Takamatsu Machinery Co., Ltd.	Fellow subsidiary	Rental income	**107**	–
		Other expenses	**328**	–
		Other income	**322**	–

Details of the balances with related companies are set out in notes 21, 22, 26 and 27.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 RMB'000	2004 RMB'000
Short-term benefits	**2,497**	1,384
Post-employment benefits	**54**	42
	2,551	1,426

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

37. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2005 are as follows:

Name of company	Place of incorporation/ registration/ operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Winning Steps	British Virgin Islands ("BVI")	Ordinary shares US$110	100%	Investment holding
Yu Hwa	BVI	Ordinary shares US$1,500,000	100%	Investment holding
Hangzhou Good Friend *(Note)*	PRC	Registered capital US$10,000,000	100%	Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structures and design and assembling of forklift trucks
Hangzhou Global Friend *(Note)*	PRC	Registered capital US$10,000,000	100%	Not yet commenced business

Note: Hangzhou Good Friend and Hangzhou Global Friend are wholly foreign owned enterprises.

Winning Steps and Yu Hwa are held by the Company directly. Hangzhou Good Friend and Hangzhou Global Friend are held by the Company indirectly.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

FOUR YEAR SUMMARY

OPERATING RESULTS

For the year ended December 31

	FY2002 RMB'000	FY2003 RMB'000	FY2004 RMB'000	**FY2005 RMB'000**
Revenue	127,437	256,187	379,590	**557,674**
Gross profit	33,666	74,581	100,114	**119,325**
Profit before taxation	9,310	30,484	39,594	**47,125**
Profit for the year attributable to equity holders of the Company	9,310	31,257	36,329	**42,369**
Earnings per share – basic, in RMB	0.04	0.15	0.17	**0.20**

ASSETS AND LIABILITIES

As at 31 December

	FY2002 RMB'000	FY2003 RMB'000	FY2004 RMB'000	**FY2005 RMB'000**
Non-current assets	66,254	82,240	102,315	**97,931**
Net current (liabilities) assets	(13,455)	5,711	30,626	**89,812**
Total assets less current liabilities	52,799	87,951	132,941	**187,743**
Share capital	52,349	56,244	64,905	**–**
Reserves	450	31,707	68,036	**187,743**
Shareholders' equity	52,799	87,951	132,941	**187,743**

Note:

The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2005, 2004, 2003 and 2002 was prepared as if the current group structure had been in existence throughout these financial years according to the basis of presentation as set out in note 1 to the consolidated financial statements.