GOOD FRIEND INTERNATIONAL HOLDINGS INC.
友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

PLACING AND PUBLIC OFFER

Sponsor

寶來證券(香港)有限公司
Polaris Securities (Hong Kong) Limited
A Member of Polaris Financial Group

Joint Bookrunners and Joint Lead Managers

漢宇資本（亞洲）有限公司
GC Capital (Asia) Limited
A Member of Polaris Financial Group

寶來證券(香港)有限公司
Polaris Securities (Hong Kong) Limited
A Member of Polaris Financial Group

IMPORTANT

If you are in any doubt about this prospectus, you should obtain independent professional advice.

GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友 佳 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

Number of Offer Shares:	**70,000,000 Shares**
Number of Placing Shares:	**63,000,000 Shares (subject to re-allocation)**
Number of Public Offer Shares:	**7,000,000 Shares (subject to re-allocation)**
Offer Price:	**HK$1.13 per Offer Share (payable in full on application, plus a brokerage of 1%, a SFC transaction levy of 0.005% and a Stock Exchange trading fee of 0.005%)**
Nominal value:	**HK$0.01 each**
Stock code:	**2398**

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Co-Managers

滙富集團 KingswayGroup

SUN HUNG KAI INTERNATIONAL LIMITED

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Prospective investors of the Offer Shares should note that Polaris and GC Capital (for themselves and on behalf of the Underwriters), acting jointly, are entitled to terminate the obligations of the Underwriters under the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set out in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 5:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. Such events include, without limitation, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out.

If Polaris and GC Capital (for themselves and on behalf of the Underwriters), acting jointly, terminate the obligations of the Underwriters under the Underwriting Agreement in accordance with its terms or otherwise, the Share Offer will not become unconditional and will lapse.

30 December 2005

If there is any change in the following expected timetable of the Share Offer, the Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

	2006 *(Note 1)*
Application lists open *(Note 2)*	11:45 a.m. on Thursday, 5 January
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Thursday, 5 January
Application lists close *(Note 2)*	12:00 noon on Thursday, 5 January
Announcement of the level of indication of interests in the Placing, the results of applications in respect of the Public Offer and basis of allotment of the Public Offer Shares (with successful applicant's identification document numbers, where appropriate) and the number of Shares, if any, reallocated between the Placing and the Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, 10 January
Share certificates in respect of wholly or partially successful applications to be posted on or before *(Note 3)*	Tuesday, 10 January
Refund cheques in respect of wholly or partially unsuccessful applications to be posted on or before *(Note 3)*	Tuesday, 10 January
Dealings in the Shares on the Main Board to commence at	9:30 a.m. on Wednesday, 11 January

Notes:

1. All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

2. If there is a "**black**" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on Thursday, 5 January 2006, the application lists will not open and close on that day. Particulars of the arrangements are set out in the paragraph headed "Effect of bad weather on the opening of the application lists of the Public Offer" in the section headed "How to apply for the Public Offer Shares" in this prospectus.

3. Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more and have indicated in their Application Forms that they wish to collect their share certificates and/or refund cheques (if any) in person may collect them in person from the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712 - 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as the date of despatch of share certificates and refund cheques, which is expected to be on Tuesday, 10 January 2006. For details, please refer to the paragraph headed "Despatch/Collection of share certificates and refund of application moneys" in the section headed "How to apply for the Public Offer Shares" in this prospectus.

   Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more may elect to collect their refund cheques (if any) in person but may not elect to collect their share certificates, which will be deposited into CCASS for the credit of their designated CCASS participant's stock accounts or CCASS investor participant stock accounts (as appropriate). The procedures for the collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

   Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants must show their identification documents to collect their share certificate(s) and, if any, refund cheque(s) which must correspond to the information contained in the relevant Application Forms and produce other evidence of their identity acceptable to Computershare Hong Kong Investor Services Limited. Applicants being corporations which opt for personal collection must attend by their authorised representatives with letters of authorisation from their corporations stamped with the corporation's chops (bearing the name of the corporations). Both individuals and authorised representatives of corporations (where applicable) must produce, at the time of collection, identification and, where applicable, authorisation document acceptable to Computershare Hong Kong Investor Services Limited.

   Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms promptly after the expiry of the time for their collection. Further information is set out in the paragraph headed "Despatch/Collection of share certificates and refund of application moneys" in the section headed "How to apply for the Public Offer Shares" in this prospectus.

   Refund cheque will be issued in respect of wholly or partially unsuccessful application.

   Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

   Share certificates for the Offer Shares are expected to be issued on Tuesday, 10 January 2006 but will only become valid certificates of title provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting" in this prospectus has not been exercised. If the Underwriting Agreement does not become unconditional or is terminated in accordance with the terms therein, the Company will make an announcement as soon as possible.

Prospective investors of the Offer Shares should note that Polaris and GC Capital (for themselves and on behalf of the Underwriters), acting jointly, are entitled to terminate the obligations of the Underwriters under the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set out in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 5:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. Such events include, without limitation, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out.

If the Joint Bookrunners and Joint Lead Managers (for themselves and on behalf of the Underwriters), acting jointly, terminate the obligations of the Underwriters under the Underwriting Agreement in accordance with its terms or otherwise, the Share Offer will not become unconditional and will lapse and the certificates for the Offer Shares, notwithstanding that they may have been despatched to or collected by the applicants for the Offer Shares, will not become valid certificates of title.

Particulars of the structure of the Share Offer, including conditions thereto, are set out in the sections headed "Information about this prospectus and the Share Offer" and "Structure of the Share Offer" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, their respective directors, officers, employees, agents or representatives of any of them, or any other parties involved in the Share Offer.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

The Group is 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. The design, production and sales of the Group's products are undertaken by three specialised business divisions, namely, the machine tools division, the parking garage structures division and the forklift trucks division. During the Track Record Period, substantially all of the Group's sales was made to the PRC market. The table below shows the turnover of the Group by product types during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Machine tools	95,988	75.32%	207,975	81.18%	308,140	81.18%	131,484	81.82%	201,739	77.54%
Parking garage structures	30,178	23.68%	43,178	16.85%	52,425	13.81%	22,426	13.95%	34,227	13.15%
Forklift trucks	1,271	1.00%	5,034	1.97%	19,025	5.01%	6,800	4.23%	24,218	9.31%
Total turnover	127,437	100.00%	256,187	100.00%	379,590	100.00%	160,710	100.00%	260,184	100.00%

Since its inception in 1993, the Group's headquarters has been located at Xiaoshan Development Zone. The industrial complex there also houses the Group's manufacturing base. The Group's customers primarily consist of manufacturers from various industries including automobile manufacturing, mechanical manufacturing, mould processing and electrical products industries. As at the Latest Practicable Date, the Group had 17 liaison offices across the PRC to co-ordinate its distribution network and to provide business liaison services to its customers.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is attributable to the following principal factors:

- **The Group is committed to maintaining the quality of its products**

The Directors consider that maintaining the quality and high precision level of the Group's CNC machine tools is an important factor for determining the competitiveness of the Group. Accordingly, the Group is committed to maintaining the quality of all its products. Throughout the years, each of the Group's three business divisions has been accredited with ISO9001:2000 in their respective design and manufacturing management systems. In addition, Hangzhou GF, the principal operating subsidiary of the Group during the Track Record Period, was also named as a "Quality Management System Model Enterprise" by the People's Government of Xiaoshan District, Hangzhou Province in March 2005.

All such accreditations and awards prove the Group's commitment and capability to maintain the quality of its products.

- **The Group has established its own distribution network in the PRC which is taken care of by specialised sale teams**

The Group's strategy is to provide a wide product range and quality after-sale support to its customers. The Group has established 17 liaison offices covering various cities in the PRC, such as Beijing, Shanghai, Chongqing and Guangzhou. These 17 liaison offices are responsible for co-ordinating the distribution network and providing business liaison services to existing and potential customers. Specialised sales teams are set up to look after particular markets and products for each business division. Through specialisation, each sales team has a better insight of the Group's products of which they are in charge and a better and direct understanding of the particular needs of the customers, which the Directors consider distributors and/or agents may not be able to provide.

Through its customer relationships and the Group's own customer database which is compiled based on information collected by the Group's sales and marketing staff during physical visits to customers, the Group is able to gain insights into industry developments and devise its research and development plans ahead to capture future business opportunities when they arise.

The Group's business liaison staff of each liaison office are required to attend training sessions organised by the Group's manufacturing headquarters at Xiaoshan Development Zone so that they can keep abreast of the Group's latest product development and capabilities so as to better serve the Group's customers. In addition, the Directors believe that the physical visits, coupled with the regular circulation of product updates by emails, also help the Group to develop a closer relationship between the Group and its customers.

The Group has devised a set of complaint handling procedures so that customers' complaints and responses are properly attended to by the Group's appropriate personnel. This, the Directors believe, has gained confidence from customers.

- **The Group is led by experienced management with strong industry, operational and technological expertise**

Each of the Group's business divisions is led by a separate senior management team. The Group's senior management team has years of experience in the mechanics industry, and in particular the machine tools industry. The Directors believe that under the leadership of the Group's senior management team, the Group is well positioned to encounter the ever-changing markets and competition in the industry.

Details of the qualifications and experience of the Directors and senior management in the Group are set out in the section headed "Directors, senior management and employees" in this prospectus.

- **The Group's ability to control its cost to maintain the competitiveness of its products**

The Group has demonstrated its ability to maintain a gross profit margin throughout the Track Record Period notwithstanding that the average selling price of the major machine tool products per unit has been declining. The Group has adopted, and has successfully implemented, certain policies to control its production and other operating costs. The ultimate goal of these policies is to achieve the economy of scale of the Group's production so that the costs of the Group's production can be better controlled. The Directors consider that the proper implementation of these policies is very important to the Group's performance and growth especially when the competition is keen. The Group's ability to control its cost has enabled the Group to adjust the selling prices of its products flexibly in response to the market demand.

TRADING RECORD

The table below is a summary of the audited combined results of the Group for the Track Record Period prepared on the assumption that the current structure of the Group had been in existence throughout the Track Record Period and is extracted from, and has been prepared in accordance with the basis set out in note 1 to the accountants' report, the text of which is set out in Appendix I to this prospectus:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Turnover	127,437	256,187	379,590	160,710	260,184
Cost of sales/services	(93,771)	(181,606)	(279,476)	(117,062)	(204,248)
Gross profit	33,666	74,581	100,114	43,648	55,936
Other operating income	446	2,852	4,755	1,692	6,075
Distribution costs	(17,194)	(29,303)	(44,393)	(20,883)	(27,052)
Administrative expenses	(5,318)	(13,651)	(14,162)	(5,429)	(5,985)
Other operating expenses	(544)	(1,625)	(3,127)	(1,172)	(4,145)
Profit from operations	11,056	32,854	43,187	17,856	24,829
Finance costs	(1,746)	(2,370)	(3,593)	(1,847)	(1,965)
Profit before taxation	9,310	30,484	39,594	16,009	22,864
Taxation	—	773	(3,265)	(968)	(2,059)
Profit for the year/period	9,310	31,257	36,329	15,041	20,805
Dividend	—	—	—	—	—
Earnings per share, in RMB	0.04	0.15	0.17	0.07	0.10

A detailed discussion of the results of the Group during the Track Record Period is out in the subsection headed "Management's discussion and analysis of the results of operations" in the section headed "Financial information" in this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2005

Forecast combined profit attributable to equity holders of the Company *(Note 1)* .... Not less than RMB41.68 million (equivalent to approximately HK$40.00 million)

Unaudited pro forma forecast earnings per Share

— weighted average *(Note 2)* .... Not less than RMB0.20 (equivalent to approximately HK$0.19)

— fully diluted *(Note 3)* .... Not less than RMB0.15 (equivalent to approximately HK$0.14)

Notes:

1. The bases and assumptions on which the above profit forecast for the year ending 31 December 2005 have been prepared are summarised in Section A of Appendix III to this prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a weighted average basis is based on the forecast combined profit attributable to equity holders of the Group for the year ending 31 December 2005 and a weighted average number of 210,000,000 Shares expected to be in issue during the year, but takes no account of any Shares which may be allotted and issued upon exercise of the options that may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

3. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is based on the forecast combined profit attributable to equity holders of the Group for the year ending 31 December 2005 (assuming that the Company had been listed since 1 January 2005) and a total of 280,000,000 Shares had been in issue during the year, but takes no account of any Shares which may be allotted and issued upon exercise of the options that may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

SHARE OFFER STATISTICS

Offer Price	HK$1.13
Market capitalisation *(Note 1)*	HK$316.40 million
Prospective pro forma price-to-earnings multiple	
— weighted average *(Note 2)*	approximately 5.95 times
— fully diluted *(Note 3)*	approximately 8.07 times
Unaudited pro forma adjusted net tangible assets per Share *(Note 4)*	approximately RMB0.78 (equivalent to approximately HK$0.75)

Notes:

1. The calculation of the market capitalisation of the Shares is based on (i) 280,000,000 Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon exercise of the options that may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus; and (ii) the Offer Price of HK$1.13 per Offer Share.

2. The calculation of the prospective pro forma price-to-earnings multiple on a weighted average basis is based on (i) the Offer Price of HK$1.13 per Offer Share; and (ii) the unaudited pro forma forecast earnings per Share on a weighted average basis for the year ending 31 December 2005 of not less than approximately RMB0.20 (equivalent to approximately HK$0.19).

3. The calculation of the prospective pro forma price-to-earnings multiple on a fully diluted basis is based on (i) the Offer Price of HK$1.13 per Offer Share; and (ii) the unaudited pro forma forecast earnings per Share on a fully diluted basis for the year ending 31 December 2005 of not less than approximately RMB0.15 (equivalent to approximately HK$0.14).

4. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the paragraph headed "Unaudited pro forma adjusted net tangible assets" in Appendix II to this prospectus and on the basis of 280,000,000 Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon exercise of the options which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

FUTURE PLANS

During the Track Record Period, sales of CNC machine tools accounted for over 75% of the Group's annual turnover. The PRC has becoming the world factory and many manufacturers are moving their manufacturing operation to the PRC. The Group intends to leverage on its established position in the CNC machine tool industry in the PRC to further increase its sales to the PRC machine tool market.

The Group is committed to become a leading CNC machine tool supplier in the PRC and in the long run, to become a major player in the international machine tool industry. To achieve this objective, the Group intends to expand its production capacity and capability of CNC machine tools.

It is expected that the construction of a new production base of Global Friend in Xiasha, Zhejiang, the PRC with a total gross floor area of approximately 9,000 sq. m. will commence in early 2006 and complete in the second half of 2006. It is planned that Global Friend will take up part of the manufacture and sale of machine tools and parking garage structures which are currently undertaken by Hangzhou GF after Global Friend is put into commercial operation. The Directors expect that Global Friend will increase the annual production capacity of the Group by approximately 1,000 units of machine tools and approximately 2,000 units of car parking spaces respectively when it is in full operation. Also, the Directors expect that Global Friend will employ about 470 workers for production of machine tools and about 100 workers for production of parking garage structures. Leveraging on its years of experience in the design and production of CNC machine tools, it is the Group's plan to focus the production base of Hangzhou GF on the research and development of higher-end and higher precision CNC machine tools. The Directors believe that there will be an increasing demand for high precision machine tools in the PRC and the Group is well positioned to capture these anticipated business opportunities.

The registered capital of Global Friend is US$10.00 million (HK$78.00 million) of which US$1.50 million (HK$11.70 million) has been paid up in May 2005 and the balance of US$8.50 million (HK$66.30 million) is expected to be paid up by the second half of 2007. It is expected that approximately HK$44.23 million will be funded from the net proceeds from the Share Offer and the remaining balance of approximately HK$22.07 million will be funded by internal resources and/or bank borrowings by the second half of 2007. The Directors confirm that there would not be any material adverse impact on the working capital of the Group for the 12 months after the Listing by reason of the Group's investment in Global Friend.

Based on the current expansion plan and schedule, the Directors intend to apply (i) approximately RMB7.28 million (HK$7.00 million) to obtain the land use right of a site at Xiasha, Zhejiang, the PRC in early 2006; (ii) approximately RMB14.98 million (HK$14.40 million) to construct the new production plant upon receipts of all necessary construction approval and permits by the contractors; and (iii) approximately RMB23.74 million (HK$22.83 million) to purchase new production equipment and machinery to be installed in the production plant after completion of the construction.

As at the Latest Practicable Date, the Group had not identified any specific site or entered into any agreement to acquire the land use rights of the land for the construction of the new production base in Xiasha, Zhejiang, the PRC.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the Share Offer and the Listing will enhance the corporate profile of the Group and intend to use the net proceeds from the Share Offer to finance the Group's capital expenditures and business expansion. The Directors believe that this will strengthen the Group's capital base and improve its financial position.

The net proceeds from the Share Offer after deducting related estimated expenses are approximately HK$62.30 million. To materialise the future plans of the Group, the Group currently intends that the net proceeds from the Share Offer will be applied as follows:

	HK$ million
Acquisition of new production facilities of Global Friend:	
— Acquisition of land for the production base of Global Friend	7.00
— Construction of the production base of Global Friend	14.40
— Purchase of new production equipment and machinery for Global Friend	22.83
Repayment of bank loans	11.84
General working capital	6.23
Total	62.30

RISK FACTORS

The Directors consider that the business and operations of the Group are subject to a number of risk factors which can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; (iv) risks relating to the Share Offer; and (v) other issues to consider in relation to certain statements in this prospectus, which are summarised as follows:

Risks relating to the Group

- If the Group fails to manage the risks related to its expansion plans, its prospects would suffer and its future results could be affected. In addition, if the Group fails to integrate and coordinate its planned expansion with its existing operations, its business could suffer

- There are increasing needs for working capital for the Group's operations and expansion plans. The Group may not be able to generate sufficient cash flow from its operating activities despite the increase in turnover

- The Group has not declared or distributed any dividends during the Track Record Period

- The loss of key management could adversely affect the Group's business and operations

- The Group relies heavily on its technical personnel, and failure to attract and retain such personnel could harm the Group's operations and prospects

- The Group currently relies on a small number of suppliers of parts and components, making it susceptible to supply interruptions. If the Group is unable to obtain parts and components in suitable quantity and quality, its production schedules could be delayed and it could lose orders and/or customers

- The Group has not entered into any long term contracts with its suppliers. Accordingly, the Group may not be able to source the necessary parts and components from the suppliers when needed

- Substantially all of the Group's sales are denominated in RMB and its costs are denominated principally in RMB and US$. Therefore, exchange rate fluctuations may have an adverse effect on the Group's business

- Save for its parking garage structures, the Group has not maintained any product liability insurance in respect of its products. In the event that any such claim arises, the Group's financial position may be adversely affected

- The PRC subsidiaries of the Company are foreign investment enterprises and enjoy preferential tax treatment. Upon the expiry of the relevant tax holiday, the Group's overall effective tax rate will increase

- The Group's borrowings may be increased if it needs further capital to fund its operations and expansion plans

- All of the Group's liaison offices are situated in leased properties and the lease agreements of which have not been registered with the relevant PRC authorities

- Consolidation of Global Friend's financial information with that of the Company is not in compliance with the PRC laws

- Certain trademarks currently used by the Group are owned by Taiwan FF

- The aging of trade receivables was not in line with the credit policy offered by the Group

- The financial situation of the Group may be affected as a result of the reduction in the credit terms granted by its suppliers

Risks relating to the industry

- The relatively long life span of the nature of the products, in particular, the machine tools, makes it difficult to predict the Group's future revenues, adjust production costs and allocate and expand capacity efficiently and on a timely basis

- During the Track Record Period, the Group has reduced its selling price for its major machine tool products per unit. There is no assurance that the selling price of the Group's major machine tool products per unit will not continue to fall in the future

- Prices of parts and components of the Group have fluctuated during the Track Record Period and such fluctuations have affected the Group's ability to maintain its profit margin

- Manufacturers in the industrial sector prefer machine tools made in those countries and regions which are generally considered to be of higher quality. PRC manufacturers are thus less competitive in this respect

- The Group operates in a highly competitive industry, and its business would suffer if it could not successfully compete with other companies in the industry, many of whom have greater resources than the Group

- If the Group fails to maintain high precision and quality standards for its products, its results could be adversely affected

Risks relating to the PRC

- The Group's operations and expansion may be hindered by shortages of electricity or other essential services and requirements

- Changes in the economic and political environment relating to the PRC or to policies adopted by the PRC government could adversely affect the Group

- The Group's operations in the PRC are subject to RMB currency conversion and exchange control

- The outbreak of any severe communicable disease in the PRC, if uncontrolled, could adversely affect the Group's results of operations

Risks relating to the Share Offer

- The Group will continue to be controlled by Taiwan FF whose interests may differ from those of other Shareholders

- There has been no prior public market for the Shares and liquidity may be low

- The Share price may be volatile

- The Shareholders' interests may be diluted as a result of future equity fund raising

Other issues to consider in relation to certain statements in this prospectus

- The industry statistics contained in this prospectus are derived from various official sources and may not be reliable

DEED OF NON-COMPETITION

Each of Taiwan FF, Hong Kong GF and Mr. Chu (together, the "Covenantors") entered into the Deed of Non-competition in favour of the Company on 22 December 2005, pursuant to which each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of the Group) would not, during the restricted period set out in the paragraph below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the business of any member of the Group (the "Restricted Business") in the PRC, Hong Kong and Macau (the "Restricted Markets"). Such non-competition undertaking does not apply to those sales orders, with an aggregate total value of approximately US$1.75 million, in respect of the CNC machine tools undertaken by any Covenantor (or its or his relevant associate(s)) for customers situated in the Restricted Markets. Such sales orders are expected to be delivered by January 2006.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) the Shares remain listed on the Stock Exchange; and (ii) the relevant Covenantors and/or their respective associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of the Company.

Each of the Covenantors has further undertaken in the Deed of Non-competition that (i) it or he or their respective associates would not sell its products that the Group does not produce in the Restricted Markets if there are new business opportunities offered to any Covenantor (or its or his relevant associate(s)) from any customers in the Restricted Markets in respect of the Restricted Business; and (ii) it or he or their respective associates would not assist its joint venture partner(s) in Hangzhou Feeler Takamatsu to engage, direct or indirectly, in business which competes or may compete with the Group's business if Hangzhou Feeler Takamatsu contemplates to change in business which competes or may compete with the Group's business in the Restricted Markets.

Each of the Covenantors also represented and warranted in the Deed of Non-competition that, apart from the disclosure made in this prospectus, neither it or he nor any of its or his associates is currently engaging, directly or indirectly, in the Restricted Business in the Restricted Markets.

As a condition for the Listing, the undertakings from the Covenantors pursuant to the Deed of Non-competition cannot be amended or varied save with the prior approval of the Stock Exchange and the Shareholders in a general meeting (with the Covenantors and their respective associates who are also Shareholders abstaining from voting in such resolution).

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"Application Form(s)"	the white application form(s) and the yellow application form(s) or, where the context so requires, any of them to be used in connection with the Public Offer
"Articles of Association"	the articles of association adopted by the Company on 22 December 2005
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CAGR"	acronym for compound annual growth rate
"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
"Company"	Good Friend International Holdings Inc. (友佳國際控股有限公司), a company incorporated in the Cayman Islands with limited liability under the Companies Law on 6 September 2005
"Connected Person(s)"	has the meaning ascribed to it in the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, for the purposes of this prospectus, means Mr. Chu and his Relatives, Taiwan FF and Hong Kong GF, holding an aggregate of 75% of the issued share capital of the Company immediately following completion of the Share Offer and Capitalisation Issue

"Deed of Non-competition"	the deed of non-competition dated 22 December 2005 and executed by Taiwan FF, Hong Kong GF and Mr. Chu in favour of the Company, particulars of which are set out in the sections headed "Summary" and "Relationship with the Taiwan FF Group" in this prospectus
"Director(s)"	the director(s) of the Company
"GC Capital"	GC Capital (Asia) Limited, a corporation licensed under the SFO for carrying out types 1 and 6 regulated activities and also an overseas subsidiary of Polaris Financial Group in Taiwan
"GDP"	acronym for gross domestic production
"Global Friend"	杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 7 December 2004 and an indirectly wholly owned subsidiary of the Company
"Group"	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the business operated by such subsidiaries
"Hangzhou Fair Fine"	杭州友維機電有限公司 (Hangzhou Fair Fine Electric & Machinery Co., Ltd.*), a subsidiary of Taiwan FF and a fellow subsidiary of the Company
"Hangzhou Feeler Takamatsu"	杭州友嘉高松機械有限公司 (Hangzhou Feeler Takamatsu Machinery Co., Ltd.*), a wholly foreign owned enterprise established in the PRC on 21 December 2004
"Hangzhou GF"	杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.), a wholly foreign owned enterprise established in the PRC on 23 September 1993 and an indirectly wholly owned subsidiary of the Company
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong GAAP"	generally accepted accounting principles in Hong Kong
"Hong Kong GF"	Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong on 20 July 1993 and owned as to approximately 99.99% by Taiwan FF
"Independent Third Parties" or "Independent Third Party"	a person(s) or company(ies) which is/are not a connected person (as defined in the Listing Rules) of the Company or its subsidiaries or an associate of such connected persons
"Joint Bookrunners and Joint Lead Managers"	GC Capital and Polaris
"Latest Practicable Date"	20 December 2005, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	the date on which trading of the Shares first commences on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部) or, in respect of any references prior to its establishment in March 2003, the Ministry of Foreign Trade and Economic Co-operation of the PRC (中華人民共和國對外貿易經濟合作部)
"Mr. Chu"	Mr. Chu Chih-Yaung, an executive Director and the Chairman of the Board

"Mr. Chu and his Relatives"	Mr. Chu and his relatives who are shareholders of Taiwan FF, who include Mr. Chu's wife, children, sisters, brothers-in-law, uncles, aunts, cousins and nieces, namely Ms. Wang Jin-Zu, Mr. Lin Yung-Yin, Ms. Chu Hsu-Niu, Ms. Lu Hui-Wen, Mr. Lee Jui-Kuang, Ms. Chu Na-Mei, Ms. Lu Hui-Shiun, Ms. Tsai Shu-Ping, Mr. Chu Yi-Wei, Ms. Chu Pih-Yin, Mr. Chu Yi-Chia, Mr. Lee Le-Shen, Ms. Chu Chiou-Yu, Ms. Chu Bao-Yu, Ms. Lin Chu Shiou-Ying, Mr. Lin Nan-Kuo, Mr. Lin Jih-Tung, Ms. Chu Cheng-Sing, Mr. Chang Chun-Tang, Mr. Lin Win-Hui, Ms. Tsai Shiag-Tin, Mr. Lin Jih-Shing and Mr. Lin Jih-Shen
"Offer Price"	HK$1.13, being the price for each Offer Share (exclusive of a brokerage of 1%, a SFC transaction levy of 0.005% and a Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer
"Offer Shares"	the 70,000,000 new Shares to be issued for cash under the Share Offer
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of the Company at the Offer Price with professional, institutional and private investors as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Shares"	the 63,000,000 new Shares comprised in the Offer Shares initially being offered for subscription under the Placing (subject to re-allocation) as described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Underwriter(s)"	the underwriters of the Placing whose names are set out in the paragraph headed "Underwriters" in the section headed "Underwriting" of this prospectus
"PRC" or "China"	the People's Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau and Taiwan
"Public Offer"	the issue of the Public Offer Shares for subscription by members of the public in Hong Kong at the Offer Price payable in full on application, on and subject to the terms and conditions set out in this prospectus and the Application Forms

"Public Offer Shares"	the 7,000,000 new Shares comprised in the Offer Shares initially offered for subscription under the Public Offer (subject to re-allocation) as described in the section headed "Structure of the Share Offer" in this prospectus
"Public Offer Underwriter(s)"	the underwriters of the Public Offer whose names are set out in the paragraph headed "Underwriters" in the section headed "Underwriting" of this prospectus
"Reorganisation"	the corporate reorganisation of the Group in preparation for the Listing, details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix VI to this prospectus
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended)
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company on 22 December 2005, a summary of the principal terms of which is set out in the paragraph headed "Share Option Scheme" in Appendix VI to this prospectus
"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Sponsor" or "Polaris"	Polaris Securities (Hong Kong) Limited, a licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO and also an overseas subsidiary of Polaris Financial Group in Taiwan
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"Taiwan FF"	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited*), a limited liability company incorporated in Taiwan on 15 March 1979

"Taiwan FF Group"	Taiwan FF and its subsidiaries (other than the Group)
"Takeovers Code"	the Code on Takeovers and Mergers, as amended from time to time
"Track Record Period"	the period comprising the three financial years ended 31 December 2004 and the six months ended 30 June 2005
"Trademark Licence Agreement"	a trademark licence agreement dated 22 December 2005 entered into between Taiwan FF and Hangzhou GF
"UK"	the United Kingdom
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreement"	the conditional underwriting agreement relating to the Share Offer entered into on 29 December 2005 between the Company, the executive Directors, Hong Kong GF, Taiwan FF and Mr. Chu, the Sponsor, the Joint Bookrunners and Joint Lead Managers, the Placing Underwriters and the Public Offer Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"US"	the United States of America
"Winning Steps"	Winning Steps Limited, a company incorporated in the BVI with limited liability on 15 July 2005 and a wholly owned subsidiary of the Company
"Xiaoshan Development Zone"	蕭山市經濟技術開發區 (Xiaoshan Economic and Technological Development Zone*), Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC, where the production base of the Group is situated
"Yu Hwa"	Yu Hwa Holdings Limited, a company incorporated in the BVI with limited liability on 1 December 2004 and a wholly owned subsidiary of the Company
"HK$" or "HK dollar(s)" and "cent(s)"	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
"km"	kilometre(s)

"mm"	millimetre(s)
"NT$"	New Taiwan dollar(s), the lawful currency of Taiwan
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"sq.ft."	square foot/feet
"sq.m."	square metre(s)
"US$" or "US dollars"	United States dollar(s), the lawful currency of the U.S.
"%"	per cent.

* *English translation of company names for identification purpose only*

If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC/Taiwan entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.

EXCHANGE RATE CONVERSION

Unless the context requires otherwise, translations of RMB into HK$, US$ into HK$ and NT$ into HK$ are made in this prospectus, for illustration purpose only, at the rate of HK$1.00 = RMB1.04, US$1.00 = HK$7.80 and HK$1.00 = NT$4.02 respectively.

No representation is made that any amounts in HK$, RMB, US$ or NT$ could have been or could be converted at the above rates or at any other rates or at all.

This glossary of technical terms contained definitions of certain terms used in this prospectus in connection with the business of the Group. As such, these terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"CKD"	acronym for Complete, Knock Down
"CNC"	acronym for Computer Numerical Control, a numerical control system that utilises a dedicated, stored program computer to perform some or all of the basic numerical control functions
"ISO"	acronym for a series of quality management and quality assurance standards published by the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 9001:2000"	a set of global quality management standards and guarantees sponsored by ISO that has been developed to replace the 1994 versions of ISO 9001, ISO 9002 and ISO 9003 and has been generally accepted for use in many countries and regions

Investors should carefully consider all of the information set out in this prospectus and, in particular, evaluate the following risks relating to an investment in the Group, certain of which are not typically associated with investing in equity securities of companies established or operating in Hong Kong or other jurisdictions outside the PRC.

The Directors believe there are certain risks involved in the Group's business and operations. These can be broadly categorised into: (i) risks relating to the Group, (ii) risks relating to the industry, (iii) risks relating to the PRC, (iv) risks relating to the Share Offer and (v) other issues to consider in relation to certain statements in this prospectus.

RISKS RELATING TO THE GROUP

If the Group fails to manage the risks related to its expansion plans, its prospects would suffer and its future results could be affected. In addition, if the Group fails to integrate and coordinate its planned expansion with its existing operations, its business could suffer

The Group has plans to expand its production capacity and capability of CNC machine tools, principally through putting Global Friend in operation to engage in the manufacture and sale of some of those models of machine tools and parking garage structures which are currently produced by Hangzhou GF and focusing its existing manufacturing base at Xiaoshan Development Zone on the research and development of higher-end and higher precision products.

It is expected that Global Friend will commence the construction of the new production base in Xiasha, Zhejiang, the PRC with a total gross floor area of approximately 9,000 sq. m. in early 2006. The Directors expect that putting Global Friend in full operation will increase the annual production capacity of the Group by approximately 1,000 units of machine tools and approximately 2,000 units of car parking spaces respectively.

There are significant risks involved in the Group's expansion plans, including whether the schedule and the magnitude of its expansion plans can be implemented in a manner that will generate greater revenues and profitability without resulting in excessive costs and inventory, and whether it will be able to achieve its expansion targets on a timely and efficient basis. The Group's success depends largely on its ability to anticipate and react to the expected changes in future demand for its products, in particular, the CNC machine tools.

In addition, the Group believes that its future success will depend on its ability to successfully manage both of its current operations at Xiaoshan Development Zone and its planned expansion at Xiasha, Zhejiang, the PRC. The Group intends to rely heavily on its current, experienced management team to make both its existing and planned operations successful. If the management is unable to successfully oversee and control the expanded operation, then the Group's results, business and prospects could suffer.

There are increasing needs for working capital for the Group's operations and expansion plans. The Group may not be able to generate sufficient cash flow from its operating activities despite the increase in turnover

Increasing trade receivables

As a result of increasing turnover of the Group, the amount of trade receivables has increased during the Track Record Period. As at 31 December of each of 2002, 2003 and 2004 and 30 June 2005, the trade receivables amounted to approximately RMB28.92 million, RMB64.89 million, RMB88.92 million and RMB96.95 million respectively. Further discussion on the amount receivables of the Group during the Track Record Period is set out in the paragraph headed "Debtors' turnover days" in the section headed "Financial information" in this prospectus.

Increasing inventory level

The balances of inventory was also in an increasing trend during the Track Record Period. As at 31 December of each of 2002, 2003 and 2004 and 30 June 2005, the balances of inventory amounted to approximately RMB22.80 million, RMB59.95 million, RMB110.93 million and RMB141.34 million respectively. Further discussion on the inventory turnover days during the Track Record Period is set out in the paragraph headed "Inventory turnover days" in the section headed "Financial information" in this prospectus.

Cash flow

For each of the two years ended 31 December 2003, the Group has encountered a net cash outflow of approximately RMB5.91 million and RMB25.33 million respectively from its operating activities. Although the Group has experienced a net cash inflow of approximately RMB6.98 million from its operating activities for the year ended 31 December 2004, the Group again encountered a net cash outflow from operating activities of approximately RMB5.89 million during the six months ended 30 June 2005. Details of the cash flow of the Group during the Track Record Period are set out in the combined cash flow statements in Appendix I to this prospectus.

As a result of the factors above, the Group may not have sufficient cash flow from its operating activities to serve its operations and expansion plans.

The Group has not declared or distributed any dividends during the Track Record Period

Despite the fact that the Group recorded profits attributable to shareholders of approximately RMB9.31 million, RMB31.26 million, RMB36.33 million and RMB20.81 million for the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively, the Group had not declared or distributed any dividends as the Group retained all the incoming cash for its business operations and expansions.

In view of the substantial capital requirements in the foreseeable future, the Directors may retain any profits available for dividends within the Company, until such time as they believe there is sufficient cash to allow dividend distributions without affecting capital expenditure, business expansion and working capital. The dividend policy of the Company is more particularly described in the paragraph headed "Dividend policy and working capital" under the section headed "Financial information" in this prospectus.

In any event, there is no assurance that the amount of dividends to be declared by the Company in the future, if any, will be of a level comparable to dividends declared and paid by other listed companies in the same industry as the Group.

The loss of key management could adversely affect the Group's business and operations

The Group is dependent on its senior management for setting its strategic direction and managing its business and expansion. Each of Mr. Chu, Mr. Chen Hsiang-Jung, Mr. Chen Min-Ho and Mr. Wen Chi-Tang, the executive Directors, has 10 years or more experience in machine tools industry and has extensive experience in strategic planning, material sourcing, manufacturing, product development, marketing and management. For a detailed discussion of the strengths of the Directors and the senior management, please refer to the section headed "Directors, senior management and employees" in this prospectus. The successful execution of these responsibilities is crucial to the Group's success. The loss of one or more members of the Group's senior management could have an adverse effect on the Group's business, financial condition or results of operations, in particular if a member of senior management were to leave the Group to join one of the Group's competitors.

The Group relies heavily on its technical personnel, and failure to attract and retain such personnel could harm the Group's operations and prospects

The Group's success depends to a significant extent on its ability to attract and retain skilled engineering, quality assurance, and sales and marketing personnel. Without sufficient numbers of such employees available to staff its operations, the Group will be hindered in pursuing its business strategy and business expansions. Although the Group has offered certain incentives to its skilled personnel, the Group experienced loss of such personnel in the past as there was intense demand for skilled labour in the machine tool manufacturing industry in the PRC. In addition, due to the nature of the Group's products, its personnel, in particular, those in the quality assurance team are required to receive training before they carry out their actual duties. An inability to retain trained employees at a sufficient rate and at a manageable cost could adversely affect the Group's business.

There is no assurance that any trained employees will not leave the Group for its competitors. In the event that it happens and the Group fails to train up sufficient staff for replacement, the Group's business operations may be adversely affected.

The Group currently relies on a small number of suppliers of parts and components, making it susceptible to supply interruptions. If the Group is unable to obtain parts and components in suitable quantity and quality, its production schedules could be delayed and it could lose orders and/or customers

The Directors consider that maintaining the quality and high precision level of the CNC machine tools produced by the Group is an important factor for determining the competitiveness of the Group. In order to maintain the quality of the Group's products, the Group has maintained business relationships with those selected suppliers trusted by the Directors to supply parts and components with stable quality standard for the Group's production. Parts and components accounted for approximately 84.81%, 86.15%, 88.55% and 90.54% of the total cost of sales/services for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively.

Taiwan suppliers have always been one of the major sources of supply of parts and components to the Group. During the Track Record Period, substantially all of the Group's purchases from Taiwan suppliers had been made through the Taiwan FF Group. For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, approximately 42.62%, 46.73%, 41.52% and 37.39% of the Group's purchases were sourced from suppliers based in Taiwan. Details of such purchases are set out in the section headed "Connected transactions" in this prospectus.

In view of the considerations set out above, the Group only source parts and components for the production of its products from a limited group of suppliers and there are only limited alternatives available to most of these suppliers. Computer numerical controllers accounted for a significant portion of the Group's cost of sales/services during the Track Record Period. The cost of such controllers amounted to approximately 14.70%, 17.33%, 17.35% and 15.83% of the total cost of sales/services of the Group for each of the three years ended 31 December 2004 and the six months ended 30 June 2005. During the Track Record Period, the Group only sourced computer numerical controllers from three suppliers. No long term contract has been entered into for the supply of such controllers between the Group and any of such suppliers.

Although the Group has not experienced any significant difficulties in sourcing any parts and components for its production during the Track Record Period, there is no assurance that the Group will not experience any such difficulty in the future, in particular, taking into account the fact that the Group has a limited group of suppliers.

In addition, should any of the Group's suppliers fail to supply sufficient quantities of parts and components (computer numerical controllers in particular) of an acceptable quality and in a timely manner, the Group's capacity utilisation will decrease and its production and delivery schedules could be disrupted, which could result in lost revenues and lost customers.

In order to reduce its reliance on the Taiwan FF Group for sourcing the parts and components from Taiwan suppliers, the Group has ceased to purchase parts and components from Taiwan suppliers through the Taiwan FF Group. The Group has designated two staff members in its procurement team to specifically handle the purchasing of the parts and components directly from the Taiwan suppliers. If in the future, the Group is unable to continue to source the necessary parts and components on its own or there is significant increase in the costs for such parts and components, the Group's production operations may be adversely affected.

The Group has not entered into any long term contracts with its suppliers. Accordingly, the Group may not be able to source the necessary parts and components from the suppliers when needed

For the reasons set out in the preceding paragraph, the Group has a limited number of suppliers. However, none of these suppliers have entered into any long term or short term supply. agreement with the Group. For the three years ended 31 December 2004 and the six months ended 30 June 2005, the purchases of the Group made with its five largest suppliers were approximately 72.05%, 71.43%, 68.23% and 64.79% of the total purchases for the corresponding period. Although the Group has not experienced any significant shortage of parts and components for its production process during the Track Record Period, there is no assurance that the Group will be able to source necessary parts and components, in particular, those for the production of its CNC machine tools, from the limited group of suppliers when needed. In the event that the Group is unable to source such necessary parts and components and also fails to find alternative sources, the Group's production may be disrupted and thus its performance will be adversely affected.

Substantially all of the Group's sales are denominated in RMB and its costs are denominated principally in RMB and US$. Therefore, exchange rate fluctuations may have an adverse effect on the Group's business

The PRC market has been the principal market of the Group since its inception in 1993. For the three years ended 31 December 2004 and the six months ended 30 June 2005, approximately 100.00%, 99.67%, 99.50% and 98.09% of the Group's turnover were made in the PRC and were denominated in RMB. During the same period, approximately 57.68%, 51.62%, 59.31% and 59.52% of the Group's costs were denominated in RMB while the remaining approximately 42.32%, 48.38%, 40.69% and 40.48% of the Group's costs were denominated in US$ and other foreign currencies. This currency mismatch is ongoing and results in gains or losses with respect to movements in foreign exchange rates.

The Group has not entered into currency hedging transactions that would help protect against undue losses from foreign exchange fluctuations. On 21 July 2005, RMB, which for the previous decade had been pegged at RMB8.28 per US$1.00, was revalued to RMB8.11 per US$1.00. As the Group intends to explore overseas market in the long run, any appreciation of RMB will reduce the price competitiveness of the Group's products which are made in the PRC. In addition, there is no assurance that RMB will not be subject to devaluation. Any devaluation of RMB could adversely affect the value of the Group's investment in the PRC. For further discussions on the currency conversion and exchange control, please see the sub-paragraph headed "The Group's operations in the PRC are subject to RMB currency conversion and exchange control" grouped under the "Risks relating to the PRC" below.

Save for its parking garage structures, the Group has not maintained any product liability insurance in respect of its products. In the event that any such claim arises, the Group's financial position may be adversely affected

Save for its parking garage structures, the Group has not maintained any product liability insurance coverage for its products, in particular, its CNC machine tools, as under the laws of the PRC, the Group is not required to maintain any insurance coverage in respect of such products. However, the Group may be subject to product liability claims, suits and complaints incidental to its business in the markets where its products are sold.

In the event the Group's products were found defective and/or should they cause damage or physical injury to any person, the Group would face the risks of litigation. In the absence of product liability insurance coverage, any litigation in relation to the Group's product liability would be costly and could divert the efforts and attention of the Group's management. This could have an adverse effect on the Group's business, financial condition or results of operations.

In the case of an adverse outcome in any litigation and in the absence of product liability insurance coverage, the Group could be required to pay substantial damages with its internal resources. This would not only affect the Group's financial position, but would also affect the reputation of the Group.

The PRC subsidiaries of the Company are foreign investment enterprises and enjoy preferential tax treatment. Upon the expiry of the relevant tax holiday, the Group's overall effective tax rate will increase

As a foreign investment enterprise engaging in manufacturing business operations for more than 10 years, Hangzhou GF is now enjoying the preferential tax treatment (i.e. a full exemption from PRC foreign enterprise income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the PRC foreign enterprise income tax rate for the immediately following three years).

The existing tax rate applicable to Hangzhou GF, as a foreign invested enterprise, will expire after the year ending 31 December 2006. After the expiry of such tax holiday, the tax rate of the enterprise income tax applicable to Hangzhou GF is expected to be increased to the then applicable normal rate, currently 16.5% unless other preferential tax treatment is secured. Under such circumstances, the overall effective tax rate of the entire Group will be increased and the profit margin of the Group will, accordingly, decrease.

There is also no assurance that there will not be any change in the policy of the PRC government in respect of preferential treatment given to foreign investment enterprises. In the event that the PRC government abolished such preferential treatment, the Group's subsidiaries established in the PRC would be required to pay the normal tax rate of 33%. Under such circumstances, profits after taxation, if any, generated by such subsidiaries would be substantially reduced.

The Group's borrowings may be increased if it needs further capital to fund its operations and expansion plans

During the Track Record Period, the Group's operation has mainly been funded by bank loans made available to the Group by various bankers in the PRC. All such loans were of a revolving nature and would be required to be renewed on an annual basis. As at 31 December of each of 2002, 2003 and 2004 and 30 June 2005, bank borrowings amounted to approximately RMB34.28 million, RMB79.76 million, RMB89.99 million and RMB97.01 million and the finance costs for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 amounted to approximately RMB1.75 million, RMB2.37 million, RMB3.59 million and RMB1.97 million respectively.

As at 31 October 2005, the Group's total bank borrowings further increased to approximately RMB128.70 million. As the Group will further expand in the future, more funds are expected to be required. The Group may then need to raise additional funds through debt or other forms of financing to finance its operations. This may not only increase the gearing ratio of the Group, but may also increase the Group's finance costs and in turn affect the Group's profitability. In the event that the Group is unable to repay its short term bank loans, the creditors concerned may choose to demand repayment, which could adversely affect the operations of the Group. In addition, the PRC government has implemented measures to tighten its credit control in the banking sector recently. Such controls include increasing interest rates on bank loans and deposits and tightening the money supply to control growth in the lending activities. The Group's ability to secure further capital through bank borrowings may be adversely affected as a result of such control.

All of the Group's liaison offices are situated in leased properties and the lease agreements of which have not been registered with the relevant PRC authorities

As at the Latest Practicable Date, the Group had 17 liaison offices, all of which were located on premises leased from a number of different lessors. Though the Group has been occupying these premises in accordance with the terms of the relevant lease agreements, all of these lease agreements have not been registered with the relevant authorities by the relevant lessors. The Company's legal advisers as to PRC law are of the view that non-registration of the lease agreements would not affect the validity of such leases as between the contracting parties.

Should any of such leases be found to be invalid or be challenged, the liaison office(s) concerned may need to be relocated, the Group may need to move out of the property and thereby suffer losses from the write-off of immovable fixed assets, prepayments and deposits paid for such leases and the related relocation cost.

Consolidation of Global Friend's financial information with that of the Company is not in compliance with the PRC laws

According to the《中外合資經營企業合營各方出資若干規定的補充規定》("Capital Contributions by the Parties to Sino-foreign Equity Joint Ventures Several Provisions — Supplementary Provisions"), a company is not permitted to consolidate the financial results of a PRC subsidiary into its audited consolidated accounts before the registered capital of such PRC subsidiary is fully paid up. Also, an investor does not have the right to take part in the decision-making of the company prior to the completion of the contribution of its shares of the registered capital.

As at the Latest Practicable Date, the capital contribution to Global Friend had not been completed by Yu Hwa as payment of such had not yet been due. As Yu Hwa is the sole investor of Global Friend, the Company's legal advisers as to PRC law have advised that the above provisions could not apply to Global Friend and Yu Hwa strictly and therefore, the above provisions do not affect the Group's decision-making power in Global Friend. Also, the Company's legal advisers as to PRC law have advised that although Yu Hwa is not permitted to consolidate the financial results of Global Friend into its audited consolidated accounts according to the above provisions, no penalty is stipulated under the current rules and regulations in the PRC in case of consolidation of results of companies of this nature.

However, there is no assurance that the relevant PRC authorities would not take an opposite view and opine that there has been a breach of the above provisions. In such a case, the Group may face claims or incur losses in connection with the alleged breach.

Certain trademarks currently used by the Group are owned by Taiwan FF

The Group has been using , , and trademarks in the PRC since its establishment. These trademarks are registered in the name of Taiwan FF in the PRC under class 7. Pursuant to the Trademark Licence Agreement, in consideration of Hangzhou GF agreeing to pay RMB1.00 to Taiwan FF upon the signing of the Trademark Licence Agreement, Taiwan FF has agreed to grant to Hangzhou GF the licence to use such trademarks registered in the name of Taiwan FF in the PRC so long as Taiwan FF remains as the owner of such trademarks and Taiwan FF directly or indirectly owns 30% or more of the interest of Hangzhou GF.

Taiwan FF has not transferred ownership of the trademarks to the Group because the trademarks are also used by Taiwan FF in connection with its own businesses. There is no assurance that Taiwan FF will use the trademarks appropriately, and as a result of inappropriate use, the Group's business may be affected. In addition, since the Group shares the trademarks with Taiwan FF, the Group's customers may not be able to recognise that the Group, instead of Taiwan FF, is the manufacturer of the Group's products. Besides, Taiwan FF may use the trademarks in a manner that is not consistent with the Group's use, and such different use may have a material adverse effect on the Group's business.

The aging of trade receivables was not in line with the credit policy offered by the Group

The Group usually grants credit terms ranging from 30 days to 90 days to its customers depending on factors such as length of relationship and settlement history of the customers. However, the aging of the trade receivables was not in line with the credit policy offered by the Group. As at 31 December of each of 2002, 2003 and 2004 and 30 June of 2005, approximately RMB2.93 million, RMB11.13 million, RMB20.90 million and RMB24.02 million of the outstanding trade receivables from the Group's customers was classified in the categories of more than 90 days. Any deterioration in the overall credit quality of the debtors or any increase in the debtors' turnover period may adversely affect the cash flow of the Group as well as the financial situation and results of the Group.

The financial situation of the Group may be affected as a result of the reduction in the credit terms granted by its suppliers

Due to the shortage of supply of certain parts and components in the market, the credit period offered by the suppliers to the Group has been shortened. The creditors' turnover days of the Group was shortened from approximately 72.05 days in 2002 to 34.14 days in 2004. Any further tightening of the credit policy offered by the suppliers may adversely affect the cash flow and the financial situation of the Group.

RISKS RELATING TO THE INDUSTRY

The relatively long life span of the nature of the products, in particular, the machine tools, makes it difficult to predict the Group's future revenues, adjust production costs and allocate and expand capacity efficiently and on a timely basis

The Directors estimate that the products of the Group have a life span ranging from five to seven years generally. Such characteristic makes it difficult for the Group to forecast future product demand and the selling prices, and consequently its future revenues.

In addition, as most of the Group's sales are conducted on an order by order basis, it is also difficult for the Group to forecast its periodic results due to the difficulty in predicting the amount and timing of customer expenditures. The Group's results of operations may also fluctuate significantly in the future as a result of a variety of factors, many of which are beyond its control. Investors should not rely on the results of any one period as an indication of the Group's future performance.

In view of the long life span of the Group's products and given that the Group's sales are mostly conducted on an order by order basis, a customer that accounts for a significant portion of the Group's revenues in one period may not generate a similar amount of revenues or any at all in the subsequent periods. A decrease in the number or size of the Group's contracts from period to period may adversely affect the results of operations of the Group. If in the future, the Group's operating results were to fall below the expectations of securities analysts and investors, the trading price of the Shares would likely decline.

During the Track Record Period, the Group has reduced its selling price for its major machine tool products per unit. There is no assurance that the selling price of the Group's major machine tool products per unit will not continue to fall in the future

The Directors consider that the industrial sector in the PRC market is highly competitive. During the Track Record Period, due to such competition, the Group has reduced its selling price for its major machine tool products per unit. The average selling price of the major series of machine tools for the year ended 31 December 2004 has been reduced by approximately 23.6% from that for the year ended 31 December 2002. The sales of such series of machine tools amounted to approximately 54.10%, 42.71%, 49.30% and 45.54% of the total turnover of the Group for the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. Should competition in the industry remain keen in the future, the Group's ability to raise the selling price of its products may be restricted and in order to remain competitive, the Group may need to further reduce the selling price of its major machine tool products per unit so as to retain existing customers and attract new customers. In the event the Group has to reduce its selling price but is unable to control or reduce its costs at the same time, the Group's profitability may be adversely affected.

Prices of parts and components of the Group have fluctuated during the Track Record Period and such fluctuations have affected the Group's ability to maintain its profit margin

Parts and components accounted for approximately 84.81%, 86.15%, 88.55% and 90.54% of the total cost of sales/services for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The prices of parts and components thus have a significant impact on the profitability of the Group. Approximately half of the purchases of parts and components were made by the Group in the PRC market locally during the Track Record Period. In addition, as the Group proposes to shift a greater portion of its purchases to local suppliers in the PRC, the fluctuation, availability and prices of parts and components are subject to external factors such as supply and demand in the PRC market and any shortage would result in higher purchase prices and delay in production.

All of the above factors may lead to an increase in the prices of parts and components required by the Group for its production process, and whilst the Group fails to adjust the selling prices of its products upwards, it will result in the increase in the Group's cost of sales/services and thus affect its ability to maintain its profit margin.

Manufacturers in the industrial sector prefer machine tools made in those countries and regions which are generally considered to be of higher quality. PRC manufacturers are thus less competitive in this respect

It is recognised in the industrial sector that machine tools made in certain countries and regions are generally of higher quality and precision. Such countries and regions include the US, Germany, Italy, Switzerland, Japan, Korea and Taiwan. Accordingly, machine tool manufacturers situated in the PRC are always considered less competitive in terms of quality and precision to manufacturers in those countries and regions.

As the manufacturing base of the Group is situated in the PRC, it may be difficult for the Group to compete with its competitors based in the above countries and regions in the overseas market should the business opportunities arise.

The Group operates in a highly competitive industry, and its business would suffer if it could not successfully compete with other companies in the industry, many of whom have greater resources than the Group

The machine tool industry is highly competitive. As a result, the Group is facing keen competition from numerous industry players that have introduced or developed products similar to those offered by the Group. The Group competes not only with local manufacturers in the PRC but also with foreign invested enterprises in the PRC that engage in the same industry in the PRC market. Globally, as stated in the paragraph headed "Manufacturers in the industrial sector prefer machine tools made in those countries and regions which are generally considered to be of higher quality. PRC manufacturers are thus less competitive in this respect" above, machine tools produced by manufacturers in the US, Germany, Italy, Switzerland, Japan, Korea and Taiwan, though targeting at market segments which are different from that of the Group, also compete with machine tools produced by the Group to a certain extent.

The Directors consider that those foreign invested enterprises engaging in the machine tool manufacturing business in the PRC are its major competitors for the PRC market. The parent companies of many of these foreign invested enterprises are Taiwan and Korea machine tool manufacturers which are much larger than the Group in terms of production scope and annual turnover. As such, these foreign invested enterprises may have greater access to capital and technology and capabilities for production, research and development, sales and marketing and other resources. As a result, these competitors may be able to compete more aggressively over a longer period of time than the Group can sustain.

The Group's competitors in the PRC compete with the Group not only for market share but also for parts and components which are available locally and for skilled personnel. The intense competition may limit the profitability of the Group or result in a loss in the Group's market share in the PRC.

If the Group fails to maintain high precision and quality standards for its products, its results could be adversely affected

Machine tool customers of the Group expect high precision and quality standards. In order to attract and retain customers, the Group works continuously to maintain high precision and quality standards of its machine tool products. If the Group fails to maintain high quality product standards and to manufacture products attaining those standards, its customers could cancel their orders or return the products, any of which could negatively affect the Group's results of operations. In addition, the reputation of the Group could also tarnish under such circumstances.

RISKS RELATING TO THE PRC

The Group's operations and expansion may be hindered by shortages of electricity or other essential services and requirements

The Group's manufacturing processes require a large and dependable supply of electricity. If the supply of electricity to the Group's existing production facilities at Xiaoshan Development Zone or the Group's planned production facilities at Xiasha, Zhejiang runs short or is restricted for any reason, the Group's production and delivery schedules could be delayed, which could result in loss of revenue, orders and customers. Although the Group has installed a electricity back-up power system in its production base at Xiaoshan Development Zone and plans to do so at its planned production base in Xiasha, Zhejiang, there can be no assurance that the Group's production facilities or planned production facilities will always have sufficient supply of electricity or other essential services and requirements to meet its needs, or that the Group's business will not as a result be adversely affected.

Changes in the economic and political environment relating to the PRC or to policies adopted by the PRC government could adversely affect the Group

All of the Group's business, assets and operations are located in the PRC. Substantially all of the Group's sales in the Track Record Period were made to customers in the PRC, and the Group expects that this is likely to continue in the near future. As such, the Group's operations, financial condition and profitability may be materially and adversely affected by economic and political developments in the PRC.

Since 1978, the PRC has undergone a series of reforms in the political system. These reforms have led to a significant economic growth and social progress. However, there is no assurance that reform policies will continue to be pursued and there is no assurance that any adjustment made to such reform policies will not have any material adverse effect on the business and operations of the Group.

In addition, the PRC has a long history of running a planned economy. The PRC has undergone economic reforms to transform the PRC economy into a market economy with socialist characteristics. These reforms have resulted in a more significant role played by market forces in the overall economic performance. Nevertheless, many of the regulations implemented by the PRC are at their initial stages of development and are subject to further refinement and revision aimed at optimizing the economic system. There is no assurance that any change in the economic conditions, as a result of the economic reforms, or macro-economic control measures adopted by the PRC, will have a positive effect on the economic development of the PRC. There is also no assurance that these measures will continue to be pursued and that satisfactory results can be attained or that the Group will benefit from such reform measures.

The Group's operations in the PRC are subject to RMB currency conversion and exchange control

RMB is not freely convertible to other currencies. Pursuant to the Foreign Exchange Control Regulations and the Regulations on the Foreign Exchange Settlement, Sales and Payments, foreign investment enterprises are permitted to remit their profit or dividends in foreign currencies overseas or repatriate such profit or dividends after converting the same from RMB to foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB to foreign currencies for items in current account (including such dividends payment to foreign investors) and the control over conversion of RMB to foreign currencies for items in capital account (such as direct investment, loan and investment in securities) is more stringent.

The operations of the Group are based in the PRC and have been carried out by the Group's wholly owned foreign enterprise, namely, Hangzhou GF. As an enterprise established in the PRC, Hangzhou GF is subject to the above regulations. Should such regulations remain unchanged when

Global Friend comes into operations, Global Friend will also be subject to such regulations. There is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange. This may, in turn, adversely affect the Group's ability to pay dividends.

RMB, the PRC's currency, which for the previous decade had been pegged at RMB8.28 per US$1.00, was revalued on 21 July 2005 to RMB8.11 per US$1.00. The People's Bank of China also announced that RMB would be pegged to a basket of foreign currencies, rather than being strictly tied to the US$, and would trade within a narrow 0.3% band against this basket of currencies. China has stated that the basket is dominated by the US$, euro, Japanese yen and South Korean won, with a smaller proportion made up of the British pound, Thai baht and Russian ruble. Although the PRC has stipulated that it has no intention to change the present RMB exchange rate policy in the near future, there can be no assurance that the PRC will not revalue the RMB or permit its substantial appreciation. Any increase in the value of RMB might adversely affect the growth of the PRC economy as well as the competitiveness of various industries in the PRC, including the industry in which the Group operates, which could in turn affect the financial condition and results of operations of the Group.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could adversely affect the Group's results of operations

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could adversely affect the overall business sentiments and environment in the PRC, which in turn may have an adverse impact on domestic consumption in the PRC. Since the Group's operations are all located in the PRC, the slow down in the growth of the domestic market or consumption will adversely affect the Group's financial condition, results of operations and future growth. The spread of any severe communicable disease in the PRC may also affect the operations of the Group's customers and suppliers situated in the PRC, which may have an adverse effect on the Group's business and results of operations.

RISKS RELATING TO THE SHARE OFFER

The Group will continue to be controlled by Taiwan FF whose interests may differ from those of other Shareholders

The Company is wholly owned, and the Company and the Group are thereby controlled, by Taiwan FF.

Immediately following the Share Offer and the Capitalisation Issue, Taiwan FF will own 75% of the issued share capital of the Company and will continue to control the Group. As the single largest shareholder, Taiwan FF will be able to control the election of Directors, direct the Group's major policy decisions, including decisions concerning strategy, investment, finance, acquisition, disposal, dividend, constitutional and other issues; and influence other areas of policy and management. The interests of Taiwan FF could conflict with the interests of the other Shareholders. There can be no assurance that Taiwan FF will not take actions that favour its own interests or views which do not necessarily favour the interests or are in accord with the views of other Shareholders.

There has been no prior public market for the Shares and liquidity may be low

Prior to the Share Offer, there has been no public market for the Shares. There can be no assurance that after the completion of the Share Offer, an active, liquid trading market for the Shares will develop or, if it develops, continue for any particular amount of time. The Offer Price for the Shares may bear no relationship to the trading price of the Shares from time-to-time after the Share Offer.

The Share price may be volatile

Following the Share Offer, the trading price of the Shares may fluctuate substantially as a result of the following factors, amongst others, some of which are beyond the control of the Company:

- variations in the operation results of the Group;
- changes in financial estimates by securities analysts;
- investor perceptions and the investment environment in Asia, including Hong Kong and the PRC;
- changes in policies environment;
- changes in pricing policies adopted by the Group or its competitors;
- changes in the conversion rate of RMB into foreign currency (including HK$ and US$);
- the depth and liquidity of the market for the Shares;
- the recruitment or departures of the Group's key personnel; and
- general economic and other factors.

Moreover, in recent years, stock markets in general have experienced increasing price and volume fluctuations, some of which have been unrelated or have not corresponded to the operating performances of their listed companies. These market and industry fluctuations may adversely affect the market price of the Shares.

The Shareholders' interests may be diluted as a result of future equity fund raising

The Group may need to raise additional funds in the future to finance its expansion or for other reasons. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro rata basis to existing shareholders, the percentage ownership of the individual shareholders may decline. Shareholders may experience subsequent dilution of their interest in the Company.

OTHER ISSUES TO CONSIDER IN RELATION TO CERTAIN STATEMENTS IN THIS PROSPECTUS

The industry statistics contained in this prospectus are derived from various official sources and may not be reliable

Certain statistics in the section headed "Industry overview" in this prospectus are derived from official sources. Whilst the Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, the information and statistics derived from government official publications have not been independently verified by the Group and may be inconsistent, inaccurate, incomplete or out-of-date. None of the Sponsor, the Underwriters, the Joint Bookrunners and Joint Lead Managers, any of their respective directors, officers, employees, agents or representatives or any other parties involved in the Share Offer and the Group make any representation as to the accuracy or completeness of such information and, accordingly, such information should not be unduly relied upon.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Subsidiary Legislation V of Chapter 571 of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. there are no other matters that the omission of which would make any statement in this prospectus herein misleading;

2. the information contained in this prospectus is accurate and complete in all material aspects and is not misleading; and

3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus or the Application Forms, and any information or representation not contained herein or the Application Forms must not be relied upon as having been authorised by any of the Company, the Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other parties involved in the Share Offer.

FULLY UNDERWRITTEN

The Share Offer comprises the Placing and the Public Offer. A total of 70,000,000 Shares will be made available under the Share Offer, of which 63,000,000 Shares, representing 90% of the total number of the Shares being offered under the Share Offer, will initially be placed with professional, institutional and private investors at the Offer Price under the Placing. The remaining 7,000,000 Shares, representing 10% of the total number of the Shares being offered under the Share Offer, will be offered to the public in Hong Kong at the Offer Price under the Public Offer. The number of Shares offered under the Placing and the Public Offer will be subject to re-allocation. Details of the structure of the Share Offer are described in the section headed "Structure of the Share Offer" in this prospectus.

This prospectus is published solely in connection with the Share Offer and, together with the Application Forms, sets out the terms and conditions of the Share Offer.

The Listing is sponsored by the Sponsor. GC Capital and Polaris are the Joint Bookrunners and Joint Lead Managers of the Share Offer. The Placing is fully underwritten by the Placing Underwriters and the Public Offer is fully underwritten by the Public Offer Underwriters. Particulars of the Underwriters and the underwriting arrangements are described in the section headed "Underwriting" in this prospectus.

OFFER SHARES ARE OFFERED IN CERTAIN JURISDICTIONS ONLY

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the Application Forms and the offering or sale of the Offer Shares in certain jurisdictions are restricted by law, in particular but without limitation, the following jurisdictions. This prospectus is not an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction in which such an offer or invitation is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make any unauthorised offer or invitation.

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Hong Kong

This prospectus has been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may be issued, circulated or distributed in Hong Kong, and the Offer Shares under the Share Offer may be offered for subscription to: (i) members of the public in Hong Kong; and (ii) any other person in Hong Kong. In addition, advertisements may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Hong Kong.

The US

The Offer Shares have not been and will not be registered under the US Securities Act or any State securities law and may not be offered, sold, pledged or transferred within the US or to, or for the account or benefit of, US persons, except in transactions exempted from or not subject to the registration requirement of the US Securities Act.

The Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the US.

The UK

This prospectus has not been approved by an authorised person in the UK and has not been registered with the Registrar of Companies in the UK. The Offer Shares may not be offered or sold and, prior to the expiry of a period of six months from the latest date of the issue of such Offer Shares, the Offer Shares may not be offered or sold to any persons in the UK except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the UK within the meaning of the Public Offers of Securities Regulations 1995. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Shares except in circumstances in which section 21(1) of the FSMA does not apply to the Company.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, the Offer Shares may not, directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which means any person resident in Japan or any corporation or other entity organised under the law of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and other applicable laws, regulations and governmental guidelines of Japan.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be issued, circulated or distributed in Singapore, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Singapore Securities and Futures Act; (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Singapore Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Singapore Securities and Futures Act; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Securities and Futures Act.

PRC

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. This prospectus may not be issued, circulated or distributed in the PRC and the Offer Shares may not be offered or sold, directly or indirectly, or offered or sold to any person for re-offer or re-sale, directly or indirectly, to any resident in the PRC except pursuant to applicable laws and regulations of the PRC. According to the laws and regulatory requirements of the PRC, the Offer Shares may only be offered or sold to natural or legal persons in Taiwan, Hong Kong or Macau or any country other than the PRC, whether by means of this prospectus or otherwise.

Taiwan

The Offer Shares have not been and will not be registered with the Securities and Futures Bureau of Taiwan and are not being offered for subscription or sold and may not be offered for subscription or sold, directly or indirectly, in Taiwan.

Cayman Islands

No Offer Shares may be offered for subscription or purchase or sold to the public in the Cayman Islands.

Each person acquiring the Offer Shares will be required, or be deemed by his/her/its acquisition of the Offer Shares, to confirm that he/she/it is aware of the restrictions on offer of the Offer Shares as described in this prospectus and that he/she/it is not acquiring, and has not been offered, any such Offer Shares in circumstances that contravene any such restrictions. Overseas persons should inform themselves about and observe any applicable legal or regulatory requirements.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).

No part of the Shares or the Company's loan capital is listed or dealt in on any other stock exchange. At present, save as disclosed in this prospectus, the Company is not seeking or proposing to seek listing of, or permission to deal in, its securities on any other stock exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert.

The Company, the Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriters, their respective directors, officers, employees, agents or representatives or and any other parties involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities resulting from, the subscription for, or purchase, holding or disposal of, or dealing in the Offer Shares or your exercise of any rights attaching to the Offer Shares.

HONG KONG REGISTER

All Shares issued pursuant to applications made in the Share Offer will upon the Listing be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

STAMP DUTY

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and on the Application Forms.

DEALING AND SETTLEMENT

Dealings in the Shares are expected to commence at 9:30 a.m. on Wednesday, 11 January 2006.

Shares will be traded in board lots of 2,000 Shares each.

The stock code for the Shares is 2398.

The Company will not issue any temporary documents of title.

Dealings in the Shares on the Stock Exchange will be effected by participants of the Stock Exchange whose bid and offer quotations will be and available on the Stock Exchange's teletext page information system.

Delivery and payment for Shares dealt on the Stock Exchange will be effected two trading days following the transaction date ("T+2"). Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Only certificates for Shares registered on the branch share register of the Company will be valid for delivery in respect of transactions effected on the Stock Exchange.

If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

ELIGIBILITY FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, the Company must have a sufficient management presence in Hong Kong which normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. As the principal business and operations of the Group which include manufacturing and sales of the Group's products are primarily located, managed and conducted in the PRC and substantially all customers of the Group are also located in the PRC, the senior management members of the Group are therefore not based in Hong Kong.

As at the Latest Practicable Date, Mr. Tse Kam Fai, the company secretary of the Company, was an ordinarily resident in Hong Kong and none of the executive Directors are Hong Kong residents nor ordinarily based in Hong Kong. If two executive Directors who are ordinarily residents in Hong Kong are appointed, they might not be able to fully understand or familiar with the business operations, activities and development of the Group which are principally made in the operating subsidiary of the Group in the PRC. This may adversely affect their ability to exercise their discretion on a fully informed basis, or make appropriate business decisions or judgments that are beneficial to the operations and development of the Group. In the circumstances, the Directors consider that it is impracticable nor in the best interests of the Company and its shareholders as a whole to appoint two executive Directors who are ordinarily residents in Hong Kong or to relocate any of the Company's PRC-based executive Directors to Hong Kong for the sole purpose of satisfying the requirements of Rule 8.12 of the Listing Rules.

Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, the Company has put in place the following measures:

(a) the Company has appointed and will continue to maintain two authorised representatives, namely Mr. Chen Hsiang-Jung and Mr. Tse Kam Fai, pursuant to Rule 3.05 of the Listing Rules who will act as the Company's principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. Mr. Tse Kam Fai, the company secretary of the Company, being one of the authorised representatives appointed by the Company, is ordinarily resident in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request and will be readily contactable by telephone, facsimile or email. Each of the two authorised representatives has been duly authorised to communicate on behalf of the Company with the Stock Exchange;

(b) contact details for each authorised representative have been provided to the Stock Exchange and these representatives are authorised to speak on behalf of the Company. The company secretary of the Company, Mr. Tse Kam Fai, is a Hong Kong resident and will be available to meet with the Stock Exchange on short notice. He has been authorised to accept service of process and notice on the Company's behalf in Hong Kong;

(c) the Company has appointed a compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The company secretary of the Company, Mr. Tse Kam Fai, will seek advice from and consult with the compliance adviser on the Listing Rules when circumstances require;

(d) although all executive Directors are not ordinarily residents in Hong Kong, they will be readily available by telephone, facsimile or email and, if required, to meet in person with the Stock Exchange on short notice;

(e) one of the independent non-executive Directors, Mr. Koo Fook Sun, Louis, is ordinarily resident in Hong Kong; and

(f) if circumstances require, meetings of the Board will be summoned and held in such manners and on short notice as permitted under the Articles of Association to discuss and address any issues which the Stock Exchange is concerned about.

Mr. Chen Hsiang-Jung and Mr. Tse Kam Fai have provided to the Stock Exchange in writing their respective contact details which include (i) residential and office telephone numbers; (ii) mobile telephone numbers; (iii) facsimile numbers and (iv) email addresses or as required under Rules 3.05 and 3.06 of the Listing Rules.

EXECUTIVE DIRECTORS

Name	Residential address	Nationality
Mr. Chu Chih-Yaung (朱志洋先生)	13th Floor, No. 73 Yung-Chi Road Taipei Taiwan	Taiwanese
Mr. Chen Hsiang-Jung (陳向榮先生)	Room 502, 12th Building No. 1, Qinyinyuan Shixin Middle Road Xiaoshan District Hangzhou City Zhejiang Province The PRC	Taiwanese
Mr. Chen Min-Ho (陳明河先生)	No. 202 Xi Zhou Road Yung Ho Village Da Du Township Taichung County Taiwan	Taiwanese
Mr. Wen Chi-Tang (溫吉堂先生)	No. 64-1 Yuhtien Li Yuanli Town Miaoli County Taiwan	Taiwanese
Mr. Chiu Rung-Hsien (邱榮賢先生)	2nd Floor, No. 36 Lane 333, Ming De Road Taipei Taiwan	Taiwanese

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Residential address	Nationality
Mr. Koo Fook Sun, Louis (顧福身先生)	Flat A, 20th Floor Block 2, Grand Garden 61 South Bay Road Hong Kong	British
Mr. Chiang Chun-Te (江俊德先生)	11-1, No. 56 Tun Hwa South Road Section 2, Taipei Taiwan	Taiwanese

Name	Residential address	Nationality
Mr. Yu Yu-Tang (余玉堂先生)	10/F, No. 32 Chung-An Street Chung Ho City Taipei Taiwan	Taiwanese

AUDIT COMMITTEE

Mr. Koo Fook Sun, Louis (顧福身先生) — Chairman
Mr. Chiang Chun-Te (江俊德先生)
Mr. Yu Yu-Tang (余玉堂先生)

REMUNERATION COMMITTEE

Mr. Koo Fook Sun, Louis (顧福身先生) — Chairman
Mr. Chiang Chun-Te (江俊德先生)
Mr. Chen Hsiang-Jung (陳向榮先生)

NOMINATION COMMITTEE

Mr. Koo Fook Sun, Louis (顧福身先生) — Chairman
Mr. Chiang Chun-Te (江俊德先生)
Mr. Chen Hsiang-Jung (陳向榮先生)

Sponsor	**Polaris Securities (Hong Kong) Limited** Room 1003-1004 10th Floor, Admiralty Centre Tower 1 18 Harcourt Road Admiralty Hong Kong
Joint Bookrunners and Joint Lead Managers	**GC Capital (Asia) Limited** Unit 6503-06 65th Floor, The Center 99 Queen's Road Central Hong Kong
	Polaris Securities (Hong Kong) Limited Room 1003-1004 10th Floor, Admiralty Centre Tower 1 18 Harcourt Road Admiralty Hong Kong
Placing Underwriters	**GC Capital (Asia) Limited** Unit 6503-06 65th Floor, The Center 99 Queen's Road Central Hong Kong
	Polaris Securities (Hong Kong) Limited Room 1003-1004 10th Floor, Admiralty Centre Tower 1 18 Harcourt Road Admiralty Hong Kong
Public Offer Underwriters	**GC Capital (Asia) Limited** Unit 6503-06 65th Floor, The Center 99 Queen's Road Central Hong Kong
	Polaris Securities (Hong Kong) Limited Room 1003-1004 10th Floor, Admiralty Centre Tower 1 18 Harcourt Road Admiralty Hong Kong

Kingsway Financial Services Group Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Sun Hung Kai International Limited
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88 Queensway
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP
39th Floor, Gloucester Tower
The Landmark
11 Pedder Street
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Hong Kong

As to PRC law:
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PRC

As to Taiwan law:
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As to Cayman Islands law:
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Century Yard
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P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Legal advisers to the Sponsor, the Joint Bookrunners and Joint Lead Managers and the Underwriters	*As to Hong Kong law:* **Chiu & Partners** 41st Floor, Jardine House 1 Connaught Place Central Hong Kong
Auditors and reporting accountants	**Deloitte Touche Tohmatsu** *Certified Public Accountants* 26th Floor Wing On Centre 111 Connaught Road Central Hong Kong
Property valuer	**DTZ Debenham Tie Leung Limited** 10th Floor, Jardine House 1 Connaught Place Central Hong Kong
Receiving banker	**The Bank of East Asia, Limited** 10 Des Voeux Road Central Hong Kong

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 the PRC	No. 120 Shixin North Road Xiaoshan Economic and Technological Development Zone Xiaoshan District Hangzhou City Zhejiang Province The PRC
Principal place of business in Hong Kong	Unit 2, 23rd Floor Pacific Plaza 410-8 Des Voeux Road West Hong Kong
Company website addresses	*www.goodfriend.com.cn (Note)* *www.feeler.com.cn (Note)*
Company secretary	Mr. Tse Kam Fai (謝錦輝先生) *ACIS, ACS, MHKSI* House No. A9 Maple Gardens 80 Castle Peak Road Mai Po Yuen Long New Territories Hong Kong
Qualified accountant	Ms. Kong Sau Ha (江秀霞女士) *FCPA, FCCA, ACIS, ACS*
Authorised representatives	Mr. Chen Hsiang-Jung (陳向榮先生) Room 502, 12th Building No. 1, Qinyinyuan Shixin Middle Road Xiaoshan District Hangzhou City Zhejiang Province The PRC

Note: Contents in the websites do not form part of this prospectus

Mr. Tse Kam Fai (謝錦輝先生) *ACIS, ACS, MHKSI*
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Yuen Long
New Territories
Hong Kong

Compliance adviser

Polaris Securities (Hong Kong) Limited
Room 1003-1004
10th Floor, Admiralty Centre Tower 1
18 Harcourt Road
Admiralty
Hong Kong

Principal bankers

Agricultural Bank of China
No. 38 Jianshe Yi Road
Xiaoshan Economic and Technological Development Zone
Xiaoshan District
Hangzhou City
Zhejiang Province
The PRC

Industrial and Commercial Bank of China
No. 54 Chenghe Street
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
Wan Chai
Hong Kong

The information presented in this section is derived from various private and/or publicly available documents. The information and statistics derived from government official publications in this section has not been prepared or independently verified by the Company, the Sponsor, the Underwriters or any of their respective advisers or affiliates.

INTRODUCTION

Machine tool is an essential component of the industrial and manufacturing sectors. It provides equipment for the manufacture of machine and machine parts which are in turn used in the manufacture of a wide range of industrial, consumer and engineering products. Machine tools can be generally divided into several major types: lathes, machining centres, drilling machines, milling machines, transfer machines, grinding machines and honing machines.

The Group's major products fall into the categories of lathes and machining centres.

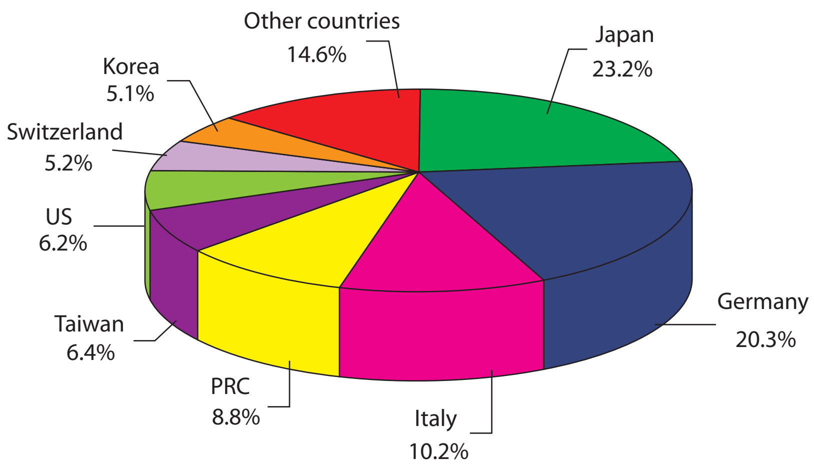
WORLD MACHINE TOOL INDUSTRY

Machine tool production

According to the 2005 World Machine Tool Output & Consumption Survey issued by the Gardner Publications, Inc., the total value of machine tool production by the top 31 countries in 2004 was estimated to be approximately US$45,295.4 million, representing an increase of 23.1% from the total of approximately US$36,787.4 million in 2003. In 2004, Japan, Germany, Italy, PRC, Taiwan, US, Switzerland and Korea were the major production countries which in aggregate accounted for approximately 85.5% of the total machine tool production by the top 31 countries.

The PRC ranked within the five largest machine tool (cutting and forming types) production countries from 2000 to 2004. In 2004, its estimated value of machine tool production reached approximately US$4,000.0 million, representing approximately 8.8% of the total value of machine tool production of approximately US$45,295.4 million by the top 31 countries. The value of machine tool production by the PRC grew at a CAGR of approximately 16.2% from US$2,197.0 million in 2000 to US$4,000.0 million in 2004. Set out below is the chart for machine tools production by the top 31 countries in 2004. It is to note that these 31 countries represented no less than approximately 96.0% of the world machine tool production in 2004.

Machine tool production by top 31 countries in 2004

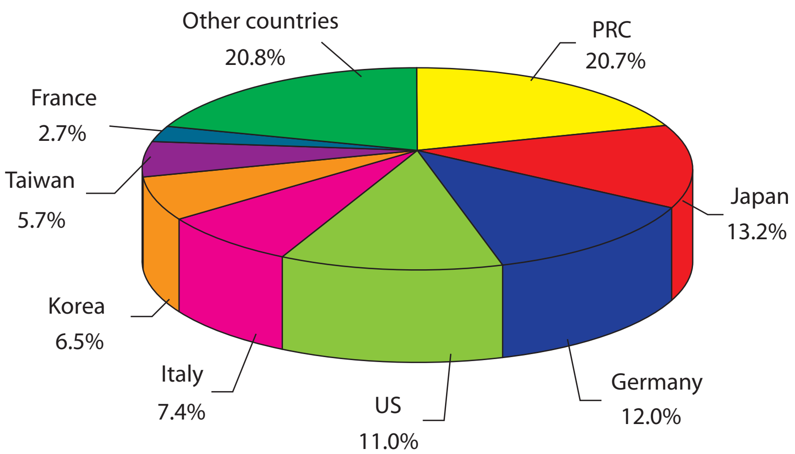


Source: 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

Machine tool consumption

According to the 2005 World Machine Tool Output & Consumption Survey issued by the Gardner Publications, Inc., the total value of machine tool consumption by the top 31 countries in 2004 was estimated to be approximately US$44,780.2 million, representing an increase of 25.6% from the total of approximately US$35,641.0 million in 2003. In 2004, the PRC, Japan, Germany, US, Italy, Korea, Taiwan and France were the major consumption countries which in aggregate accounted for approximately 79.2% of the total machine tool consumption by the top 31 countries.

Total machine tool consumption by top 31 countries in 2004

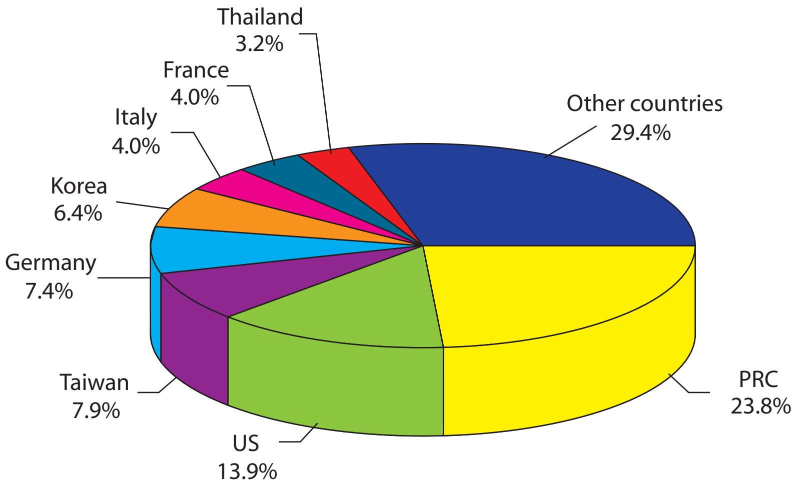


Source: 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

Machine tool import

According to the 2005 World Machine Tool Output & Consumption Survey issued by the Gardner Publications, Inc., the total value of machine tool imports by the top 31 countries in 2004 was estimated to be approximately US$24,304.5 million, representing an increase of approximately 27.2% from the previous year's total of approximately US$19,111.4 million. In 2004, the PRC, US, Taiwan, Germany, Korea, Italy, France and Thailand were the major import countries which in aggregate accounted for approximately 70.6% of the total machine tool imports by the top 31 countries. Set out below is the chart for the machine tool imports by the top 31 countries in 2004.

Machine tool import by top 31 countries in 2004

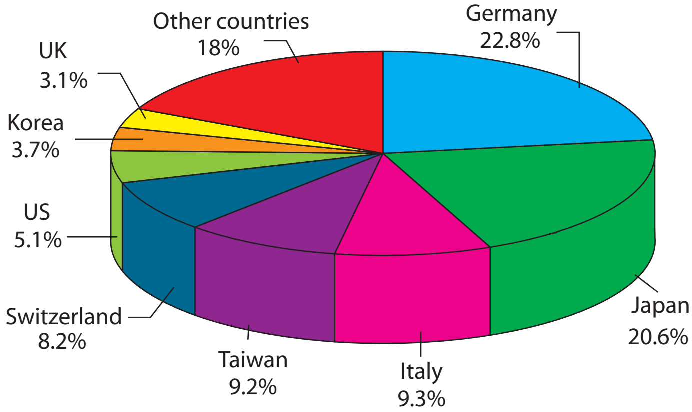


Source: 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

Machine tool export

According to the 2005 World Machine Tool Output & Consumption Survey issued by the Gardner Publications, Inc., the total value of machine tool exports by the top 31 countries in 2004 was estimated to be approximately US$24,820.0 million, representing an increase of approximately 22.5% from the previous year's total of approximately US$20,258.3 million. In 2004, Germany, Japan, Italy, Taiwan, Switzerland, US, Korea and UK were the major export countries which in aggregate accounted for approximately 82.0% of the total machine tool exports by the top 31 countries. Set out below is the chart for the machine tool exports by the top 31 countries in 2004.

Machine tool export by top 31 countries in 2004

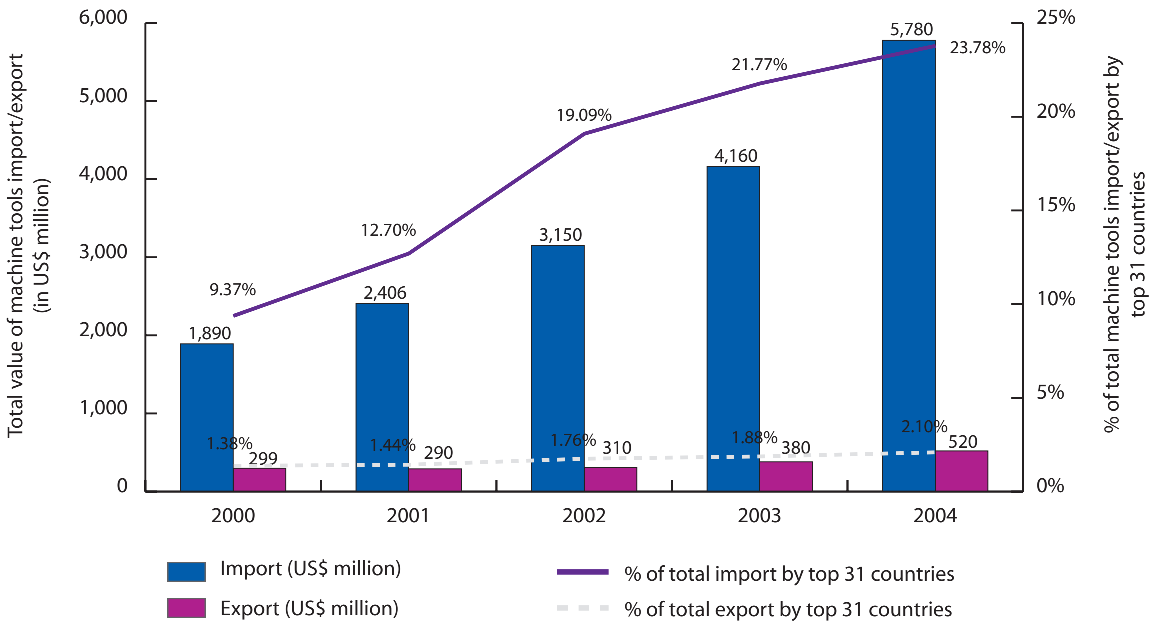


Source: 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

MACHINE TOOL INDUSTRY IN THE PRC

According to the 2005 World Machine Tool Output & Consumption Survey issued by the Gardner Publications, Inc., the PRC was the largest machine tool import and consumption country in the world in 2004.

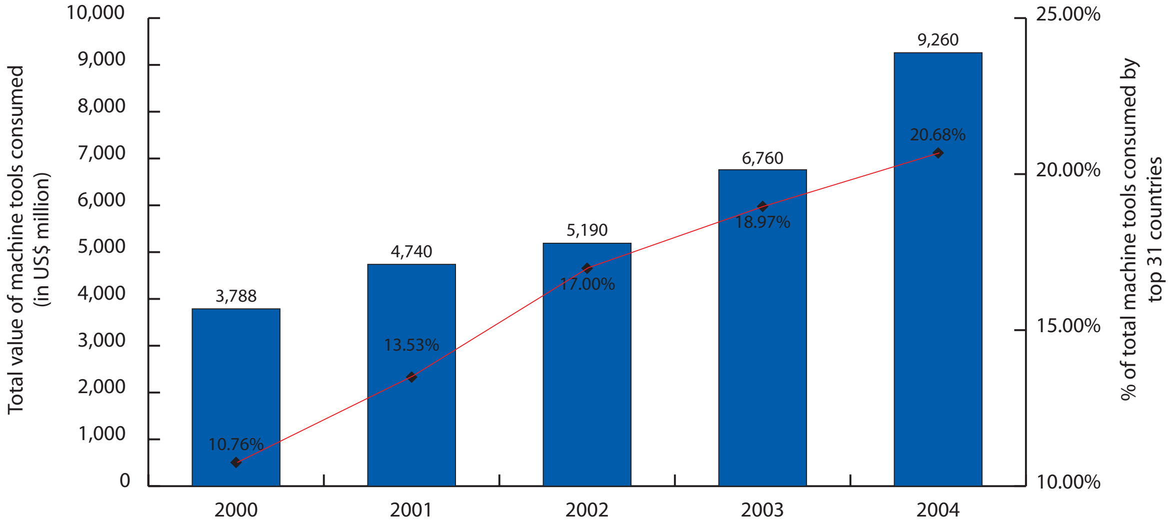
Machine Tool Import and Export in the PRC



Source: 2002 to 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

The PRC was a net importing country of machine tools from 2000 to 2004. The value of machine tools imported by the PRC increased from approximately US$1,890.0 million in 2000 to US$5,780.0 million in 2004, representing a CAGR of approximately 32.2%. Moreover, the portion of worldwide machine tool import by the top 31 countries accounted for by the PRC increased from approximately 9.4% in 2000 to 23.8% in 2004, indicating that the PRC is an increasingly important market of machine tools in the world.

Machine total consumption in the PRC



Source: 2002 to 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

The value of machine tools consumed by the PRC increased from approximately US$3,788.0 million in 2000 to US$9,260.0 million in 2004, representing a CAGR of approximately 25.0%. The portion of worldwide machine tool consumption by the top 31 countries accounted for by the PRC increased from approximately 10.8% in 2000 to 20.7% in 2004, indicating that the PRC is an increasingly important market of machine tools in the world.

FORECAST ON PERFORMANCE OF THE MACHINE TOOL INDUSTRY IN THE PRC

The major factors affecting the development and performance of the machine tool industry in the PRC include (i) the magnitude of the State macro-economic control; (ii) the size of fixed asset investment; (iii) the price of parts and components; and (iv) the development of the industries of the major users of machine tools. The table below indicates the relationship between the growth rate of the machine tools consumption, the GDP and investment in fixed assets in the PRC.

	Year			
	2001	**2002**	**2003**	**2004**
Growth rate of machine tool consumption (%) #	25.1	9.5	30.3	40.0
Growth rate of GDP (%) *	7.5	8.3	9.3	9.5
Growth rate of investment in fixed assets (%) *	12.1	16.1	27.7	25.8

Sources:

\# 2002 to 2005 World Machine Tool Output & Consumption Survey, Gardner Publications, Inc.

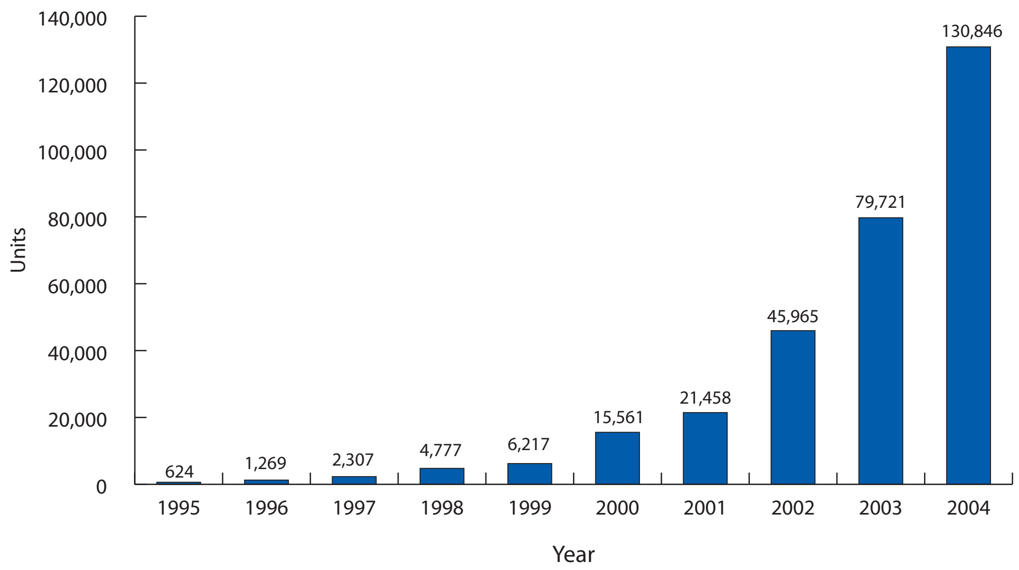
* China Statistical Book compiled by National Bureau of Statistics of China

As illustrated above, the growth speed of the machine tool consumption is closely linked with the growth rate of GDP and the investment in fixed assets in the PRC. However, the State macro-economic control on the size of capital investment is expected to have a negative impact on the growth of the consumption of the machine tools. Also, it is also expected that any increase in the price of parts and components would lead to an increase in the price of machine tools and hence affect the demand of machine tools.

PARKING GARAGE STRUCTURES IN THE PRC

Parking garage structure is a structure that can increase the number of car parking spaces and enhance the economic efficiency of the use of land as a parking lot. The development of parking garage structure in the PRC experienced a rapid growth in the last decade. As illustrated from the chart below, the number of car parking spaces in mechanical parking garage structures in the PRC recorded a CAGR of approximately 70.29% from 2000 to 2004.

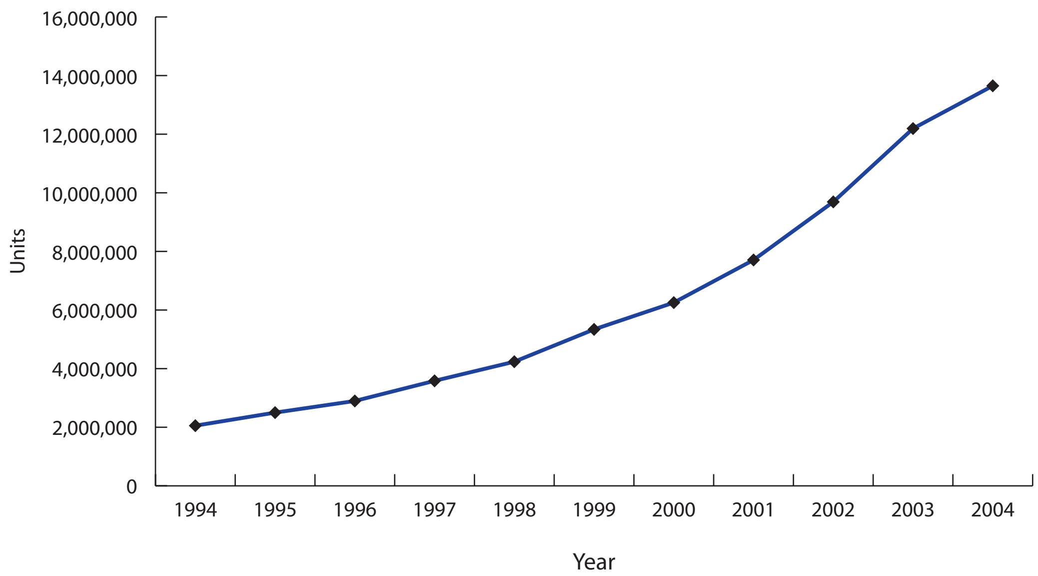
Number of car parking units in mechanical parking garage structures in the PRC



Source: Car Parking Market Statistical Reports (2003 and 2004), issued by Shandong Sanding Development Co. Ltd.

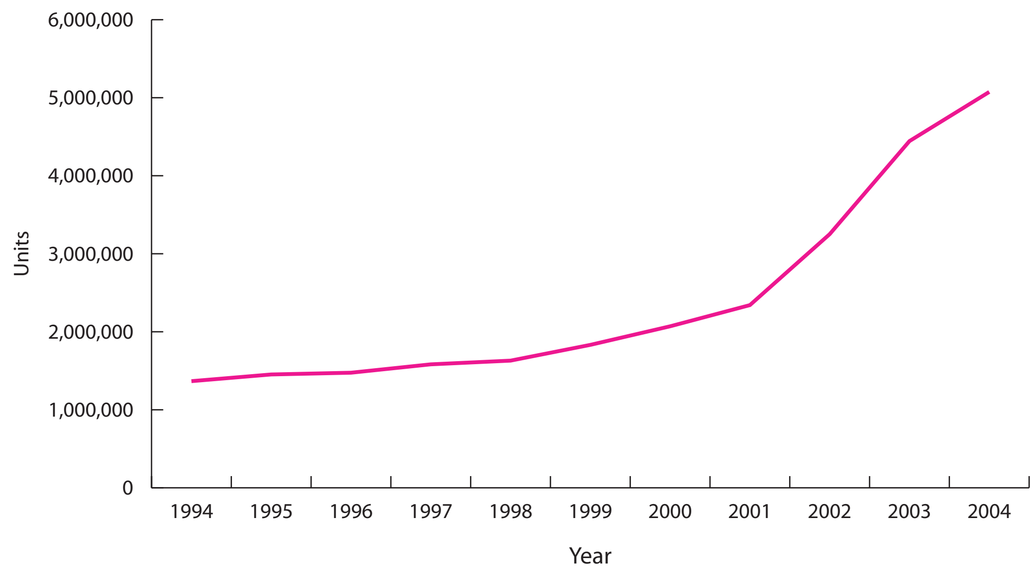
The development of parking garage structures is closely linked with the sales and ownership of motor vehicles. The charts below illustrate the number of private-owned motor vehicles and the output of motor-vehicles in the PRC from 1994 to 2004:

Number of private-owned motor vehicles in the PRC from 1994 to 2004



Source: 2003 China Statistical Book compiled by National Bureau of Statistics of China and the Statistical Communique of the PRC on the 2004 National Economic and Social Development

Output of vehicles in the PRC from 1994 to 2004



Source: 2003 China Statistical Book compiled by National Bureau of Statistics of China and the Statistical Communique of the PRC on the 2004 National Economic and Social Development

As demonstrated in the charts above, the ownership of motor vehicles has risen sharply, representing a CAGR of approximately 18.79% from 1994 to 2004. As a result of the increase in ownership of motor vehicles, there is increasing demand for car parking spaces. In particular, according to 2004 Car Parking Market Statistical Reports issued by Shandong Sanding Development Co. Ltd., in certain densely populated areas in the PRC, the number of motor vehicles far exceeds the number of car parking spaces available. For instance, in 2004, there were about 2.30 million motor vehicles registered in Beijing but there were only 1.09 million car parking spaces available. There was also a big difference between the number of motor vehicles and the number of car parking spaces in Shanghai. In 2004, there were about 920,000 motor vehicles registered in Shanghai whereas there were only about 349,000 car parking spaces. As the three-dimensional mechanical car parking structures can effectively increase the number of car parking spaces on a plot of land, one can expect that the demand for three-dimensional mechanical car parking structures will also increase.

FORKLIFT TRUCK INDUSTRY IN THE PRC

Forklift trucks can be generally divided into two major categories by the use of energy source: electric forklift trucks and internal combustion forklift trucks. The fuel used by internal combustion forklift trucks include diesel, gas oil and liquefied petroleum gas.

Forklift trucks are a kind of industrial trucks that can be used to lift and convey heavy objects. Forklift trucks can be used in all spectrums of industries, in particular, in manufacturing factories, warehouses, supermarkets and piers. Accordingly, the development of forklift trucks is closely linked with the industrial performance and in particular, the manufacturing industry and the logistics industry.

During the 1990s', the demand for forklift trucks was relatively low and the annual demand remained at below 20,000 units. In 2000, the sales of forklift trucks started to increase rapidly. The table below shows the sales volume of forklift trucks in the PRC during the period from 2000 to 2004.

	2000		**2001**		**2002**		**2003**		**2004**	
	Units	*%*	*Units*	*%*	*Units*	*%*	*Units*	*%*	*Units*	*%*
Internal combustion forklift trucks	17,173	84	19,723	82	26,145	83	36,843	84	47,493	84
Electric forklift trucks	3,312	16	4,262	18	5,484	17	6,795	16	9,186	16
Total	20,485	100	23,985	100	31,629	100	43,638	100	56,679	100

Source: China Mechanical Equipment Industry Report on Industrial Forklift Trucks (April, 2005) issued by Off-Highway Research

It can be noted from the above figures that sales of internal combustion forklift trucks dominated the forklift trucks market in the PRC which accounted for more than 80% of the total sales. Because of the increasing environmental protection awareness, it is expected that the demand for electric forklift trucks will increase in the coming years.

OVERVIEW

The Group is 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. The design, production and sales of the Group's products are undertaken by three specialised business divisions, namely, the machine tools division, the parking garage structures division and the forklift trucks division. During the Track Record Period, substantially all of the Group's sales was made to the PRC market. The table below shows the turnover of the Group by product types during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Machine tools	95,988	75.32%	207,975	81.18%	308,140	81.18%	131,484	81.82%	201,739	77.54%
Parking garage structures	30,178	23.68%	43,178	16.85%	52,425	13.81%	22,426	13.95%	34,227	13.15%
Forklift trucks	1,271	1.00%	5,034	1.97%	19,025	5.01%	6,800	4.23%	24,218	9.31%
Total turnover	127,437	100.00%	256,187	100.00%	379,590	100.00%	160,710	100.00%	260,184	100.00%

Since its inception in 1993, the Group's headquarters has been located at Xiaoshan Development Zone. The industrial complex there also houses the Group's manufacturing base. The Group's customers primarily consist of manufacturers from various industries including automobile manufacturing, mechanical manufacturing, mould processing and electrical products industries . As at the Latest Practicable Date, the Group had 17 liaison offices across the PRC to co-ordinate its distribution network and to provide business liaison services to its customers.

HISTORY AND DEVELOPMENT

Taiwan FF, the ultimate holding company of the Company, was incorporated in Taiwan in March 1979.

At its early stage of incorporation, a majority stake of the shareholding of Taiwan FF was controlled by Mr. Chu and his relatives. At that time, Mr. Chu and his relatives, together with Mr. Chen Hsiang-Jung, owned more than 85% interests in Taiwan FF. As at 31 December 1986, there were only nine shareholders in Taiwan FF. In 1987, the number of shareholders of Taiwan FF increased from nine to 45 as a result of its merger with another Taiwan company and shares in Taiwan FF were issued to the original shareholders of that Taiwan company. From 1989 to 1995, Taiwan FF has further enhanced its capital base and broadened its shareholders' base by issuing new shares to a number of individuals and corporations (which also included employees of the Taiwan FF Group). As at 31 December 1995, the number of shareholders of Taiwan FF was further increased to 695. As at 31 December 2004, the number of shareholders of Taiwan FF was further increased to 953 and one of the reasons of such increase was that a corporate shareholder of Taiwan FF was liquidated and its shares in Taiwan FF were distributed to its shareholders.

The number of shareholders of Taiwan FF has been changing from time to time. As advised by the Company's legal advisers as to Taiwan law, according to Taiwan law, a company incorporated under the Company Act of Taiwan shall not include any provision prohibiting or restricting the transfer of its shares in its constitutional documents. As at the Latest Practicable Date, Taiwan FF had 963 shareholders.

In the early 1990s', the Taiwan FF Group started to explore the machine tools market in the PRC by establishing Hangzhou GF, through Hong Kong GF, in the PRC on 23 September 1993. At the time of its establishment, the name of Hangzhou GF was 杭州友佳機械有限公司 (Hangzhou Good Friend Machinery Co., Ltd.) and the registered capital of Hangzhou GF was US$1,500,000 which was wholly owned by Hong Kong GF. Hong Kong GF has been owned as to approximately 99.99% by Taiwan FF since its incorporation.

Since its establishment, Hangzhou GF has mainly concentrated on the exploration of the PRC markets for machine tools and parking garage structures.

Having gained certain industry knowledge in the machine tool and parking garage structure markets in the PRC, Hangzhou GF started the construction of the first phase of its production base at Xiaoshan Development Zone with a total gross floor area of approximately 5,689.76 sq. m. including workshop and ancillary office building in preparation for the development and expansion of its machine tool division and parking garage structure division in January 1996. The construction of the first phase of the production base was completed in November 1996.

In 1997, Hangzhou GF established its own machine tool manufacturing team and its own parking garage structure division. Prior to the establishment of its own manufacturing arm, the Group had been distributing products (principally machine tools) sourced from the Taiwan FF Group.

On 29 April 1997, the management committee of Xiaoshan Economic and Technological Development Zone approved the change of Hangzhou GF's name to its present name "杭州友佳精密機械有限公司" (Hangzhou Good Friend Precision Machinery Co., Ltd.) and to increase its registered capital from US$1.5 million to US$2.5 million.

In June 2000, Hangzhou GF started to construct the second phase of production base at Xiaoshan Development Zone with a total gross floor area of approximately 9,700.46 sq. m. so as to increase the production capacity of the Group, which was targeted to accommodate the anticipated increasing demands. The construction of the second phase of production base was completed in May 2001.

On 18 June 2000, 蕭山經濟技術開發區經濟發展局 (economic development bureau of Xiaoshan Economic and Technological Development Zone) approved the increase in the registered capital of Hangzhou GF from US$2.5 million to US$8.0 million. In November 2004, the entire registered capital of US$8.0 million has been fully paid up by Hong Kong GF.

Leveraging on the customer base gained from the machine tool division businesses, Hangzhou GF started to undertake marketing activities for a new line of business of forklift trucks in 2002. Hangzhou GF also started to expand its production base so as to house all its three business divisions at the same location.

In 2003, the design and manufacture of CNC machining centres and CNC lathes management system and the design, manufacture, installation and after-sales services management system of parking systems were accredited with ISO 9001:2000 accreditation. In June 2003, the construction of the third phase of the Group's production base at Xiaoshan Development Zone was completed with a total gross floor area of approximately 9,744.04 sq. m.. In view of the increasing demand for the Group's products, Hangzhou GF also planned to further expand its production base and to construct an office complex at Xiaoshan Development Zone in 2003.

Hangzhou GF completed the construction of its fourth phase production base in May 2004 with a total gross floor area of approximately 11,169.41 sq. m.. An ancillary industrial building in phase I with a gross floor area of approximately 3,037 sq. m. was completed in May 2005. During the year, the forklift truck business division of Hangzhou GF was accredited with ISO 9001:2000 accreditation for its design and manufacturing system. Hangzhou GF was also accredited with 2003 年度企業信用等級 AAA 級 (AAA Grade Credit Level Enterprise in 2003) in June 2004 in recognition of its financial soundness.

On 5 September 2005 and as part of the reorganisation of the Group in preparation for the Share Offer and the Listing, Winning Steps entered into a sale and purchase agreement with Hong Kong GF pursuant to which Winning Steps acquired the entire registered capital of Hangzhou GF from Hong Kong GF in consideration of and in exchange for the allotment and issue, credited as fully paid, of 100 shares of US$1 each of Winning Steps to Hong Kong GF. The management committee of Xiaoshan Economic and Technological Development Zone approved such transfer on 6 September 2005. Upon completion of such transfer, Hangzhou GF became a wholly owned subsidiary of Winning Steps.

On 29 November 2005, the management committee of Xiaoshan Development Zone approved Hangzhou GF to increase its total investment from US$14.5 million to US$20.5 million and to increase its registered capital from US$8.0 million to US$11.0 million. Pursuant to such approval, Hangzhou GF is required to contribute 15% of the increased portion of the registered capital within three months from the issue of the new business licence and the remaining 85% of the increased portion of the registered capital within two years from the issue of the new business licence. As at the Latest Practicable Date, the new business licence of Hangzhou GF had not been issued.

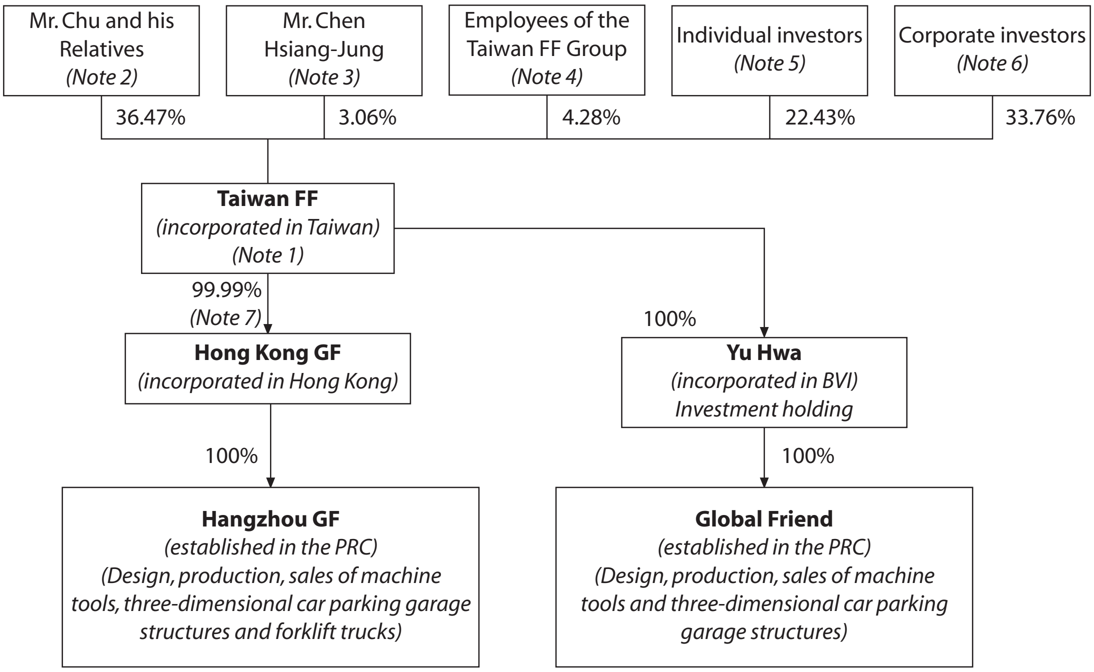
On 22 December 2005, the Company acquired the entire issued capital of Yu Hwa from Taiwan FF in consideration and in exchange for the allotment and issue, credited as fully paid, of 90 Shares to Hong Kong GF (as directed by Taiwan FF). Yu Hwa is an investment holding company which holds the entire interests in Global Friend. Global Friend was established in Hangzhou in the PRC on 7 December 2004 with a registered capital of US$10 million out of which US$1.5 million had been paid up as at the Latest Practicable Date. The remaining balance of US$8.5 million is expected to be paid up by the second half of 2007 and will be financed partly by the net proceeds from the Share Offer and partly by the internal resources and/or bank borrowings. The business scope of Global Friend includes the production and sale of CNC machine tools and three-dimensional car parking garage structures. The products, production facilities and customers of Global Friend are intended to be structured similar to those of Hangzhou GF. Accordingly, such acquisition is in line with the Group's plan to expand its existing production capacity of the Group's products and enjoy the benefits from economy of scale.

The Company's legal advisers as to PRC law are of the view that, pursuant to 《中華人民共和國外資企業法》(Law of the PRC on Wholly Foreign-Owned Enterprise), the Group's investment in Hangzhou GF and Global Friend are in compliance with the relevant laws and regulations in the PRC.

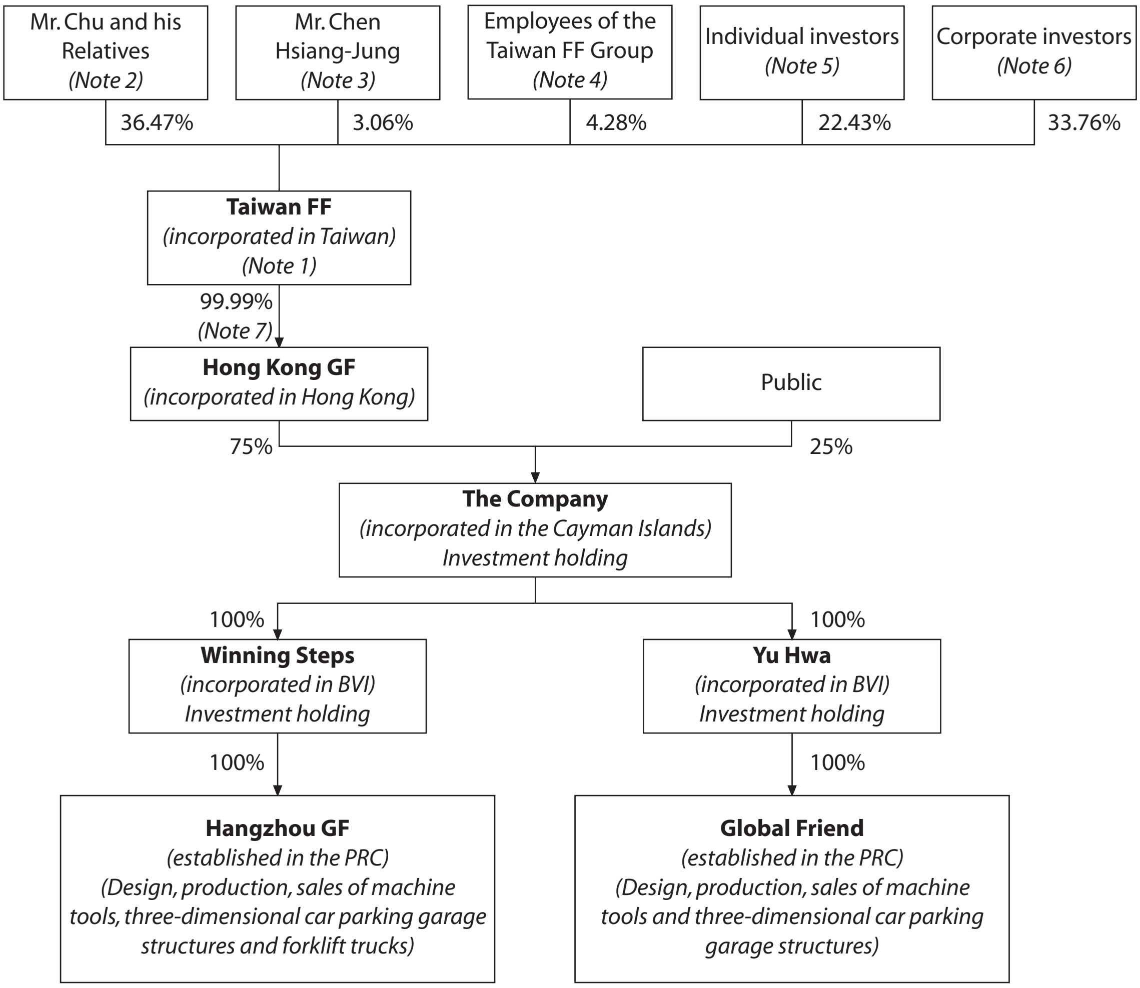
The reorganisation steps including those referred to above are described in more details in the section headed "Corporate reorganisation" in Appendix VI to this prospectus.

GROUP STRUCTURE

The following chart sets out the corporate structure of the Group before the implementation of the Reorganisation, the Share Offer and the Capitalisation Issue:



The following chart sets out the corporate structure of the Group immediately after completion of the Reorganisation, the Share Offer and the Capitalisation Issue:



Notes:

1. The shareholding structure of Taiwan FF as shown in the corporate structure charts above were compiled based on the register of shareholders of Taiwan FF as at the Latest Practicable Date. As at the Latest Practicable Date, Taiwan FF had 963 shareholders. The Company's legal advisers as to Taiwan law confirmed that Taiwan FF's shareholding structure with respect to the number of its shareholders was legal under the relevant Taiwan laws.

2. Mr. Chu is the Chairman of the Board and an executive Director. Included in this category are the shareholdings in Taiwan FF of Mr. Chu and his Relatives which include his wife, children, sisters, brothers-in-law, uncles, aunts, cousins and nieces. Based on the history of shareholding in Taiwan FF, Mr. Chu and his Relatives are considered as a group of persons consolidating control over Taiwan FF and thus regarded as controlling shareholders of the Company under the Listing Rules. Particulars of the lock-up period applicable to each of the Controlling Shareholders are set out in the section headed "Substantial shareholders and undertakings" in this prospectus.

The respective percentage shareholding held by Mr. Chu and his Relatives in Taiwan FF as at the Latest Practicable Date was as follows:

Name	Shareholding *(%)*
Mr. Chu	15.4440
Ms. Wang Jin-Zu	3.0693
Mr. Lin Yung-Yin	4.5801
Ms. Chu Hsu-Niu	1.3577
Ms. Lu Hui-Wen	0.0711
Mr. Lee Jui-Kuang	0.9655
Ms. Chu Na-Mei	2.7576
Ms. Lu Hui-Shiun	0.0849
Ms. Tsai Shu-Ping	1.1212
Mr. Chu Yi-Wei	2.3805
Ms. Chu Pih-Yin	1.5545
Mr. Chu Yi-Chia	0.2116
Mr. Lee Le-Shen	0.0636
Ms. Chu Chiou-Yu	0.0813
Ms. Chu Bao-Yu	0.5272
Ms. Lin Chu Shiou-Ying	0.1157
Mr. Lin Nan-Kuo	0.0293
Mr. Lin Jih-Tung	0.2371
Ms. Chu Cheng-Sing	0.5769
Mr. Chang Chun-Tang	0.6609
Mr. Lin Win-Hui	0.1229
Ms. Tsai Shiag-Tin	0.1417
Mr. Lin Jih-Shing	0.1555
Mr. Lin Jih-Shen	0.1555
Total:	36.4656

3. Mr. Chen Hsiang-Jung is an executive Director and a director and the general manager of Hangzhou GF.

4. As at the Latest Practicable Date, there were 107 shareholders in this category. The Directors confirm that all the employees of the Taiwan FF Group included in this category are Independent Third Parties. Save for Mrs. Ling Wang Tsai who had an interest of approximately 1% in the issued share capital of Taiwan FF, none of them had a holding of more than 1% equity interest in Taiwan FF as at the Latest Practicable Date.

5. As at the Latest Practicable Date, there were 785 shareholders in this category. The individual investors included in this category are Independent Third Parties and none of them had a holding of more than 1% equity interest in Taiwan FF as at the Latest Practicable Date.

6. As at the Latest Practicable Date, there were 46 shareholders in this category. The corporate investors included in this category are Independent Third Parties and save for Xinyi Enterprise Company Limited (信誼企業(股)公司) (holding 1.71% of the issued share capital of Taiwan FF), Jishengmei Industrial Company Limited (吉盛美實業有限公司) (holding 2.21% of the issued share capital of Taiwan FF), Hengli Enterprise Company Limited (恆力企業股份有限公司) (holding 2.31% of the issued share capital of Taiwan FF), Litong Venture Company Limited (利通創業投資(股)公司) (holding 2.57% of the issued share capital of Taiwan FF), Fengtai Enterprise Limited (豐泰企業(股)公司) (holding 1.71% of the issued share capital of Taiwan FF), CITIC-Prudential Life Insurance Company (保誠人壽保險(股)公司) (holding 1.19% of the issued share capital of Taiwan FF), Nishio Investment Financial Kabushiki Kaisha (日商日本投資財務株式會社) (holding 3.28% of the issued share capital of Taiwan FF), Singapore

Shangou Rex Investment Pte (新加坡商歐力士投資暨經營私人有限公司) (holding 1.42% of the issued share capital of Taiwan FF), Nishio Asia Investment Company Limited (日商日本亞洲投資股份有限公司) (holding 4.68% of the issued share capital of Taiwan FF), Yongchang Enterprise Company Limited (嶸昌企業(股)公司) (holding 2.34% of the issued share capital of Taiwan FF), Baolian Electric Machine Industrial Company Limited (保聯機電工業(股)公司) (holding 2.52% of the issued share capital of Taiwan FF) and Hetong Venture Investment Company Limited (和通創業投資(股)公司) (holding 3.17% of the issued share capital of Taiwan FF), none of them had a holding of more than 1% of the issued share capital of Taiwan FF as at the Latest Practicable Date. Based on the written confirmations from each of the corporate shareholders (except for six corporate shareholders who in aggregate were interested in approximately 3.08% in the issued share capital of Taiwan FF), these corporate shareholders are not considered acting in concert (within the meaning of Takeovers Code) with each other and accordingly, their shareholding interest in Taiwan FF should not be aggregated to form a group of persons consolidating control over Taiwan FF.

7. As at the Latest Practicable Date, approximately 99.99% of the issued share capital of Hong Kong GF was held by Taiwan FF and the remaining approximately 0.01% of the issued share capital of Hong Kong GF was held by Mr. Lin Yung Yin, who is Mr. Chu's cousin and a shareholder of Taiwan FF.

PRODUCTS

The Group is 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. For the year ended 31 December 2004, the sale of CNC machine tools accounted for approximately 81.18% of the turnover of the Group while the sale of three-dimensional car parking garage structures and forklift trucks accounted for the remaining approximately 13.81% and 5.01% of the Group's turnover respectively.

Each of these product lines is taken care of by a specialised business division of the Group led by different experts in the relevant areas.

CNC machine tools

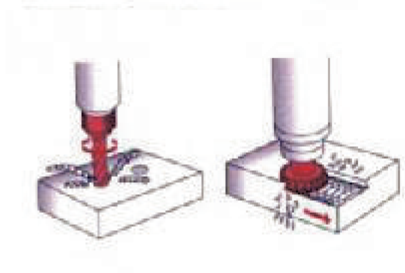
The Group manufactures and sells a variety of CNC machine tools with different features, which are customised in accordance with the requirements and specifications of the Group's customers. All of the Group's machine tools manufactured during the Track Record Period were fully automated and could be controlled by the use of a computer numerical controller, which was installed on the outer surface of the machine tools. The Group's CNC machine tools can be broadly classified into two major categories, namely, vertical machining centres and lathes.

(1) *Vertical machining centres*

The vertical machining centres work in a way that the workpiece is placed inside the machining centre and will remain stationary whilst it is cut, drilled and grinded by the cutting tool that moves over the workpiece. A cutting tool bank is installed in each vertical machining centre manufactured by the Group. Appropriate cutting tool (i.e. blades and cutters) will be automatically exchanged from the bank during the process in accordance with the programs set in the computer numerical controllers. Generally speaking, vertical machining centers are best used for the production of workpieces with flat surfaces.

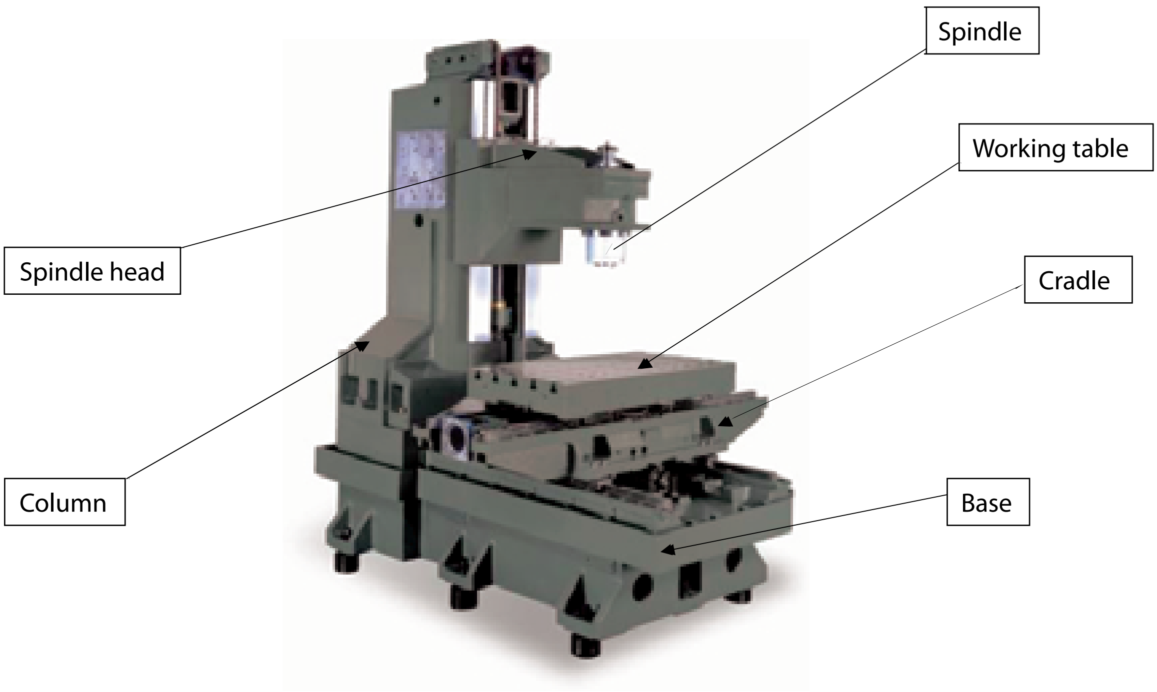
The drawings below illustrate how a vertical machining centre works:

Workpiece remains stationary, cutting tool moves over workpiece



Vertical machining centres

The vertical machining centres are available in various models featuring different configurations to suit the varying needs of the Group's customers. According to customers' specifications, the Group may configure the features or functions of the vertical machining centres ordered by such customers in the design process. The features commonly customised to satisfy customers' needs include the working table area, the working table maximum workload, the spindle speed, the spindle taper hold, the spindle motor and the tool changing time. These vertical machining centres are fully automated by a computer numerical controller and can be programmed to, for instance, cut, drill and grind workpieces to their desired shape and size. Major parts of the Group's vertical machining centre are shown in the following diagram:



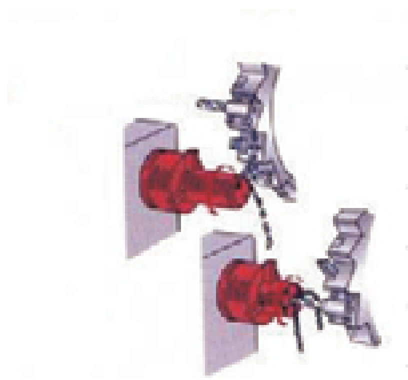
Building on its technique and technology in vertical machining centres, the Group also designs and produces integrated production lines for manufacturers who have higher processing and production requirements. An integrated production line works in a way where several vertical machining centres performing different part of processing are set up in a linear position. The processing of workpiece starts with the first vertical machining centre in the production line. The partly-finished workpiece will be passed to the next vertical machining centre in the production line automatically via conveyance belt or manually, depending on the requirements of the customers to continue the processing process.

The Group also designs and produces flexible manufacturing cell ("FMC") for its customers. FMC is a kind of vertical machining centre which is equipped with more than one working table and is able to perform different processes on different workpieces on each working table at one time without the requirement to reposition the workpieces. As such, FMC can increase the production capacity of the machine tools.

(2) *Lathes*

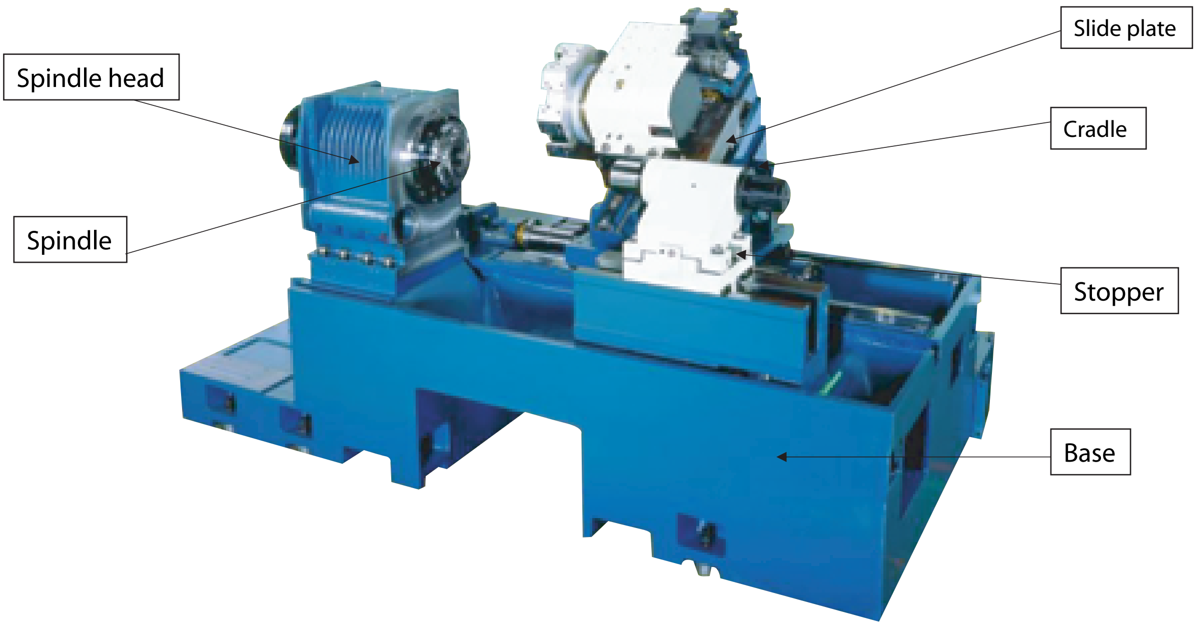
Generally speaking, the workpiece is rotated or moved around the cutting tool that remains stationary inside the lathe to produce the smooth circular effect. The drawing below illustrates how a lathe works:

Position of cutting tool remains stationary,
workpiece rotates and moves over the cutting tool



Lathes

Similar to the vertical machining centres, the CNC lathes are also available in various models featuring different specifications such as maximum swing and turning diameter, spindle speed, spindle motor and tool changing time. The CNC lathes are also fully automated by a computer numerical controller. A cutting tool bank is also installed in each lathe. However, CNC lathes are best used for the production of three-dimensional circular objects. Major parts of the Group's lathe are shown in the following diagram:

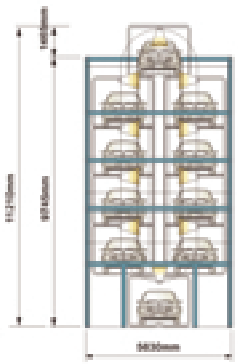


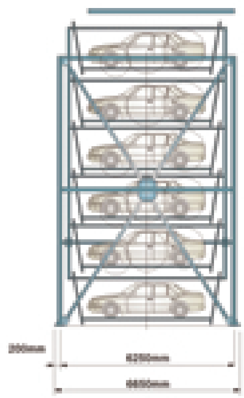
Parking garage structures

The Group's three-dimensional car parking garage structures can be broadly classified into six types of car-parking system, namely, the vertical circulation system, multi-level circulation system, horizontal circulation system, elevator system, two-storied/multi-storied system and the automobile elevator, to suit various conditions such as size and economical efficiency of the land used as a parking lot. These car-parking systems have been used in residential buildings, commercial and office buildings, hotels and shopping malls.

(1) *Vertical circulation system*

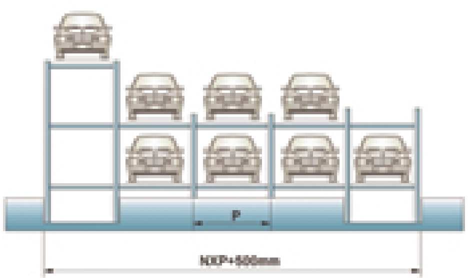
This system involves connecting and rotating platforms for parking automobiles in an oval shape in the vertical plane. The automobile enters the system using the bottom loading method and will be lifted and rotated up the system. Such system utilises two horizontal car parking spaces to station eight to 10 automobiles depending on different models.

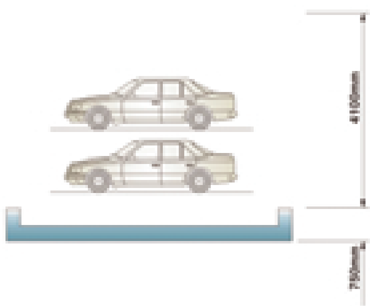




(2) *Multi-level circulation system*

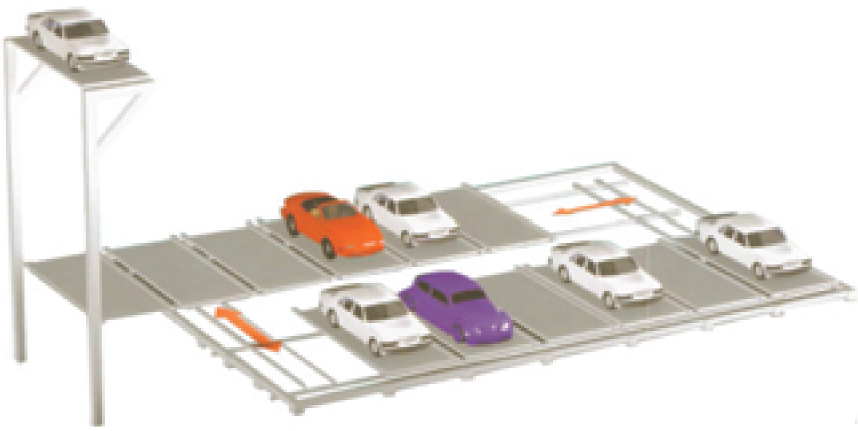
This system involves connecting and rotating platforms for parking automobiles in a box rotation system in the horizontal plane. The automobile will enter or exit using the elevator at the top end of the system and be rotated along the system.





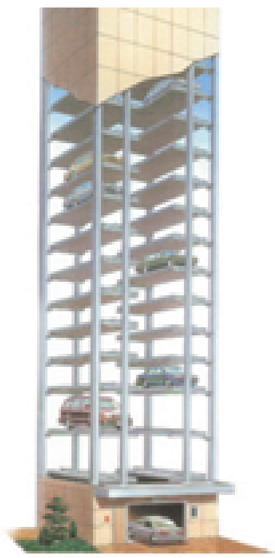
(3) *Horizontal circulation system*

This system utilises the underground space below the building on the horizontal plane with the intent of reducing the space required for parking by eliminating automobile passageway and thus increasing the number of automobiles that may be parked in a given horizontal area. This system involves installing numerous parking conveyors on the horizontal plane in two rows in a box rotation system with an elevator whereby the automobile will be lifted up/down to/from the ground floor entrance.



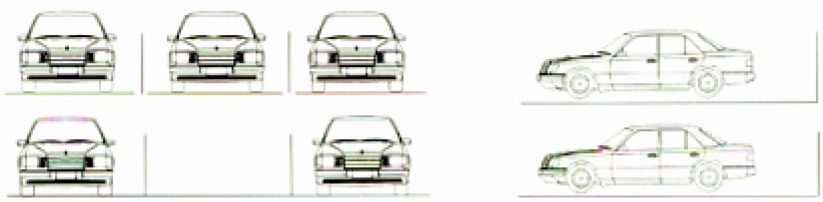
(4) *Elevator system*

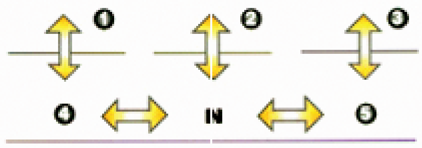
The elevator system involves a combination of an automobile elevator and the parking space for automobiles storage to allow parking of automobiles on different levels of platforms. The elevator may be positioned between platforms on both sides in the lengthwise axis or in the width axis. Movement of the automobiles from the elevator into the parking space is achieved by an automatic conveyor.



(5) *Two-storied/multi-storied system*

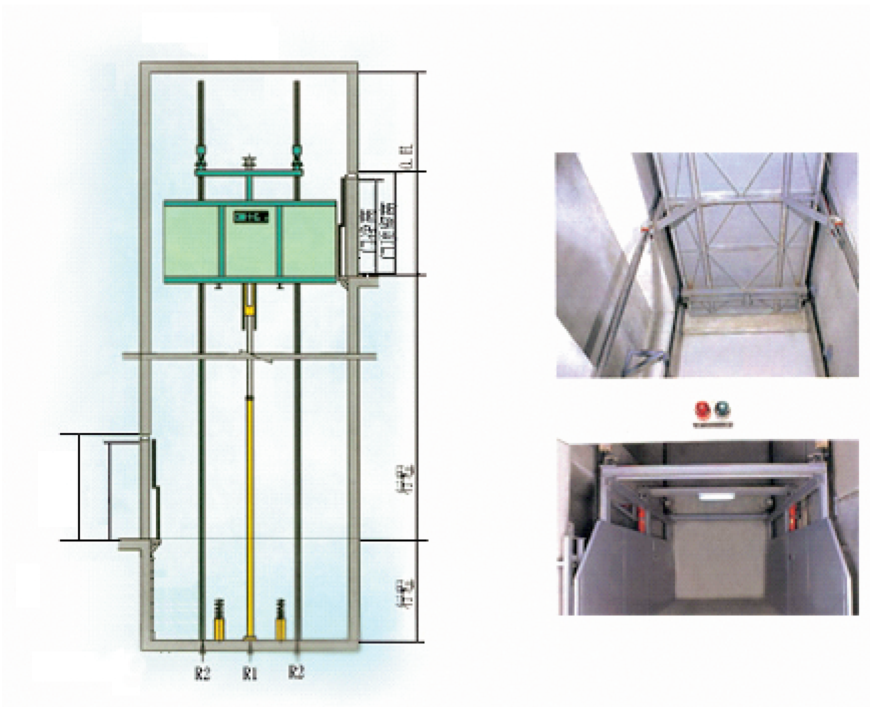
The two-storied system involves parking an automobile either above or below another automobile in order to increase parking efficiency with a chain-typed lift used to hoist the automobiles and a shift conveyor to move automobiles in the lower tier to the left or right so that the automobiles may enter or exit randomly. The multi-storied system is the expanded applications of this two-storied system.





(6) Automobile elevator

An automobile elevator constitutes a part of the automobile passageway and is used to hoist and convey the automobile to the level at which it will be parked.



Forklift trucks

The Group designs, assembles and sells diesel forklift trucks. Forklift trucks manufactured and distributed by the Group can meet the needs of many different industries and are principally used for delivery of objects to unmanned locations within an area such as a warehouse or a factory complex.

Diesel forklift trucks

Each type of forklift trucks is available in various capacities, performance and configurations to fit each customer's specific application and industry needs. Diesel forklift trucks require special fuel storage facilities. The lifting capacity of the Group's forklift trucks ranges from one tonne to five tonnes.

PRODUCTION

Production facilities

The Group's production base is located at Xiaoshan Development Zone. It has a total gross floor area of approximately 39,340.67 sq. m., of which 34,981.53 sq. m. is used for production, 1,220.40 sq. m. is used for administrative purpose and 3,138.74 sq. m. is currently subject to two separate leases which will expire on 31 December 2005. The production base houses the manufacturing facilities of each of the three specialised business divisions of machine tools, parking garage structures and forklift trucks. During the Track Record Period, the Group did not enter into any sub-contracting activity involved in production of the Group's products.

The Directors consider that the enhancement of the Group's production facilities has contributed to the increased efficiency in production and growth in size, revenue and profit of the Group. The following table shows the estimated normal production capacity, the actual production volume and the utilisation rate of the production capacity of each of the business division of the Group during the Track Record Period:

	Estimated normal production capacity (in units) *(Note 1)*				**Actual production volume (in units)**				**Utilisation rate (in %)** *(Note 2)*			
	Year ended 31 December			**Six months ended 30 June**	**Year ended 31 December**			**Six months ended 30 June**	**Year ended 31 December**			**Six months ended 30 June**
Product	**2002**	**2003**	**2004**	**2005**	**2002**	**2003**	**2004**	**2005**	**2002**	**2003**	**2004**	**2005**
Machine tools	500	850	1,000	606	195	492	697	464	39.0%	57.9%	69.7%	76.6%
Parking garage structures	1,300	2,816	3,379	2,064	1,224	2,214	2,920	1,909	94.2%	78.6%	86.4%	92.5%
Forklift trucks	—	300	838	500	—	245	785	465	0.0%	81.7%	93.7%	93.0%

Notes:

1. The estimated normal production capacity is computed on the basis of eight hours per man day in full capacity.

2. Utilisation rate is computed by dividing actual production volume by estimated normal production capacity.

3. Set out below is the average number of workers involved in the manufacturing process of each of the business divisions of the Group during the Track Record Period:

	Average number of workers			
	Year ended 31 December			**Six months ended 30 June**
Product	**2002**	**2003**	**2004**	**2005**
Machine tools	96	184	277	311
Parking garage structures	38	53	72	84
Forklift trucks	—	20	54	73
Total	134	257	403	468

4. Set out below is the approximate gross floor area of each development phase of the production base at Xiaoshan Development Zone during the Track Record Period:

Phase	Completion of construction	Commencement of production	Approximate gross floor area (sq. m.)
First	November 1996 and May 2005*	April 1997	8,726.76
Second	May 2001	September 2001	9,700.46
Third	June 2003	October 2003	9,744.04
Fourth	May 2004	September 2004	11,169.41

* the construction of the extension was completed in May 2005

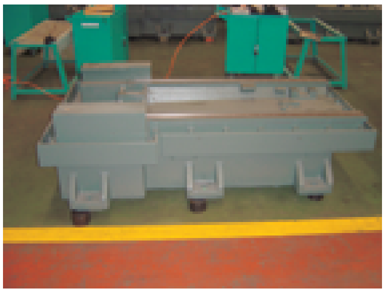
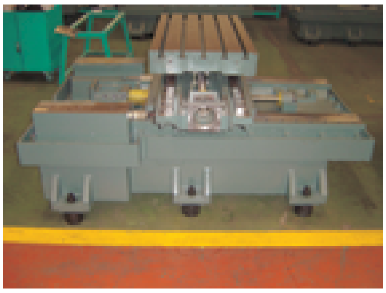
Production process

Each of the Group's products undergoes different production process. The following chart illustrates the production process for each of the Group's principal products.

Machine tools

The following flow chart summarises the principal steps involved in the production process of the Group's machine tools:

1. Pre-assembling processing of parts and components by the Group's production technicians

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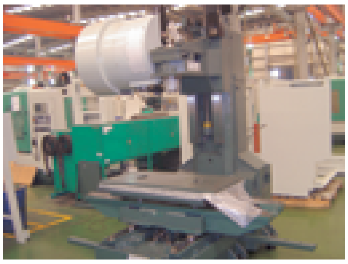
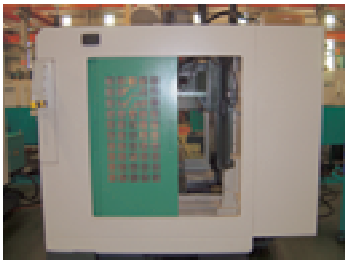
2. Different stages of assembling of parts and components by the Group's production technicians





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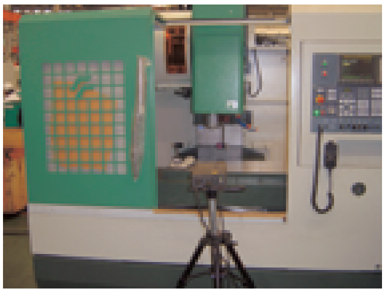
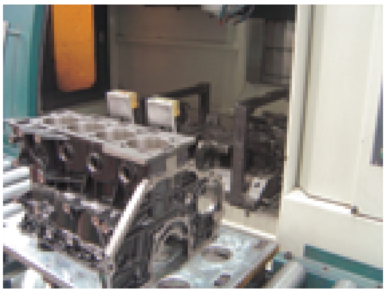
3. Precision tuning and testing by the Group's technical staff and pre-delivery test by the customer





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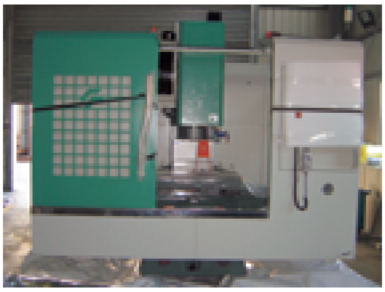
4. Packaging



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5. Delivery of machine tools to customer

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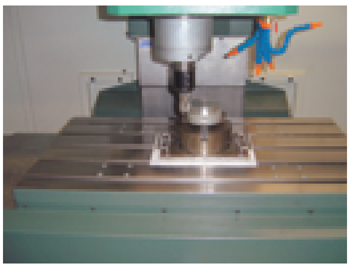
6. On-site installation by the Group's technical staff and trial run by the customer



The production of machine tools is a labour intensive process. In general, the lead time between the production and the delivery of machine tools is about two to three months. Given that each of the machine tools is customised in accordance with the requirements and specifications of the relevant customer, the Group's production capacity in machine tools depends largely on the number, experience and expertise of the production workers retained by the Group. The production capacity may also be restricted by the complexity of the design of the machine tools and the floor areas required for assembling the machine tools in the production base of the Group. During the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group sold 191 units, 479 units, 707 units and 454 units of machine tools respectively.

Parking garage structures

The following flow chart summarises the principal steps involved in the production process of the Group's parking garage structures:

1. Design of the parking garage structures in accordance with customers' specifications

↓

2. Processing of steel parts and other components by the Group's production technicians

↓

3. Delivery of semi-finished parts and components to the site

↓

4. Installation of parking garage structures by the Group's technical staff on site and trial run test

After receiving an order for the parking garage structure, the Group will process the necessary steel parts and other components at the production base at Xiaoshan Development Zone in accordance with the structural design of the car parking garage system. The Group will then deliver the semi-finished parts and components to the site to assemble and install the parking garage structure on site. In general, depending on the complexity of the design of the parking garage structures, it requires about three to seven months for the Group to complete the construction of parking garage structures which have car parking spaces ranging from 300 to 800 units. During the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group has completed sales of three-dimensional parking garage structures which consisted of 1,224 units, 2,214 units, 2,920 units and 1,909 units of car parking spaces respectively.

The production capacity of the parking garage structures depends on the number, experience and expertise of the workers.

Forklift trucks

The production process of the Group's forklift trucks principally involves assembling of different parts and components sourced by the Group from selected suppliers. In general, the lead time between the production and delivery of the Group's diesel forklift trucks is about one month. The production capacity of the Group in forklift trucks depends largely on the number, experience and expertise of the production workers and the floor areas required for assembling the forklift trucks in the production base of the Group. During the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group has completed sales of 116 units, 227 units, 613 units and 480 units of forklift trucks (including both diesel forklift trucks and electric forklift trucks) respectively.

Manufacture licence

The PRC authorities adopt a manufacture licensing system for certain special equipment. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) ("AQSIQ") is responsible for the overall supervision of the manufacture licensing system, while the Bureau of Quality and Technical Supervision (質量技術監督局) at a provincial level is in charge of organisation and implementation and the regional Bureau of Quality and Technical Supervision conducts inspection and prosecution according to law.

Pursuant to《機電類特種設備製造許可規則(試行)》(Rules Relating to the Manufacture Licences of Special Electrical and Mechanical Equipment (Trial)), manufacture licences are required for the manufacture of parking garage structures and forklift trucks. As advised by the Company's legal advisers as to PRC law, the Group has obtained the necessary manufacture licences for the manufacture of parking garage structures and forklift trucks (including the class A manufacturing licence) in accordance with《特種設備製造許可單位基本條件》(Basic Requirements for Approved Manufacturing Unit of Special Equipment).

No manufacture licence is required for the Group's machine tools as they are not regarded as special equipment pursuant to《機電類特種設備製造許可規則(試行)》(Rules Relating to the Manufacture Licences of Special Electrical and Mechanical Equipment (Trial)).

As advised by the Company's legal advisers as to PRC law, the operations of the Group (which include the manufacture and sale of CNC machine tools, three-dimensional car parking garage structures and forklift trucks) has been and is in compliance with all relevant laws and regulations in the PRC.

Industry standards

The Bureau of Quality and Technical Supervision of the PRC has issued a national standard (GB 17907-1999) for the design and manufacture of mechanical parking systems. The Group's parking garage structures are required to be designed and installed in accordance with such national standard.

The Group also obtained CE certification for its diesel forklift trucks (model number FD20T, 25T and 30T).

Utilities

Currently, the most important utility used by the Group is electricity. During the Track Record Period, the Group did not experience any significant disruption in its operations due to serious shortage of electricity.

To cope with the difficulties the Group may encounter during electricity shortage or control, the Group has installed its own electricity back-up power system in its production facilities at Xiaoshan Development Zone.

RESEARCH AND DEVELOPMENT

At the early stage of its development, the technology and know-how applied in its production process mainly came from the Taiwan FF Group. After the Group has set up its own manufacturing arms for each of its business divisions since 1997, the Group has also built up its own research and development teams for each business division and does not rely on any technology or know-how from the Taiwan FF Group.

The research and development department of the Group is responsible for the design of the structures and conformations of the products in accordance with the requirements and specifications of customers. The Group places considerable emphasis on research and development with a view to improving the quality and accommodating the needs of different customers. In particular, given that the machine tools of the Group serve a spectrum of manufacturers from different industries, its ability to customise its machine tool products according to the needs of customers is crucial to the success of the Group.

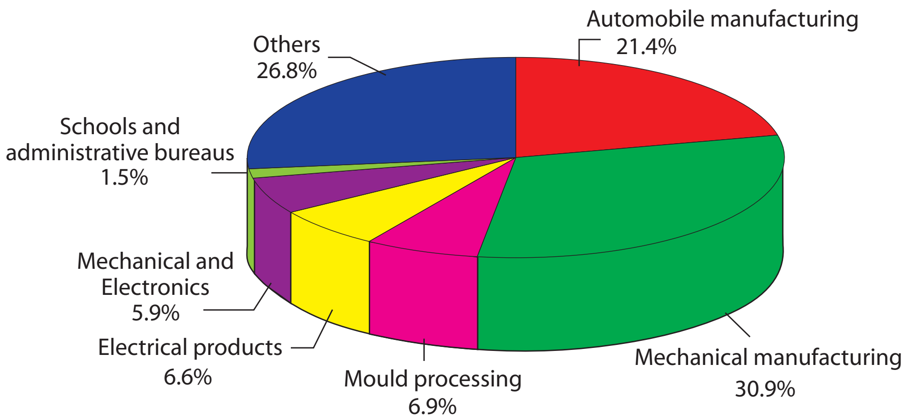
As at the Latest Practicable Date, the Group had 39 employees in its research and development who are specifically responsible for the three business divisions. Most of the research and development personnel of the Group have completed tertiary education in mechanics.

Business division	**Number of employees**
CNC machine tools	18
Parking garage structures	13
Forklift trucks	8
Total:	39

SALES AND CUSTOMERS

Customer base

During the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group had over 200, 450, 850 and 600 customers respectively, comprising mainly manufacturers from various industries in the PRC. The pie chart below sets out the category of the Group's major customers for the year ended 31 December 2004:



The major customers/end users for each of the Group's products include:

Description of the business of the Group's customers	Products sold by the Group
Automobiles, mould processing, mechanical and electronics products	Machine tools
Real estate developers	Parking garage structures
End users from different industries which require conveying bulky objects within an area (such as inside a warehouse)	Forklift trucks

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group's sales to its five largest customers, which are Independent Third Parties, together accounted for less than 30% of the total sales of the Group. The Group has had business relationships with its major customers ranging from one to seven years.

Pricing policy

The Group's pricing policies are largely driven by the following factors:

— production costs

— market demand and supply

— prices for competitive products

Prices generally vary depending on the degree of complexity and precision of the product. The Group conducts research into market conditions and trends, which will be taken into account in determining the ex-factory price for its products. All of the Group's sales are conducted on a CIF (or cost-insurance-freight) basis. Therefore, the selling prices include insurance and transportation costs to the particular locations of customers. The Group generally aims to ensure that its product prices are competitive when compared to other products of a similar degree of complexity and precision.

Due to the intense competition in the industrial sector in the PRC market, the Group has reduced its selling price for its major products per unit in particular, the machine tools. The average selling price of the major series of machine tools for the year ended 31 December 2004 has been reduced by approximately 23.6% from that for the year ended 31 December 2002. The sales of such series of machine tools amounted to approximately 54.10%, 42.71%, 49.30% and 45.54% of the total turnover of the Group for the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively.

Credit policy and control

Given that the production lead time is different in the machine tools, parking garage structures and forklift trucks, payment terms for the sales of each of these products, which are divided into various phases and linked to the delivery schedule of each contract, are different.

With a view to monitoring the recoverability of trade receivables, the Group prepares aging analysis for its trade receivables which is submitted to the management on a periodic basis. Provisions will be made for bad and doubtful debts if the recoverability of long outstanding trade receivables is considered doubtful. Please refer to the paragraph headed "Critical accounting policies" under the section headed "Financial information" in this prospectus for details.

Substantially all of the Group's sales are made to the PRC and the Group usually requires its PRC customers to settle their payments to the Group by way of telegraphic transfer in RMB with different credit terms given. Such credit terms, ranging from 30 days to 90 days are determined based on the length of relationship and settlement history of the customer.

Machine tools

Generally, the payment of the sales of machine tools will be made by customers in three installments. Approximately 30% of the total contract sum will be paid upon signing of the sales contract after confirmation on the design of the machine tools. Customers will pay the second installment of the contract sum, which usually represents about 60% of the total contract sum, on the delivery of the products to the customers. After the acceptance of the machine tools by the customers, there is usually a six-month trial run period of the machine tools. The remaining 10% of the contract sum will be paid after the expiry of such trial run period.

Parking garage structures

In general, payment of the sales of parking garage structures will be made by customers in four installments. Approximately 30% of the total contract sum will be paid upon signing of the sales contracts. The design of the parking garage structures will also be confirmed by the customers by then. The second installment of about 30% of the total contract sum will be paid when the Group orders the materials such as steel plates for the parking garage structures. Customers will pay the third installment of the contract sum, which usually represents about 30% of the total contract sum, upon installation of the parking garage structures on site. The remaining 10% of the contract sum will be paid after the expiry of the trial run period which is generally one year after completion of the installation.

Forklift trucks

Generally, customers of forklift trucks will be required to pay about 30% of the total contract sum upon the signing of the sales contract and the remaining 70% of the contract sum will be settled upon delivery.

After-sales services and provision of warranty

In respect of the machine tools and parking garage structures manufactured by the Group, the Group will normally be responsible for installation and the provision of after-sale services such as repair and maintenance services. Generally speaking, the Group provides a one-year warranty period to its customers for the products manufactured by the Group. Within the warranty period, the Group provides repair and maintenance services to its customers free of charge and, in most cases, the relevant expenses are borne by the Group except for the replacement of the whole or certain parts of the defective machinery that are under the warranty period offered by the Group's suppliers (in such case, the respective suppliers will be responsible for the replacement or provision of the requisite parts for replacement). In this connection, the Group will make a warranty provision of 0.5% (as regards machine tools products) and 1.5% (as regards parking garage structures and forklift trucks) of the total contract amount. In determining the appropriate level of provision, judgments are required to be made concerning the level of repair and maintenance. For the Track Record Period, there was no material excess in the warranty provision and hence, no written back of such provision has been made in the combined income statements of the Group.

Upon completion of the free warranty period, customers of the Group may continue to contract with the Group to provide repair and maintenance services. In respect of such contracted repair and maintenance services, the Group charges a service fee to its customers determined on a case-by-case basis, normally based on the type of products requiring such services. In addition, the Group will also provide repair and maintenance services to its customers who have not maintained repair and maintenance services contract with the Group. Service fees in such cases are charged to customers based on the estimated time costs incurred by the service engineers of the Group, and such service fees, together with the amount charged for materials used, are recorded as other revenues in the Group's income statement.

MARKETING AND PROMOTION

As at the Latest Practicable Date, the Group had 17 liaison offices covering various cities in the PRC, such as Beijing, Shanghai, Chongqing and Guangzhou to co-ordinate its distribution network and provide business liaison services to the customers. As at the Latest Practicable Date, there were

198, 75 and 29 staff (including business liaison and administrative staff) working in the liaison offices of the Group for the business divisions of machine tools, parking garage structures and forklift trucks respectively. The Group's sales staff located in different liaison offices pay visits to its existing customers and potential customers for marketing purposes in their designated areas and are required to prepare reports to the head liaison office constantly to report on the findings on such visits. In addition to physical visits, the Group regularly sends update of the Group's products to its customers through emails.

In order to encourage and reward its sales and marketing staff, the Group has implemented an in-house incentive programme, under which, rewards will be given to those staff who have attained the personal target set by the Group. The Directors consider that the implementation of such incentive programme boosts the morale of the sales and marketing staff, which in turn, helps to increase the revenue of the Group. As at the Latest Practicable Date, there were altogether 302 staff stationed at the Group's 17 liaison offices.

The Group participates in various trade fairs in the PRC from time to time. Major trade fair in which the Group has participated during the Track Record Period included 首屆機床工業發展(杭州)論壇暨浙台數控機床行業合作研討會 (The First Forum on Zhejiang machine tools development and Zhejiang-Taiwan CNC machine tools industry co-operation seminar). Through attending and participating in trade fairs, the Group is able to enhance its corporate image and also promote the Group's products. The Group is also able to keep abreast of the needs of the customers, thus enabling the Group to derive strategies to better serve its customers. Apart from participating in trade fairs and organising seminars, the Group also advertised its products in industry magazines.

PROCUREMENT

Suppliers

Major parts and components used by the Group include computer numerical controllers, castings, cutting tools, engines and steel. The computer numerical controller is the device through which the users of the machine tool programmes the vertical and/or horizontal application function and movement of the machine tool. The cutting tools include the cutters and blades which are used to cut, drill, polish or otherwise transform the objects which are placed on the working table of a machine tool into different shapes or with special features.

During each of the three years ended 31 December 2004 and the six months ended 30 June 2005, purchases from the five largest suppliers accounted for approximately 72.05%, 71.43%, 68.23% and 64.79% of the total purchases for the respective periods. Among the top five suppliers, the Taiwan FF Group was the Group's largest supplier during the Track Record Period. During the Track Record Period, the Taiwan FF Group assisted the Group in sourcing parts and components, namely computer numerical controllers, castings and other auxiliary materials in Taiwan for the Group's production of machine tools in Hangzhou. During the Track Record Period, the annual amount of purchase from the Taiwan FF Group was approximately RMB32.63 million, RMB90.07 million, RMB120.71 million and RMB79.36 million respectively, representing approximately 42.62%, 46.73%, 41.52% and 37.39% of the total purchases made by the Group of the respective year/period.

During the Track Record Period, the major parts and components, except for computer numerical controllers and castings, were mainly sourced from Independent Third Parties. It is the plan of the Group to shift procurement of parts and components towards other suppliers, who are Independent Third Parties, in the PRC in order to reduce its reliance on suppliers in Taiwan after the Listing. Still, after the Listing, the Group will continue to source parts and components from suppliers in Taiwan directly.

Two executive Directors, Mr. Chen Hsiang-Jung and Mr. Chen Min-Ho, were previously directors of some of the members of the Taiwan FF Group and have more than 20 years and 15 years of experience in the industry respectively. Mr. Wen Chi-Tang, currently the vice manager of the CNC machine tools division of the Group, also has about 10 years of experience in the machine tools industry. All of them have close relationship with the Taiwan suppliers and are familiar with both the requirements of the Group and the products of the Taiwan suppliers. In addition, the Group has designated two staff in its procurement team to specifically handle the purchasing of parts and components directly from the Taiwan suppliers, such as inspecting and monitoring the quality of the parts and components in Taiwan. The Group has also compiled a list of Taiwan suppliers and has started to obtain quotation for the parts and components it requires from such suppliers. In view of the expertise of the executive Directors in the industry and the above arrangements, the Directors do not foresee any difficulty in procuring the necessary parts and components directly from such suppliers in Taiwan without assistance from the Taiwan FF Group. As at the Latest Practicable Date, the purchasing team of the Group which forms part of the procurement department of the Group comprised 14 staffs and was responsible for handling purchases from suppliers in both the PRC and overseas. During the Track Record Period, purchases of the Group from overseas suppliers accounted for approximately 42.3%, 48.4%, 40.7% and 40.5% of the total purchases of the Group respectively whereas purchases of the Group from local suppliers accounted for approximately 57.7%, 51.6%, 59.3% and 59.5% of the total purchases of the Group respectively.

None of the Directors, their respective associates and Shareholders who own more than 5% of the issued share capital of the Company immediately after the Share Offer and the Capitalisation Issue had any interest in any of the five largest suppliers of the Group (except for the Taiwan FF Group) for each of the three years ended 31 December 2004 and the six months ended 30 June 2005.

During the Track Record Period, the Group has not entered into any agreement for long-term supply of parts and components, or experienced any significant shortage in materials supply. The Group determines the quantity of parts and components to be purchased according to customer's orders and the production plan formulated by the production department of each business division.

For the parts and components purchased from local suppliers, purchases are generally denominated in RMB and are mainly settled by telegraphic transfers, cheques or bank remittances. For the parts and components purchased from overseas suppliers or distributors, purchases are mainly denominated in US$. Credit terms of 30 to 60 days are generally granted by the Group's suppliers to the Group.

Inventory control

During the Track Record Period, the Group generally performed physical stock-take on its inventory once every year. During the physical stock-take, all damaged, defective or obsolete inventory items are identified and written off. Inventories are regarded as obsolete when they are considered not saleable or no longer suitable for production usage. An inventory loss of approximately RMB2.23 million was recognised for the year ended 31 December 2003. The loss represented cost of certain parts and components of parking garage structures division, which had been purchased for the development of a new model of parking garage structure during 2002. In 2003, the management of the Group decided not to pursue development of that model and hence the relevant parts and components were disposed of and written off.

Provisions for inventory will also be made when there are slow-moving or obsolete stock items. No provision for inventory was made for the two years ended 31 December 2003. Inventory provision made for the year ended 31 December 2004 and for the six months ended 30 June 2005 amounted to approximately RMB0.69 million and RMB0.38 million, respectively.

Please refer to the paragraph headed " Critical accounting policies" under the section headed "Financial information" in this prospectus for details.

The inventory turnover days of the Group for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 were approximately 88.74 days, 120.48 days, 144.87 days and 126.64 days. The inventory turnover days have been increasing since the year ended 31 December 2002, due to (a) the maintaining of a larger quantity of parts and components to avoid the instability in supply and prices of parts and components; and (b) the increase in finished goods as a result of the increase in sales volume of the Group's products.

INSURANCE

The Group maintains the following types of insurance in respect of its operations:

- product liability insurance in respect of its parking garage structures up to an aggregate amount of RMB20 million;
- fixed assets insurance up to an aggregate amount of approximately RMB94.5 million;
- inventory insurance up to an aggregate amount of RMB130 million; and
- PRC domestic goods transport insurance up to an aggregate amount of RMB608 million.

The Directors consider that the Group's insurance coverage is sufficient and is in line with industry practice. The Group has not had any claim or liabilities arising from any accidents relating to its operations and any major production interruption during the Track Record Period.

QUALITY ASSURANCE

The Group places substantial emphasis on the quality control of the products. The following management systems of the Group's business divisions have been accredited with ISO 9001:2000 accreditation:

CNC machining centres and CNC lathes	Design and manufacture
Parking systems	Design, manufacture, installation and after-sale services
Forklifts (three tonnes below)	Design and manufacture

The Group's quality assurance staff carry out quality control inspection at various checkpoints:

- when necessary parts and components are delivered to the Group's warehouse;
- during the course of production;
- when the production process is finished; and
- as regards CNC machine tools and parking garage structures, when on-site installation is finished.

RECOGNITIONS AND AWARDS

In addition to the above accreditations, the Group received numerous awards, certificates and recognition for its quality and reputation over the years. The following is a list of the major awards and certificates granted to the Group:

Recognitions and Awards	Year of Award	Awarding authority
外商投資先進技術企業 (Foreign-invested Advanced Technology Enterprise)	May 2004	浙江省對外貿易經濟合作廳 (MOFCOM of Zhejiang Province)
杭州市蕭山區2003年度先進集體 (Advanced Entity in Xiaoshan District, Hangzhou Province in 2003)	January 2004	杭州市蕭山區人民政府 (The People's Government of Xiaoshan District, Hangzhou Province)

Recognitions and Awards	Year of Award	Awarding authority
2003年度企業信用等級AAA級（AAA Grade Credit Level Enterprise in 2003)	June 2004	浙江眾誠資信評估有限公司 Zhejiang Zhongcheng Zixin Appraisal Company Limited 蕭山企業信用等級評定委員會 Xiaoshan Credit Level Enterprise Appraisal Committee
2004 浙江省最具成長性中型企業100佳（The Best 100 Zhejiang's Medium-sized Enterprises with the Greatest Growth 2004)	August 2004	浙江省中小企業協會（Zhejiang Association of Small and Medium-sized Enterprises) 浙江省統計學會（Zhejiang Academy of Statistics)
浙江省工商企業信用A級守合同重信用單位（Grade A Trustworthy Enterprise Award in Zhejiang)	January 2005	杭州市工商行政管理局蕭山分局 (State Administration Industry of Commerce of Xiaoshan branch, Zhejiang)
質量管理體系模範企業（Quality Management System Model Enterprise)	March 2005	杭州市蕭山區人民政府（The People's Government of Xiaoshan District, Hangzhou Province)
高新技術企業（New and High Technology Enterprise)	March 2005	浙江省科學技術廳 The Chamber of Zhejiang Science and Technology

INTELLECTUAL PROPERTY

The Group has registered certain trademarks and patents in the PRC. Further details of the intellectual property rights of the Group are set out in the paragraph headed "Intellectual property" under the section headed "Further information about the business" in Appendix VI to this prospectus.

Pursuant to the terms of the Trademark Licence Agreement, Taiwan FF has irrevocably granted to Hangzhou GF a licence to use four trademarks, namely, FEELER, [illegible], 友嘉 and FEELER. The Trademark Licence Agreement can only be terminated by Hangzhou GF with the consent of all the independent non-executive Directors. Each of the Company's legal advisers as to PRC law and Taiwan law has advised that the trademark licence arrangement is in compliance with the relevant laws and regulations in the PRC and Taiwan respectively. Details of the Trademark Licence Agreement are set out in the sections headed "Relationship with the Taiwan FF Group" and "Connected transactions" in this prospectus.

TRAINING

The Directors believe that experienced and professional personnel are critical to the Group's growth and success. Accordingly, the Group provides various on-the-job technical training to both of its manufacturing staff stationed at the production base at Xiaoshan Development Zone so that such staff will know their responsibility in the production process and the requirements of the Group clearly. On the other hand, the Group's three business divisions organise various internal training sessions to its sales staff so as to familiarise the sales staff with the special features of the Group's products and to keep the sales staff abreast of the Group's latest product development and capabilities.

LEGAL PROCEEDINGS

The Directors are not, to the best of their knowledge, aware of any litigation or arbitration proceedings pending or threatened against the Group or any of the Directors which could have a material adverse effect on the Group's financial position or results of operations.

COMPLIANCE

During the Track Record Period, the Group's purchases from Taiwan FF, through Hong Kong GF, amounted to approximately RMB32.63 million, RMB90.07 million, RMB120.71 million and RMB79.36 million. Such purchases were subject to certain regulations in Taiwan imposing restriction on trading activities between a Taiwan entity and a PRC entity.

According to Article 5 of the Regulations Governing Permitted Trade between Taiwan Area and Mainland Area before amendments on 13 February 2002 (the "Old Regulations"), any trade between Taiwan and the PRC, unless otherwise provided by law, should be conducted in an indirect way through a company in a third region. Before amendment to Article 5 of the Old Regulations, if a PRC company would like to order products from a Taiwan company, it must order the products from a third region company and then have the third region company source the relevant products from such Taiwan company.

After amendment to Article 5 of the Old Regulations on 13 February 2002 (the "New Regulations"), any trade between Taiwan and the PRC may be conducted directly and the seller or buyer can be a company in the PRC provided, however, that the shipment of the goods must still be via a third region or an offshore shipment center. Pursuant to the New Regulation, a PRC company may enter into a contract directly with a Taiwan company to order products (without routing through a third region company) provided that the shipment of the goods by the Taiwan company to the PRC company is through a third region.

During the Track Record Period, for Hangzhou GF to purchase products from Taiwan FF, Taiwan FF first sold and shipped the products to Hong Kong GF and Hong Kong GF would then ship the products under its own name, to Hangzhou GF. The Company's legal advisers as to Taiwan law advised that such business arrangements between Taiwan FF, Hong Kong GF and Hangzhou GF during the Track Record Period complied with the relevant regulations in Taiwan.

COMPETITION

The principal product of the Group is CNC machine tools, which accounted for over 75% of the annual turnover of the Group during the Track Record Period. The Directors consider that the machine tool industry is highly competitive.

Locally, the Group competes with local PRC machine tool manufacturers and also foreign invested enterprises which are engaging in the machine tool manufacturing business. Internationally, the Group's machine tool products also compete with those made in countries and regions which, as considered by industry players, are of higher quality and precision. These countries and regions include the US, Germany, Italy, Switzerland, Japan, Korea and Taiwan. As stated in the section headed "Risk factors" in this prospectus, although these international players are targeting at market segments which are different from those of the Group, machine tool products manufactured by such international players compete with those of the Group to a certain extent.

The Directors consider that the Group's major competitors are those foreign invested enterprises engaging in the machine tool manufacturing business. These major competitors, mainly comprising Taiwan-funded, Korea-funded and Japan-funded foreign investment enterprises, compete with the Group not only for market share but also for locally available parts and components and for skilled personnel in the manufacturing process. However, the Directors believe that the Group has edges over its competitors. These edges are more particularly set out in the paragraph headed "Competitive strengths" under this section below.

The Directors believe that the increase in the prices of the locally available parts and components during the Track Record Period was a result of the intense competition for such parts and components and the competition has also resulted in the decrease in selling price of the Group's products per unit during the Track Record Period.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is attributable to the following principal factors:

- **The Group is committed to maintaining the quality of its products**

The Directors consider that maintaining the quality and high precision level of the Group's CNC machine tools is an important factor for determining the competitiveness of the Group. Accordingly, the Group is committed to maintaining the quality of all its products. Throughout the years, each of the Group's three business divisions has been accredited with ISO9001:2000 in their respective design and manufacturing management systems. In addition, Hangzhou GF, the principal operating subsidiary of the Group during the Track Record Period, was also named as a "Quality Management System Model Enterprise" by the People's Government of Xiaoshan District, Hangzhou Province in March 2005.

All such accreditations and awards prove the Group's commitment and capability to maintain the quality of its products.

- **The Group has established its own distribution network in the PRC which is taken care of by specialised sale teams**

The Group's strategy is to provide a wide product range and quality after-sale support to its customers. The Group has established 17 liaison offices covering various cities in the PRC, such as Beijing, Shanghai, Chongqing and Guangzhou. These 17 liaison offices are responsible for co-ordinating the distribution network and providing business liaison services to existing and potential customers. Specialised sales teams are set up to look after particular markets and products for each business division. Through specialisation, each sales team has a better insight of the Group's products of which they are in charge and a better and direct understanding of the particular needs of the customers, which the Directors consider distributors and/or agents may not be able to provide.

Through its customer relationships and the Group's own customer database which is compiled based on information collected by the Group's sales and marketing staff during physical visits to customers, the Group is able to gain insights into industry developments and devise its research and development plans ahead to capture future business opportunities when they arise.

The Group's business liaison staff of each liaison office are required to attend training sessions organised by the Group's manufacturing headquarters at Xiaoshan Development Zone so that they can keep abreast of the Group's latest product development and capabilities so as to better serve the Group's customers. In addition, the Directors believe that the physical visits, coupled with the regular circulation of product updates by emails, also help the Group to develop a closer relationship between the Group and its customers.

The Group has devised a set of complaint handling procedures so that customers' complaints and responses are properly attended to by the Group's appropriate personnel. This, the Directors believe, has gained confidence from customers.

- **The Group is led by experienced management with strong industry, operational and technological expertise**

Each of the Group's business divisions is led by a separate senior management team. The Group's senior management team has years of experience in the mechanics industry, and in particular the machine tools industry. The Directors believe that under the leadership of the Group's senior management team, the Group is well positioned to encounter the ever-changing markets and competition in the industry.

Details of the qualifications and experience of the Directors and senior management in the Group are set out in the section headed "Directors, senior management and employees" in this prospectus.

- **The Group's ability to control its cost to maintain the competitiveness of its products**

The Group has demonstrated its ability to maintain a gross profit margin throughout the Track Record Period notwithstanding that the average selling price of the major machine tools products per unit has been declining. The Group has adopted, and has successfully implemented, certain policies to control its production and other operating costs. The ultimate goal of these policies is to achieve the economy of scale of the Group's production so that the costs of the Group's production can be better controlled. The Directors consider that the proper implementation of these policies is very important to the Group's performance and growth especially when the competition is keen. The Group's ability to control its cost has enabled the Group to adjust the selling prices of its products flexibly in response to the market demand.

BACKGROUND OF THE TAIWAN FF GROUP

The Taiwan FF Group is a conglomerate in Taiwan and has investments in a wide range of businesses such as production of CNC machine tools, three-dimensional car parking garage structures, electric forklift trucks, construction machinery, power tools, elevators, cathode-ray tube display, thin film transistor liquid crystal display, door drums, printed circuit boards and aviation parts. Immediately after completion of the Share Offer and the Capitalisation Issue, Taiwan FF will ultimately hold 75% of the then issued Shares.

Taiwan FF was incorporated as a limited liability company in Taiwan on 15 March 1979. Its shares are not listed on any stock exchange. As at the Latest Practicable Date, Taiwan FF was owned by 963 shareholders. Among which, Mr. Chu and his Relatives had approximately 36.47% of interest in Taiwan FF. Mr. Chen Hsiang-Jung, an executive Director, had approximately 3.06% of interest in Taiwan FF. The remaining balance of approximately 4.28%, 22.43% and 33.76% of interest in Taiwan FF were owned by 107 employees of the Taiwan FF Group, 785 individual investors and 46 corporate investors respectively. Details of the shareholding structure of Taiwan FF are set out in the paragraph headed "Group structure" under the section headed "Business" in this prospectus.

The Directors confirm that the Controlling Shareholders and the Directors do not have any interest in a business (other than those disclosed in this section such as Taiwan FF, Hangzhou Feeler Takamatsu and Hong Kong GF) that competes, or may compete, either directly or indirectly, with the Group's business.

The table below illustrates the comparison between the Group and Taiwan FF in terms of assets, turnover and net profits:

	For the year ended 31 December						**For the six months ended 30 June**	
	2002		**2003**		**2004**		**2005**	
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
								(Unaudited)
	The Group	*Taiwan FF*	*The Group*	*Taiwan FF*	*The Group*	*Taiwan FF*	*The Group*	*Taiwan FF*
Assets	138,111	901,515	233,843	918,517	328,076	1,047,767	394,082	1,110,216
Turnover	127,437	479,798	256,187	549,099	379,590	689,499	260,184	386,846
Net profits	9,310	19,876	31,257	30,766	36,329	40,307	20,805	32,448

Note: The above financial figures in respect of Taiwan FF only included the individual financial results of Taiwan FF and did not include those of the Group and other subsidiaries of Taiwan FF.

Based on the financial information of Taiwan FF, the turnover of the CNC machine tools, parking garage structures and forklift trucks of Taiwan FF during the Track Record Period is as follows:

	For the year ended 31 December						For the six months ended 30 June	
	2002		**2003**		**2004**		**2005**	
	RMB'000	*% of Taiwan FF's turnover*	*RMB'000*	*% of Taiwan FF's turnover*	*RMB'000*	*% of Taiwan FF's turnover*	*RMB'000* *(Unaudited)*	*% of Taiwan FF's turnover*
CNC machine tools	333,784	69.57%	377,721	68.79%	505,555	73.32%	293,652	75.91%
Parking garage structures	45,807	9.55%	48,820	8.89%	36,774	5.33%	31,335	8.10%
Forklift trucks	—	0%	7,815	1.42%	8,068	1.17%	3,953	1.02%

INDEPENDENCE FROM THE TAIWAN FF GROUP

Management independence

The Board and senior management of the Group function independently from the board of directors and senior management of the Taiwan FF Group.

(a) **The Board**

As at the Latest Practicable Date, the board of directors of Taiwan FF comprised two directors namely Ms. Chu Hsu-Niu, the aunt of Mr. Chu, and Mr. Chu Yi-Wei, the son of Mr. Chu.

The Board of the Company comprises five executive Directors, namely Mr. Chu, Mr. Chen Hsiang-Jung, Mr. Chen Min-Ho, Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien and three independent non-executive Directors.

During the Track Record Period, Mr. Chu, Mr. Chen Hsiang-Jung and Mr. Chen Min-Ho were directors of certain members of the Taiwan FF Group whilst Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien had no directorship in the Taiwan FF Group. To achieve management independence, Mr. Chu, Mr. Chen Hsiang-Jung and Mr. Chen Min-Ho have resigned from the directorship role in the Taiwan FF Group. As a result, there are no common directors between the Group and the Taiwan FF Group after the Listing.

In case of any potential conflict of interests between the Group and the Taiwan FF Group, the independent non-executive Directors will decide whether or not the resolution is in the interest of the Shareholders and, in the event that it is resolved that the issue at stake is not in the interest of the Shareholders, the Group will seek advice from and consult its compliance adviser or external financial adviser.

(b) **Senior management**

The Group has its own management team for each business division and none of the Group's senior management has any role in the Taiwan FF Group. The responsibilities of the senior management team include dealing with operational and financial issues, making general capital expenditure decisions and the daily implementation of business strategy of the Group. This ensures the independence of the daily management and operations of the Group from that of the Taiwan FF Group. Further details of the senior management team of the Group are set out in the paragraph headed "Senior management" under the section headed "Directors, senior management and employees" in this prospectus.

Delineation of business activities

Taiwan FF, Hangzhou Feeler Takamatsu and Hong Kong GF are currently engaged in certain businesses that are similar to those of the Group. These businesses operated by Taiwan FF, Hangzhou Feeler Takamatsu and Hong Kong GF are excluded from the Group (the "Excluded Business") and are considered by the Directors to be clearly delineated from those of the Group for the following reasons:

1. **Taiwan FF**

(a) Independent clientele

(i) CNC machine tools

The CNC machine tools of Taiwan FF and the Group are targeted at different groups of customers. The CNC machine tools of Taiwan FF are targeted at manufacturers of computers, communication and consumer electronics and manufacturers engaged in related industries such as precision molding (collectively, the "3C Manufacturers"), while the CNC machine tools of the Group are targeted at manufacturers of automobiles and related parts and components and manufacturers from mechanical products, mould processing and electrical industries (the "Industrial Manufacturers").

Generally, CNC machine tools required by the 3C Manufacturers are different from those required by the Industrial Manufacturers. The size of the products manufactured by the 3C Manufacturers are small; the design and specifications of CNC machine tools required by the 3C Manufacturers are more complicated; and the level of precision required by the 3C Manufacturers is generally higher than those required by manufacturers in other industries. As such, the CNC machine tools used by the manufacturers in other industries are not suitable to be used by the 3C Manufacturers. Details are illustrated in the sub-paragraph headed "Products" below.

Although the target group of customers of Taiwan FF is different from that of the Group, customers accounting for approximately 3.37%, 3.13%, 1.58% and 0.61% of the Group's turnover during the three years ended 31 December 2004 and the six months ended 30 June 2005 also purchased products from Taiwan FF. In order to eliminate the potential competition between Taiwan FF and the Group, such overlapping of customers would cease after the Listing as Taiwan FF has agreed not to sell its CNC machine tools, directly or indirectly, to markets in the PRC, Hong Kong and Macau but will only focus on markets in Taiwan and other overseas countries (excluding the PRC, Hong Kong and Macau), while the Group will have the exclusive rights to serve the markets in the PRC, Hong Kong and Macau. Details of such arrangement are set out in the paragraph headed "Deed of Non-competition" in this section.

(ii) Three-dimensional car parking garage structures

Since the business of design and construction of three-dimensional car parking garage structures requires inspection and construction on site, all of the customers of Taiwan FF for such business have been from Taiwan and all the relevant construction projects were located in Taiwan during the Track Record Period.

Taiwan FF has confirmed that the sales and profits of Taiwan FF derived from the design and construction of three-dimensional car parking garage structures are on a decreasing trend. During the Track Record Period, the turnover of three-dimensional car parking garage structures amounted to approximately 9.55%, 8.89% and 5.33% of Taiwan FF's total turnover.

(iii) Design and assembling of forklift trucks

The main difference between forklift trucks manufactured by the Group and Taiwan FF lies in the use of fuel sources. The Group is principally engaged in the manufacture of diesel forklift trucks which require special fuel storage facilities whilst Taiwan FF is principally engaged in the manufacture of electric forklift trucks which require chargers and batteries for the trucks to recharge their batteries. Besides, the diesel forklift trucks are usually used indoors, whilst the electric forklift trucks are usually used outdoors.

(b) Products

Set out below are the major differences between the CNC machine tools, parking garage structures and forklift trucks of the Group and Taiwan FF:

		The Group	**Taiwan FF**
CNC machine tools	*Uses and applications*	For the manufacture of automobiles, moulds and other products requiring lower level of precision	For the manufacture of computers, communication equipment, consumer electronics products and other products requiring higher level of precision
	Average degree of precision	0.01 mm	0.003 mm
	Spindle speed	4,000 to 8,000 rpm*	10,000 to 30,000 rpm*
	Selling price range	Ranging from approximately RMB350,000 to RMB450,000 per unit	Ranging from approximately US$80,000 (RMB650,000) to US$197,000 (RMB1,600,000) per unit
	Technology used	Self-developed technology without reliance on or support provided by Taiwan FF	Self-developed technology
	Delivery time	It takes approximately 2 days to deliver to PRC customers	It takes approximately 10 days to deliver to PRC customers
	After-sale service	It provides after-sale service no later than 24 hours after receiving call from PRC customers	It provide after-sales service no later than 4 days after receiving call from PRC customers

* rpm is the abbreviation for "Revolutions per minute".

Given the differences in specifications, selling price range, delivery time and after-sale service illustrated above, the Directors believe that Taiwan FF's products are not close substitutes of the Group's products.

Parking garage structures	The uses and purposes are similar. However, as the three-dimensional car parking garage structures require construction on the site, it is not common for the Group or Taiwan FF to undertake any overseas construction projects.
Forklift trucks	The uses, purposes and the technology required are similar. The major difference of the Group's forklift trucks and those of Taiwan FF lies in the use of fuel sources. The Group is principally engaged in the manufacture of diesel forklift trucks whereas Taiwan FF is principally engaged in the manufacture of electric forklift trucks.

In order to clearly delineate the business activities between Taiwan FF on one part and the Group on the other and to regulate their respective business activities with their own customers, each of Taiwan FF, Hong Kong GF and Mr. Chu has executed the Deed of Non-competition in favour of the Group. Pursuant to the Deed of Non-competition undertaking, Taiwan FF has agreed not to sell its CNC machine tools, parking garage structures, electric or diesel forklift trucks, directly or indirectly, to markets in the PRC, Hong Kong or Macau but will only focus on markets in Taiwan and other overseas countries (excluding the PRC, Hong Kong and Macau), while the Group will have the exclusive rights to serve the markets in the PRC, Hong Kong and Macau. No provision is contained in the Deed of Non-competition that will or may restrict the Group's right to expand into the Taiwan and overseas markets after the Listing. Details of such arrangement are set out in the paragraph headed "Deed of Non-competition" in this section.

(c) The target territory in which Taiwan FF operates is different from that of the Group after the Listing

Based on the information provided by Taiwan FF, the breakdown of sales of CNC machine tools by Taiwan FF by regions for the three years ended 31 December 2004 are as follows:

	For the year ended 31 December		
	2002	**2003**	**2004**
Taiwan	41.66%	24.75%	25.54%
The PRC, Hong Kong and Macau	24.56%	37.99%	41.86%
Other overseas areas (excluding the PRC, Hong Kong and Macau)	33.78%	37.26%	32.60%
	100%	100%	100%

After the Listing, the CNC machine tools, parking garage structures and forklift trucks manufactured by Taiwan FF are principally sold to customers in Taiwan and other overseas countries (excluding the PRC, Hong Kong and Macau), while the CNC machine tools, parking garage structures and forklift trucks manufactured by the Group are principally sold to customers in the PRC, Hong Kong and Macau. Details of such arrangement are set out in the paragraph headed "Deed of Non-competition" in this section.

(d) Independent production base

Taiwan FF and the Group have been carrying out their manufacturing activities in their production plants in Taiwan and the PRC respectively. The production base of Taiwan FF in Taiwan has a total gross floor area of approximately 8,950 sq. m. whereas the production base of the Group in the PRC has a total gross floor area of approximately 39,340 sq. m.. During the Track Record Period, each of Taiwan FF and the Group negotiated and concluded its own sales contracts and delivered products to customers directly. Machinery in the production plants in Taiwan and in the PRC are different to cater for production of CNC machine tools with different levels of precision. During the Track Record Period, the Group produced all of its products without any assistance from the production plant in Taiwan.

(e) Administrative independence

All essential administrative functions have been and will be carried out by the Group without requiring the support of the Taiwan FF Group. The Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, research and development, human resources and information technology.

(f) Financial independence

The Directors confirm that the Group has the ability to operate independently from the Taiwan FF Group from a financial perspective. As at the Latest Practicable Date, certain of the bank borrowings of the Group were secured by corporate guarantees given by Taiwan FF, Hong Kong GF and Hangzhou Fair Fine. The Group has obtained consent-in-principle from the relevant banks for the release of such guarantees upon the Listing.

(g) Procurement independence

In order to eliminate the Group's reliance on the Taiwan FF Group for sourcing the parts and components from Taiwan suppliers, the Group has ceased to purchase parts and components from Taiwan suppliers through the Taiwan FF Group. After the Listing, the Group will shift the procurement of parts and components towards other suppliers, who are Independent Third Parties, in the PRC as well as in Taiwan directly. Two executive Directors, Mr. Chen Hsiang-Jung and Mr. Chen Min-Ho, were previously directors of some of the members of the Taiwan FF Group and have more than 20 years and 15 years of experience in the industry respectively. Mr. Wen Chi-Tang, currently the vice manager of the CNC machine tools division of the Group, also has about 10 years of experience in the machine tools industry. All of them have close relationship with the Taiwan suppliers and are familiar with both the requirements of the Group and the products of the Taiwan suppliers. In addition, the Group has designated two staff members in its procurement team to specifically handle the direct purchasing of parts and components from the Taiwan suppliers, such as inspecting and monitoring the quality of the parts and components in Taiwan. The Group has also compiled a list of Taiwan suppliers and has started to obtain quotation for the parts and components it requires from such suppliers. In view of the expertise of the executive Directors in the industry and the above arrangements, the Directors do not foresee any difficulty in procuring the necessary parts and components directly from such suppliers in Taiwan without assistance from the Taiwan FF Group.

(h) Use of trademarks

Taiwan FF currently has four trademarks, namely, FEELER, 友嘉機械, 友嘉 and FEELER which are registered in the name of Taiwan FF in the PRC under class 7. These marks are currently used by the Group. In order to formalise the usage of these four trademarks after the Listing, Taiwan FF has, pursuant to a Trademark Licence Agreement, irrevocably granted to Hangzhou GF a licence to use these four trademarks at a nominal consideration of RMB1.00. Details of the Trademark Licence Agreement have been set out in the section headed "Connected transactions" in this prospectus.

Taiwan FF considers that it is more commercially sensible to retain the four trademarks with Taiwan FF as those trademarks have been registered in Taiwan by Taiwan FF and have been used by Taiwan FF since the respective dates of registration in the CNC machine tools, forklift trucks and parking garage structures produced by it. Taiwan FF itself will continue to use these trademarks in its products after the Listing.

If for any reason Taiwan FF ceases to license any of the above trademarks to the Group, the Group does not foresee any material adverse impact on its manufacturing operations as the Group's own staff have established relationship with its own customers and the Group's ability to market and sell its products are not built upon the trademarks. As such, the Directors consider that the grant of licence does not create any undue reliance by the Group on the Taiwan FF Group. In view of the favourable terms of the trademark licensing arrangement, the Directors believe that it is in the interest of the Group to continue these pre-existing contractual relationships after the Listing.

Given the above reasons, the Directors are of the view that the Excluded Business is clearly delineated from those of the Group.

The Directors also consider that it is not appropriate nor beneficial to the Shareholders to inject Taiwan FF into the Group as Taiwan FF has also been engaged in other businesses that are different from those carried out by the Group, including the production and sales of construction machines and equipment, electric tools and iron wares and mechanical components. The market of those products are mainly in Taiwan and the functions of those products are completely different from those manufactured by the Group. Taiwan FF also holds various investments in different industries which are specified in this section. The Directors consider that these businesses or investments are not related to the core business of the Group. The Group has never carried out such businesses since its establishment and the Group does not have the relevant expertise and experience in such areas.

Moreover, the Group and Taiwan FF principally operate in the PRC and Taiwan respectively. It is the intention that the operations of the CNC machine tools, parking garage structures and forklift trucks businesses in the PRC, Hong Kong and Macau carried out by the Group will be listed on the Stock Exchange while the operations of Taiwan FF will remain as private investment of its shareholders. If Taiwan FF were injected into the Group, the interest (in terms of shareholding or other aspects) of its existing shareholders in Taiwan FF and its other businesses will be diluted as a result of public float which is against the intention of the shareholders of Taiwan FF.

The Directors confirm that they have no intention to acquire the business of Taiwan FF at present.

2. **Hangzhou Feeler Takamatsu**

Among a group of companies invested by Taiwan FF, the Directors consider that Hangzhou Feeler Takamatsu may carry on business similar to that of the Group. Hangzhou Feeler Takamatsu is principally engaged in the sales and installation of precision dies, standard components of moulds, components and parts for vehicles and motor cycles, CNC machine tools and CNC lathes.

Hangzhou Feeler Takamatsu is a wholly foreign owned enterprise established in the PRC on 21 December 2004. As at the Latest Practicable Date, Hangzhou Feeler Takamatsu was owned as to 50% by the Taiwan FF Group and 50% by Takamatsu Machinery Co., Ltd. (高松機械工業株式會社) ("Takamatsu"), an Independent Third Party.

According to the joint venture agreement between the Taiwan FF Group and Takamatsu dated 13 October 2004 (the "JV Agreement"), each of the Taiwan FF Group and Takamatsu, as shareholders of Hangzhou Feeler Takamatsu, has the right to appoint two directors to the board of Hangzhou Feeler Takamatsu. As at Latest Practicable Date, the composition of the board of directors and senior management of Hangzhou Feeler Takamatsu are as follows:

	Representatives from Takamatsu	**Representatives from the Taiwan FF Group**
Board of directors	Two Japanese individuals	Mr. Lee Chin-Chen Mr. Chu Yi-Wei, the son of Mr. Chu
Senior management	Two Japanese individuals	Nil

The Taiwan FF Group is a passive investor in Hangzhou Feeler Takamatsu. The representatives from the Taiwan FF Group do not involve in the day-to-day operations and management of

Hangzhou Feeler Takamatsu. All the day-to-day operations and management and execution of the board of directors' decisions of Hangzhou Feeler Takamatsu are handled by the representatives of Takamatsu who occupy the positions of directors and general manager of Hangzhou Feeler Takamatsu according to the JV Agreement.

Set out below are the major differences between the Group and Hangzhou Feeler Takamatsu in terms of uses and applications, selling price range and design and technological specifications for CNC machine tools:

	The Group	**Hangzhou Feeler Takamatsu**
Uses and applications	For the manufacture of parts and components for machines for a wide range of industries targeted at automobile, mechanical and mould industries	For the manufacture of core components of automobiles which require a higher level of complexity and precision
Selling price range	Ranging from approximately RMB350,000 to RMB450,000 per unit	Ranging from approximately RMB550,000 to RMB600,000 per unit
Design and technological specifications	The requirement for precisions and complexity are generally lower. Details of the specifications include:	The requirement for precision and complexity are generally higher. Details of the specifications include:
	(i) single machine operation, and processed objects must be moved manually for multi-dimension processing; and	(i) automated manufacturing system equipped with mechanical arms to move processed objects; and
	(ii) under continuous processing and operation, average degree of precision of 0.01mm can be maintained	(ii) under continuous processing and operation, average degree of precision of 0.003mm can be maintained

Taking into consideration of the following factors and representations made by the management of Taiwan FF in Hangzhou Feeler Takamatsu, the Directors consider that it is not appropriate nor beneficial to the Shareholders to include Hangzhou Feeler Takamatsu into the Group:

(a) Hangzhou Feeler Takamatsu is a newly established company and is in its early stage of development. For the six months ended 30 June 2005, Hangzhou Feeler Takamatsu has not had any turnover from its operation activities and has made a loss of approximately RMB472,000.

(b) The Directors believe and expect that further effort will be needed to develop and streamline the operations of Hangzhou Feeler Takamatsu, and they believe that the burden of this task should not be placed with the Group.

(c) To explore the market in Japan, it is expected that Japanese investor(s) will be invited to invest in Hangzhou Feeler Takamatsu which will result in change of shareholding structure in Hangzhou Feeler Takamatsu such that the shareholding held by Taiwan FF in Hangzhou Feeler Takamatsu will be diluted.

According to the terms of the JV Agreement, any transfer of interests in Hangzhou Feeler Takamatsu is subject to the consent of the other joint venture partner and the joint venture partner shall have the first right of refusal for the interest to be transferred to any third party. The Directors are advised by the management of Taiwan FF in Hangzhou Feeler Takamatsu that Taiwan FF does not have any current intention to transfer its interest in Hangzhou Feeler Takamatsu into the Group .

On 15 December 2005, the Taiwan FF Group and Takamatsu entered into a sale and purchase agreement pursuant to which the Taiwan FF Group has agreed to sell and Takamatsu has agreed to purchase 10% interests in Hangzhou Feeler Takamatsu. Following the completion of such transfer, the Taiwan FF Group's interests in Hangzhou Feeler Takamatsu will be reduced to 40% and will only be entitled to appoint one out of four directors in Hangzhou Feeler Takamatsu. Such transfer is subject to the approval by the relevant PRC governmental authority. As at the Latest Practicable Date, application has been made to the relevant PRC governmental authority for the approval of the transfer. The transfer will become effective upon obtaining such approval and the new business licence and approval certificate of Hangzhou Feeler Takamatsu. The Company's legal advisers as to PRC law consider that there is no legal impediment to obtain the approval from the relevant PRC governmental authority.

3. **Hong Kong GF**

Since its incorporation on 20 July 1993, Hong Kong GF acts as the investment holding company of Taiwan FF in the Group. In addition, it also engages in the trading business with Taiwan FF and Hangzhou GF. Such business relationship was established solely for the purpose to comply with the regulations in Taiwan imposing restriction on trading activities between a Taiwan entity and a PRC entity. Details of such trading business are set out in the paragraph headed "Compliance" under the section of "Business" in this prospectus. Save as disclosed above, Hong Kong GF does not and will not engage in any other business which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

Taking into consideration of the trading activities between Taiwan FF and Hangzhou GF and representation made by the management of Taiwan FF in Hong Kong GF, the Directors consider that it is not appropriate nor beneficial to the Shareholders to include Hong Kong GF into the Group.

The Directors are also advised by management of Taiwan FF in Hong Kong GF that Taiwan FF does not have any current intention to inject the business of Hong Kong GF into the Group.

Any future injection of assets into the Group by the Taiwan FF Group after the completion of the Listing will be subject to the applicable provisions and requirements of the Listing Rules.

DEED OF NON-COMPETITION

Each of Taiwan FF, Hong Kong GF and Mr. Chu (together, the "Covenantors") entered into the Deed of Non-competition in favour of the Company on 22 December 2005, pursuant to which each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of the Group) would not, during the restricted period set out in the paragraph below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the business of any member of the Group (the "Restricted Business") in the PRC, Hong Kong and Macau (the "Restricted Markets"). Such non-competition undertaking does not apply to those sales orders, with an aggregate total value of approximately US$1.75 million, in respect of the CNC machine tools undertaken by any Covenantor (or its or his relevant associate(s)) for customers situated in the Restricted Markets. Such sales orders are expected to be delivered by January 2006.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) the Shares remain listed on the Stock Exchange; and (ii) the relevant Covenantors and/or their respective associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of the Company.

Each of the Covenantors has further undertaken in the Deed of Non-competition that (i) it or he or their respective associates would not sell its products that the Group does not produce in the Restricted Markets if there are new business opportunities offered to any Covenantor (or its or his relevant associate(s)) from any customers in the Restricted Markets in respect of the Restricted Business; and (ii) it or he or their respective associates would not assist its joint venture partner(s) in Hangzhou Feeler Takamatsu to engage, directly or indirectly, in business which competes or may compete with the Group's business if Hangzhou Feeler Takamatsu contemplates to change in business which competes or may compete with the Group's business in the Restricted Markets.

Each of the Covenantors also represented and warranted in the Deed of Non-competition that, apart from the disclosure made in this prospectus, neither it or he nor any of its or his associates is currently engaging, directly or indirectly, in the Restricted Business in the Restricted Markets.

As a condition for the Listing, the undertakings from the Covenantors pursuant to the Deed of Non-competition cannot be amended or varied save with the prior approval of the Stock Exchange and the Shareholders in a general meeting (with the Covenantors and their respective associates who are also Shareholders abstaining from voting in such resolution).

COMPLIANCE AND APPROVALS OF TAIWAN FF'S INVESTMENTS IN THE PRC

Taiwan FF's investments in the Group before the Reorganisation

Before the implementation of the Reorganisation, Taiwan FF indirectly held approximately 100% interests in Hangzhou GF (through Hong Kong GF) and 100% interests in Global Friend (through Yu Hwa). According to Paragraph 1, Article 35 of the Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area, such indirect investment by Taiwan FF in the PRC is subject to prior approval of the Investment Commission (the "IC") of the Taiwan Ministry of Economic Affairs. As at the Latest Practicable Date, Taiwan FF has taken all necessary action in respect of the reporting and registration of its investments in the PRC with the IC. As advised by the Company's legal advisers as to Taiwan law, all relevant approval and/or registration requirements under the Taiwan laws and regulations in connection with the investment of Taiwan FF in each of Hangzhou GF and Global Friend have been obtained and/or, as the case may be, completed.

The Reorganisation

In addition, the Company's legal advisers as to Taiwan law advised that the Reorganisation is required to be approved by the board of directors of Taiwan FF in accordance with Taiwan FF's Articles of Incorporation and the Company Act in Taiwan and any change in the form of investment of Taiwan FF, in particular, the indirect investment in its two subsidiaries in the PRC, namely Hangzhou GF and Global Friend, is subject to the prior approval of the IC and the implementation of such a change is required to be reported to the IC for recordation purposes pursuant to the Regulations Governing Technical Cooperation and Business Investments in Mainland China. The Company's legal advisers as to Taiwan law advised that all necessary actions required to be taken by Taiwan FF in connection with the Reorganisation have been duly completed.

The Listing

Taiwan FF's Articles of Incorporation and the Company Act in Taiwan do not specifically provide that the Listing shall receive approval from the shareholders of Taiwan FF at its shareholders' meeting. Nevertheless, having considered the legal advice from its legal advisers as to Taiwan law, Taiwan FF had convened a shareholders' meeting of Taiwan FF to approve the Listing and such shareholders' meeting was held on 30 November 2005 and resolution approving the Listing was duly passed at such shareholders' meeting.

Compliance and approvals

Each of the legal advisers of the Company as to Taiwan law and PRC law confirmed that Taiwan FF's investment in Hangzhou GF and Global Friend is legal and complies with the relevant laws and regulations in Taiwan and the PRC respectively.

Overview

During the Track Record Period, the Group has entered into a number of transactions with parties who are Connected Persons of the Company. These transactions will constitute connected transactions (within the meaning of the Listing Rules) of the Company upon the Listing. It is expected that one of these connected transactions will continue after the Listing. Set out below is a summary of these connected transactions.

	Nature of transaction	Applicable Listing Rule	Historical figures			
			For the three years ended 31 December			For the six months ended 30 June
			2002	2003	2004	2005
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Discontinued connected transactions						
1.	Sale of gear boxes to the Taiwan FF Group	N/A	—	—	115	89
2.	Sale of steel to Hangzhou Fair Fine	N/A	158	4	14	15
3.	Purchase of electric forklift trucks from the Taiwan FF Group	N/A	600	1,371	973	301
4.	Sale of diesel forklift trucks to the Taiwan FF Group	N/A	—	—	133	326
5.	Purchase of CKD parts and components from the Taiwan FF Group	N/A	32,031	88,695	119,736	79,054
6.	Lease of factory premises to Hangzhou Fair Fine	N/A	156	259	269	134
7.	Lease of factory premises to Hangzhou Feeler Takamatsu	N/A	—	—	—	54
8.	Provision of processing services for CKD castings to Taiwan FF	N/A	—	575	836	677
Exempt continuing connected transaction						
9.	Licence of trademarks from Taiwan FF	Rule 14A.33(3)	—	—	—	—

Connected Persons

The relationships between the Group and the above Connected Persons are as follows:

(a) Taiwan FF is the holding company of Hong Kong GF which is a Controlling Shareholder. It is therefore a Connected Person;

(b) Hong Kong GF will own 75% of the issued share capital of the Company upon the Listing and is thus a Controlling Shareholder. It is therefore a Connected Person;

(c) Hangzhou Fair Fine is a subsidiary of Taiwan FF and is therefore a Connected Person. Hangzhou Fair Fine is principally engaged in the manufacture and sale of screw nuts, plummer block and adapter sleeves; and

(d) Hangzhou Feeler Takamatsu is at present, owned as to 50% by Taiwan FF and 50% by Takamatsu Machinery Co., Ltd., (高松機械工業株式會社), an Independent Third Party. It is an associate of Taiwan FF and is therefore a Connected Person.

Discontinued connected transactions

Details of the connected transactions which had been discontinued as at the Latest Practicable Date or, as appropriate, will be discontinued prior to the Listing (the "Discontinued Connected Transactions") are set out below:

1. **Sale of gear boxes to the Taiwan FF Group**

Transaction nature:

Hangzhou GF had from time to time sold gear boxes to Taiwan FF and Hong Kong GF during the Track Record Period.

Connected Persons:

Taiwan FF and Hong Kong GF

Pricing basis:

The prices of gear boxes supplied by Hangzhou GF to the Taiwan FF Group were at actual costs plus a 10% mark-up for the out-of-pocket expenses incurred by Hangzhou GF and the service fees charged by it.

The Directors confirm that the pricing basis agreed between Hangzhou GF and the Taiwan FF Group for the supply of gear boxes was determined on an arm's length basis and was on normal commercial term.

Reason for the transaction:

The Taiwan FF Group requested Hangzhou GF to source the gear boxes in the PRC for its production of parking garage structures.

Historical figures:

During the Track Record Period, no sales was made to Taiwan FF except for the six months ended 30 June 2005 for the amount of approximately RMB89,000. During the Track Record Period, no sales was made to Hong Kong GF except for the year ended 31 December 2004 for the amount of approximately RMB115,000.

Future transaction:

Transaction of this nature had ceased as at the Latest Practicable Date and will not continue after the Listing.

2. **Sale of steel to Hangzhou Fair Fine**

Transaction nature:

Hangzhou GF had from time to time provided steel to Hangzhou Fair Fine during the Track Record Period.

Connected Person:

Hangzhou Fair Fine

Pricing basis:

The price of steel supplied by Hangzhou GF to Hangzhou Fair Fine was at the then prevailing market price.

The Directors confirm that the pricing basis agreed between Hangzhou GF and Hangzhou Fair Fine for the supply of steel was determined on an arm's length basis and was on normal commercial term.

Reason for the transaction:

Hangzhou Fair Fine is principally engaged in the manufacture and sale of screw nuts, plummer block and adapter sleeves. During the Track Record Period, it required a small amount of steel for its business operations.

Historical figures:

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total sales amounted to approximately RMB158,000, RMB4,000, RMB14,000 and RMB15,000, respectively.

Future transaction:

Transaction of this nature had ceased as at the Latest Practicable Date and will not continue after the Listing.

3. **Purchase of electric forklift trucks from the Taiwan FF Group**

Transaction nature:

During the Track Record Period, Hangzhou GF had purchased electric forklift trucks from Hong Kong GF.

Connected Person:

Hong Kong GF

Pricing basis:

The prices at which the Taiwan FF Group supplied its electric forklift trucks to Hangzhou GF were at market prices plus a mark-up to cover out-of-pocket expenses. Such prices were comparable to the prices offered by the Taiwan FF Group to its independent third party overseas customers. The payment period offered by the Taiwan FF Group was usually 60 days.

Upon considering (i) the terms and conditions of the sales contracts entered into between the Taiwan FF Group and Independent Third Parties; after arm's length negotiation, in particular, as regards pricing, quantity and delivery schedules; (ii) the price lists obtained from Independent Third Parties on forklift trucks of model and quantity similar to those sourced from the Taiwan FF Group; and (iii) that the transaction was in the ordinary usual course of business of Hangzhou GF, the Directors were of the view that the agreed pricing basis had been on normal commercial term and the transaction was in the ordinary usual course of business of the Group.

Reasons for the transaction:

During the Track Record Period, Hangzhou GF had not engaged in the manufacture of electric forklift trucks. In order to accommodate the side demands from some of its customers, Hangzhou GF turned to the Taiwan FF Group for the provision of electric forklift trucks. Hangzhou GF did not procure electric forklift trucks from Independent Third Parties because the Taiwan FF Group had always been reliable in providing Hangzhou GF with electric forklift trucks that Hangzhou GF's customers required and had responded quickly to Hangzhou GF's demand.

Historical figures:

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total purchase from Hong Kong GF amounted to approximately RMB600,000, RMB1,371,000, RMB973,000 and RMB301,000, respectively. For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total number of electric forklift trucks purchased from Hong Kong GF was 28, 56, 22 and 19, respectively.

Future transaction:

Transaction of this nature had ceased as at the Latest Practicable Date and will not continue after the Listing.

4. **Sale of diesel forklift trucks to the Taiwan FF Group**

Transaction nature:

During the Track Record Period, Hangzhou GF had from time to time sold diesel forklift trucks to the Taiwan FF Group.

Connected Persons:

Taiwan FF and Hong Kong GF

Pricing basis:

The prices of diesel forklift trucks supplied by Hangzhou GF to the Taiwan FF Group were at market prices, which were the same prices for similar products offered by the Group to Independent Third Parties. The payment period offered to the Taiwan FF Group was usually 60 days.

Upon considering (i) the terms and conditions of the sales contracts entered into between the Group and Independent Third Parties; after arm's length negotiation, in particular, as regards pricing, quantity and delivery schedules; (ii) the price lists given to Independent Third Parties on the similar model of the forklift trucks and quantity to the Taiwan FF Group; and (iii) that the transaction was in the ordinary usual course of business of Hangzhou GF, the Directors were of the view that the agreed pricing basis had been on normal commercial term and the transaction was in the ordinary usual course of business of the Group.

Reasons for the transaction:

The Taiwan FF Group does not manufacture diesel forklift trucks which is not its principal business. However, the Taiwan FF Group may from time to time receive orders for diesel forklift trucks from its customers. To accommodate such orders, the Taiwan FF Group turned to Hangzhou GF for the provision of diesel forklift trucks.

Historical figures:

No sale was made prior to 2004. For the year ended 31 December 2004, the total sale of diesel forklift trucks to Hong Kong GF amounted to approximately RMB133,000. For the six months ended 30 June 2005, the total sales of diesel forklift trucks to Taiwan FF amounted to approximately RMB326,000.

Future transaction:

Transaction of this nature had ceased as at the Latest Practicable Date and will not continue after the Listing.

5. **Purchase of CKD parts and components from the Taiwan FF Group**

Transaction nature:

During the Track Record Period, Taiwan FF and Hong Kong GF had sourced parts and components for the Group in Taiwan.

Connected Persons:

Taiwan FF and Hong Kong GF

Pricing basis:

The amount payable to the Taiwan FF Group was determined on a cost plus a reasonable charge basis but not exceeding the relevant prevailing market price.

The Directors were of the view that the transactions were on normal commercial terms and were in the ordinary usual course of business of the Group.

Reasons for the transaction:

The Taiwan FF Group is able to source the CKD parts and components which Hangzhou GF requires for its operation. Besides, the Taiwan FF Group has good market knowledge of the CKD parts and components supply and demand situation in Taiwan.

Historical figures:

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total purchase of CKD parts and components from Taiwan FF amounted to approximately RMB8,536,000, RMB851,000, nil and nil, respectively. For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total purchase of CKD parts and components from Hong Kong GF amounted to approximately RMB23,495,000, RMB87,844,000, RMB119,736,000 and RMB79,054,000, respectively.

Future transaction:

Transaction of this nature had ceased as at the Latest Practicable Date and will not continue after the Listing.

6. **Lease of factory premises to Hangzhou Fair Fine**

Transaction nature:

Hangzhou GF and Hangzhou Fair Fine entered into a lease agreement on 31 December 2004. Pursuant to this lease agreement, Hangzhou GF has agreed to lease portion of its Workshop Phase III located at Xiaoshan Development Zone with an area of approximately 2,244 sq.m. to Hangzhou Fair Fine as its factory premises from 1 January 2005 to 31 December 2005 at a monthly rent of approximately RMB22,440. Hangzhou Fair Fine agreed to reimburse the utilities charges paid by Hangzhou GF on its behalf. Such leasing arrangement had been in place during the period from 1 January 2003 to 31 December 2004 on similar terms with no written agreement.

Connected Person:

Hangzhou Fair Fine

Pricing basis:

The rent payable to Hangzhou GF was determined by reference to the prevailing market rent in respect of similar properties in Hangzhou, the PRC.

DTZ Debenham Tie Leung Limited has reviewed the above lease agreement and has confirmed that the rent payable under such lease agreement is comparable to prevailing market rent.

The Directors confirm that the terms of the lease agreement were determined on an arm’s length basis and were on normal commercial terms.

Reason for the transaction:

At the time of entering into the lease, Hangzhou GF did not need to use the relevant portion of its above Workshop Phase III and hence decided to lease it to generate rental income as an additional source of revenue.

Historical figures:

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the total rent amounted to approximately RMB156,000, RMB259,000, RMB269,000 and RMB134,000, respectively and the total reimbursement of utilities charges amounted to approximately nil, RMB72,000, nil and nil, respectively.

Future transaction:

The Group intends to expand its forklift trucks production capacity and capability and will not lease its above premises to Hangzhou Fair Fine upon the expiry of the lease on 31 December 2005.

7. **Lease of factory premises to Hangzhou Feeler Takamatsu**

Transaction nature:

Hangzhou GF and Hangzhou Feeler Takamatsu entered into a lease agreement pursuant to which Hangzhou GF has agreed to lease its portion of Workshop Phase IV located at Xiaoshan Development Zone with an area of approximately 894.74 sq.m. to Hangzhou Feeler Takamatsu as its factory premises from 1 January 2005 to 31 December 2005 at a monthly rent of approximately RMB8,947.40.

Connected Person:

Hangzhou Feeler Takamatsu

Pricing basis:

The rent payable to Hangzhou GF was determined by reference to the prevailing market rent in respect of similar properties in Hangzhou, the PRC.

DTZ Debenham Tie Leung Limited has reviewed the above lease agreement and has confirmed that the rent payable under such lease agreement is comparable to prevailing market rent.

The Directors confirm that the terms of the lease agreement were determined on an arm's length basis and were on normal commercial terms.

Reason for the transaction:

At the time of entering into the lease, Hangzhou GF did not need to use the relevant portion of its above Workshop Phase IV and hence decided to lease it to generate rental income as an additional source of revenue.

Historical figures:

There was no leasing arrangement between Hangzhou GF and Hangzhou Feeler Takamatsu for each of the three years ended 31 December 2004. For the six months ended 30 June 2005, the total rent amounted to approximately RMB53,684.40.

Future transaction:

The Group intends to expand its CNC machine tools production capacity and capability and will not lease its above premises to Hangzhou Feeler Takamatsu upon the expiry of the lease on 31 December 2005.

8. **Provision of processing services for CKD castings to the Taiwan FF Group**

Transaction nature:

During the Track Record Period, Hangzhou GF had sourced CKD castings in the PRC from Independent Third Parties and, after processing by Hangzhou GF, supplied the CKD castings to the Taiwan FF Group.

Connected Person:

Taiwan FF

Pricing basis:

The processing fee payable by the Taiwan FF Group to Hangzhou GF was determined based on the average processing fee paid by the Taiwan FF Group during the Track Record Period.

The Directors were of the view that the agreed pricing basis was determined on an arm's length basis and was on normal commercial term.

Reasons for the transaction:

Taiwan FF has a substantial demand for CKD castings for further processing into CNC machine tools. The Group has good market knowledge of the CKD castings supply and demand situation in the PRC. The provision of processing services to Taiwan FF can increase the Group's revenue.

Historical figures:

No sale was made prior to 2003. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the total amount of sale of CKD castings by Hangzhou GF to Taiwan FF amounted to approximately RMB575,000, RMB836,000 and RMB677,000, respectively.

Future transaction:

Transaction of this nature had ceased as at the Latest Practicable Date and will not continue after the Listing.

Exempt continuing connected transaction

Details of the continuing connected transaction which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3)(b) of the Listing Rules (the "Exempt Continuing Connected Transaction") are set out below:

9. **Licence of trademarks from Taiwan FF**

Transaction nature:

Taiwan FF has, pursuant to the Trademark Licence Agreement, irrevocably granted to Hangzhou GF a licence to use FEELER, 友嘉機械, FEELER and 友嘉 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 Trademark Licence 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. According to the terms of the Trademark Licence Agreement, the Trademark Licence Agreement can only be terminated by Hangzhou GF after having obtained the consent of all the independent non-executive Directors.

Taiwan FF retains the right to use the trademarks in Taiwan and may only license or transfer them to third parties with the prior consent of Hangzhou GF. Hangzhou GF is permitted to sub-license the use of such trademarks to other members of the Group from time to time. Taiwan FF has agreed to maintain the registration of the trademarks in the PRC for the term of the licence. It has also agreed to apply for, at Hangzhou GF's request, the registration of the trademarks in such other jurisdictions and to license to the Group at a consideration of RMB1.00 any trademarks registered under the name of Taiwan FF in such other jurisdictions.

Connected Person:

Taiwan FF

Reason for the transaction:

The Group has been using these trademarks in its ordinary usual course of business. It is beneficial for the Group to continue to use these trademarks.

Historical figures:

The Group was not required to pay any consideration to Taiwan FF for the use of the above trademarks for the three years ended 31 December 2004 and the six months ended 30 June 2005.

Future transaction:

Under the Trademark Licence Agreement, the Group is not required to pay any fee to Taiwan FF for the use of the above four trademarks other than the consideration of RMB1.00 which was paid at the time when the Trademark Licence Agreement was entered into.

Connected transaction that are exempt from the reporting, announcement and independent shareholders' approval requirements

For the Exempt Continuing Connected Transaction described above, each of the percentage ratios (other than profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is on an annual basis less than 2.5% and the annual consideration will be less than HK$1,000,000. Accordingly, the transaction qualifies under Rule 14A.33(3)(b) of the Listing Rules as transaction that is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

FUTURE PLANS

During the Track Record Period, sales of CNC machine tools accounted for over approximately 75% of the Group's annual turnover. The PRC has becoming the world factory and many manufacturers are moving their manufacturing operation to the PRC. The Group intends to leverage on its established position in the CNC machine tool industry in the PRC to further increase its sales to the PRC machine tool market.

The Group is committed to become a leading CNC machine tool supplier in the PRC and in the long run, to become a major player in the international machine tool industry. To achieve this objective, the Group intends to expand its production capacity and capability of CNC machine tools.

It is expected that the construction of a new production base of Global Friend in Xiasha, Zhejiang, the PRC with a total gross floor area of approximately 9,000 sq. m. will commence in early 2006 and complete in the second half of 2006. It is planned that Global Friend will take up part of the manufacture and sale of machine tools and parking garage structures which are currently undertaken by Hangzhou GF after Global Friend is put into commercial operation. The Directors expect that it will increase the annual production capacity of the Group by approximately 1,000 units of machine tools and approximately 2,000 units of car parking spaces respectively when it is in full operation. Also, the Directors expect that Global Friend will employ about 470 workers for production of machine tools and about 100 workers for production of parking garage structures. Leveraging on its years of experience in the design and production of CNC machine tools, it is the Group's plan to position the production base of Hangzhou GF on the research and development of higher-end and higher precision CNC machine tools. The Directors believe that there will be an increasing demand for high precision machine tools in the PRC and the Group is well positioned to capture these anticipated business opportunities.

The registered capital of Global Friend is US$10.00 million (HK$78.00 million) of which US$1.50 million (HK$11.70 million) has been paid up in May 2005 and the balance of US$8.50 million (HK$66.30 million) is expected to be paid up by the second half of 2007. It is expected that approximately HK$44.23 million will be funded from the net proceeds from the Share Offer and the remaining balance of approximately HK$22.07 million will be funded by internal resources and/or bank borrowings by the second half of 2007. The Directors confirm that there would not be any material adverse impact on the working capital of the Group for the 12 months after the Listing by reason of the Group's investment in Global Friend.

Based on the current expansion plan and schedule, the Directors intend to apply (i) approximately RMB7.28 million (HK$7.00 million) to obtain the land use right of a site at Xiasha, Zhejiang, the PRC in early 2006; (ii) approximately RMB14.98 million (HK$14.40 million) to construct the new production plant upon receipts of all necessary construction approval and permits by the contractors; and (iii) approximately RMB23.74 million (HK$22.83 million) to purchase new production equipment and machinery to be installed in the production plant after completion of the construction.

As at the Latest Practicable Date, the Group had not identified any specific site or entered into any agreement to acquire the land use rights of the land for the construction of the new production base in Xiasha, Zhejiang, the PRC.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the Share Offer and the Listing will enhance the corporate profile of the Group and intend to use the net proceeds from the Share Offer to finance the Group's capital expenditures and business expansion. The Directors believe that this will strengthen the Group's capital base and improve its financial position.

The net proceeds from the Share Offer after deducting related estimated expenses are approximately HK$62.30 million. To materialise the future plans of the Group, the Group currently intends that the net proceeds from the Share Offer will be applied as follows:

	HK$ million
Acquisition of new production facilities of Global Friend:	
— Acquisition of land for the production base of Global Friend	7.00
— Construction of the production base of Global Friend	14.40
— Purchase of new production equipment and machinery for Global Friend	22.83
Repayment of bank loans	11.84
General working capital	6.23
Total	62.30

TRADING RECORD

The table below is a summary of the audited combined results of the Group for the Track Record Period prepared on the assumption that the current structure of the Group had been in existence throughout the Track Record Period and is extracted from, and has been prepared in accordance with the basis set out in note 1 to the accountants' report, the text of which is set out in Appendix I to this prospectus:

Combined income statements

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Turnover	127,437	100.00	256,187	100.00	379,590	100.00	160,710	100.00	260,184	100.00
Cost of sales/services	(93,771)	(73.58)	(181,606)	(70.89)	(279,476)	(73.63)	(117,062)	(72.84)	(204,248)	(78.50)
Gross profit	33,666	26.42	74,581	29.11	100,114	26.37	43,648	27.16	55,936	21.50
Other operating income	446	0.35	2,852	1.11	4,755	1.25	1,692	1.05	6,075	2.33
Distribution costs	(17,194)	(13.49)	(29,303)	(11.44)	(44,393)	(11.69)	(20,883)	(12.99)	(27,052)	(10.40)
Administrative expenses	(5,318)	(4.17)	(13,651)	(5.33)	(14,162)	(3.73)	(5,429)	(3.38)	(5,985)	(2.30)
Other operating expenses	(544)	(0.43)	(1,625)	(0.63)	(3,127)	(0.82)	(1,172)	(0.73)	(4,145)	(1.59)
Profit from operations	11,056	8.68	32,854	12.82	43,187	11.38	17,856	11.11	24,829	9.54
Finance costs	(1,746)	(1.37)	(2,370)	(0.92)	(3,593)	(0.95)	(1,847)	(1.15)	(1,965)	(0.75)
Profit before taxation	9,310	7.31	30,484	11.90	39,594	10.43	16,009	9.96	22,864	8.79
Taxation	—	—	773	0.30	(3,265)	(0.86)	(968)	(0.60)	(2,059)	(0.79)
Profit for the year/ period	9,310	7.31	31,257	12.20	36,329	9.57	15,041	9.36	20,805	8.00

Selected combined balance sheet information

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	66,254	82,240	102,315	99,555
Current assets	71,857	151,603	225,761	294,527
Total assets	138,111	233,843	328,076	394,082
Current liabilities	85,312	145,892	195,135	239,922
Net current (liabilities) assets	(13,455)	5,711	30,626	54,605
Total assets less current liabilities	52,799	87,951	132,941	154,160
Owners' equity	52,799	87,951	132,941	154,160

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

The following is a management discussion and analysis of the results of the operations of the Group for the three years ended 31 December 2004 and the six months ended 30 June 2005. The following should be read in conjunction with the financial information and related notes and other financial data in the accountants' report of the Group, the text of which is set out in Appendix I to this prospectus.

Overview

The Group is 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. Its headquarters and production base are located at Xiaoshan Development Zone. Substantially all of the Group's products are sold domestically in the PRC.

The Directors believe that one of the Group's strengths is its commitment to the maintenance of the quality of its products. This commitment, together with other competitive strengths mentioned in the paragraph headed "Competitive strengths" under the section headed "Business" in this prospectus, contributed to the growing demand for the Group's products and its improving financial performance with turnover and net profit increasing at a CAGR of approximately 72.59% and 97.54% from 2002 to 2004, respectively.

Factors affecting operations of the Group

The Group's results of operations are affected by a number of factors, including, among other things, performance of the PRC economy, competition and price of the Group's products, availability and fluctuation in price of parts and components and income tax.

Performance of the PRC economy

Virtually all the operations of the Group are conducted in the PRC. During the Track Record Period, substantially all turnover was derived from the PRC market. The performance of the PRC economy thus has a significant impact on the major aspects of the Group's operations, including the level of demand for the Group's products, the prices and availability of parts and components, and the level of other operating expenses such as labour costs.

Among the various sectors of the PRC economy, the manufacturing sector causes the most significant influence on the Group's operations. The growth in the manufacturing sector during the Track Record Period, on one hand, led to significant growth in the Group's business and, on the other hand, led to a shortage and higher prices of parts and components. In general, the Directors expect the continued growth of the PRC economy to have positive impact on the Group's prospect.

Competition and price of the Group's products

The industrial sector in the PRC market is highly competitive. In some businesses, such as the sale of parking garage structures, manufacturers compete mainly in terms of price, while in other industries, such as machine tools and forklift trucks, competition occurs in quality and price. The Group faces competition from both domestic and, to a certain extent, foreign players. During the Track Record Period, competition has restricted the Group's ability to raise the selling price of its products. Prices of some products, mainly the traditional and mature products, have even been adjusted downwards.

Competition is expected to remain keen in the future. In order to maintain or improve profitability, it is necessary for the Group to control its costs, in particular costs of parts and components, at a competitive level and differentiate its products in terms of quality and reputation. The Group has achieved cost control by shifting a larger portion of part and component purchases towards suppliers in the PRC and will continue to do so in the future so long as the Group's required quality standards are met.

Availability and fluctuation in price of parts and components

Parts and components accounted for approximately 84.81%, 86.15%, 88.55% and 90.54% of the total cost of sales/services for each of the three years ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2005, respectively. The prices of parts and components thus have a significant impact on the profitability of the Group. The Group sources a wide variety of parts and components, of which the most important are computer numerical controllers, castings, cutting tools, engines and steel. The availability and prices of parts and components are subject to their supply and demand in the market and any shortage would result in higher purchase prices and might also delay in the Group's production schedule and delivery time.

The Group did not enter into any long term purchase agreement to protect itself against the shortage of part and component and the fluctuations in prices of parts and component. Due to the competition in the PRC market, the Group may not be able to pass on any significant increase in the price of parts and components to its customers by raising the selling price of its products. Under such circumstances, the Group's profitability may be affected.

Income tax

Hangzhou GF, the Group's major operating subsidiary in the PRC, as a foreign invested enterprise enjoys a tax holiday during which it is fully exempted from PRC enterprise income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the PRC enterprise income tax for the next three years. After the expiration of the tax holiday, Hangzhou GF, as a foreign invested enterprise, will be subject to a 16.5% enterprise income tax rate unless other preferential tax treatment is secured. For additional information regarding tax benefit enjoyed by Hangzhou GF, please refer to the paragraph headed "Principal financial statement components" under this section.

Please refer to the section headed "Risk factors" in this prospectus for a more detailed discussion of the above factors.

RECENT ACCOUNTING PRONOUNCEMENT

The financial information has been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards (the "HKASs") and Hong Kong Financial Reporting Standards (the "HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. For the purposes of preparing and presenting financial information of the Track Record Period, the Group has adopted all these new and revised HKFRSs.

CRITICAL ACCOUNTING POLICIES

The management discussion and analysis of the financial position and results of operations of the Group are based on the audited combined financial statements prepared in accordance with the principal accounting policies set out in the accountants' report of the Group as set out in Appendix I to this prospectus. Preparation of combined financial statements of the Company and its subsidiaries requires the Group to make estimates and judgment in applying certain critical accounting policies which have significant impact on the combined results of the Group. The Group bases its estimates on experience and other assumptions which the Group's management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. Management of the Group has identified below the accounting policies that are most critical to its combined financial statements.

Revenue recognition

Machine tools

Installment payments are collected from customers pursuant to schedules set out in the sales contracts. Generally, a retention payment of 10% of the contract sum is provided for and will be paid to the Group six months after the delivery of goods.

Revenue from the sale of machine tools is recognised when significant risks and rewards of ownership have been transferred to the buyer, which normally takes place at delivery. Installment payments received prior to delivery are recorded as advances from customers, which are included in other creditors and accrued charges in the balance sheet.

No partial sales recognition is adopted.

Parking garage structures

Installment payments are collected from customers pursuant to schedules set out in the sales contracts. Generally, a retention payment of 10% of the contract sum is provided for and will be paid to the Group one year after the completion of the installation.

HKAS 11 "Construction contracts" is adopted, pursuant to which revenue from the sale of parking garage structures is recognised on the basis of percentage of completion of the contract, provided that the revenue, costs incurred and estimated costs to completion can be measured reliably. Such 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.

Revenue from the sale of parking garage structures is recognised based on the percentage of completion, instead of by reference to delivery of goods and/or service, because the time line between completion of the production in the production plant and installation of such on site varies from three months to seven months, depending on a number of factors such as the infrastructure of the parking spaces in the sales contracted. The percentage of completion is considered as a more appropriate revenue recognition policy for parking garage structures.

The Group maintains a production progress report for each project to record the status of production. Revenue is then recognised by reference to the stage of completion as at the balance sheet date. The Group's senior management and person in charge of the respective projects will review the percentage of completion adopted in revenue recognition to ensure its reasonableness.

Forklift trucks

Installments are collected from customers pursuant to schedules set out in the sales contracts. No retention payment is provided for.

Revenue from the sale of forklift trucks is recognised when significant risks and rewards of ownership have been transferred to the buyer, which normally takes place at delivery. Installment payments received prior to delivery are recorded as advances from customers, which are included in other creditors and accrued charges in the balance sheet.

No partial sales recognition is adopted.

Fixed assets and depreciation

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the year/period in which they are incurred.

Construction in progress is stated at cost, which comprises all direct costs incurred in relation to their construction, 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.

Depreciation is provided to write off the cost of items 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. The estimated useful lives for this purpose are set out below.

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

The Group reviews the useful lives periodically to ensure that method and rates of depreciation are consistent with the expected pattern of economic benefit from fixed assets. The Group estimates the useful lives of fixed assets based on Directors' experience with similar assets, taking into account the anticipated technological changes. The depreciation expense in the future periods will change if there are significant changes from previous estimates.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Prepaid lease payments

Prepaid lease payments are carried at cost and amortised over the lease term on a straight-line basis.

Impairment

At each balance sheet date, the Group considers both internal and external sources of information to assess whether there is any indication that non-current assets, including fixed assets, are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the greater of net selling price (i.e. fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Accordingly, there will be an impact to the Group's future results if there is a significant change of the recoverable amounts of the Group's non-current assets.

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/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 profits 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 negative 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.

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 in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Allowances for bad and doubtful debts

The Group's policy is to provide full provision for bad and doubtful debts on the outstanding balances due over two years. In addition, specific allowance will be made on outstanding balances if the management determines there is recoverability problem. In determining the appropriate level of provision, judgments are required to be made concerning the collectability of amount due on a customer-by-customer basis. Factors such as the customers' current financial position and settlement history are considered. Should the financial position of customers deteriorate, additional provision will be required. Allowance for bad and doubtful debts for each of the three years ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2005 amounted to approximately RMB0.21 million, RMB3.79 million, RMB0.99 million and RMB1.61 million respectively, representing approximately 0.16%, 1.48%, 0.26% and 0.62% of the Group's turnover for the relevant year/period.

Provision for inventories

The Group annually reviews its inventory for slow-moving inventory, obsolescence or declines in market value. This review requires the Group's management to estimate the net realisable value based upon assumptions about future demand and market conditions.

The Group maintains a provision for inventory in respect of parts and components. In general, the Group does not make a provision for work-in-progress and finished goods as the production of which commences only upon receipt of customer orders.

Provision for inventory in respect of parts and components is calculated by applying a specified percentage based on the time elapsed since last movement to the original value of such parts and components. Such percentages are set out as follows:

Time elapsed since last movement	Percentage of provision
1-2 years	20%
2-3 years	50%
More than 3 years	100%

In addition, for parts and components that can only be used for models which the Group no longer produces, a 100% provision will be made for such items.

Provision for warranty

Generally, the Group offers a one-year warranty period for its products sold, during which repair and maintenance services will be provided to customers free of charge. Provision is made for expenses incurred in providing repair and maintenance services during the warranty period. In determining the appropriate level of provision, judgments are required to be made concerning the level of repair and maintenance. The Group annually reviews the basis of estimate and revises the estimate when appropriate. Provision for warranty is made at 0.50% (as regards machine tools) and 1.50% (as regards parking garage structures and forklift trucks) on the annual turnover.

PRINCIPAL FINANCIAL STATEMENT COMPONENTS

Turnover

Turnover 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 Track Record Period. The turnover of the Group during the Track Record Period was primarily generated from manufacturing and trading of machine tools, parking garage structures and forklift trucks.

Turnover of the Group experienced a CAGR of approximately 72.59% from 2002 to 2004.

Turnover by operations

Set out below is a breakdown of the Group's turnover by product range during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Machine tools	95,988	75.32%	207,975	81.18%	308,140	81.18%	131,484	81.82%	201,739	77.54%
Parking garage structures	30,178	23.68%	43,178	16.85%	52,425	13.81%	22,426	13.95%	34,227	13.15%
Forklift trucks	1,271	1.00%	5,034	1.97%	19,025	5.01%	6,800	4.23%	24,218	9.31%
Total	127,437	100.00%	256,187	100.00%	379,590	100.00%	160,710	100.00%	260,184	100.00%

Percentage of the Group's total turnover contributed by the machine tools business increased from approximately 75.32% in 2002 to approximately 77.54% in the six months ended 30 June 2005, due to the significant growth in demand for the Group's machine tool products. The Directors expect machine tools will remain as the Group's principal product in the foreseeable future.

Although the dollar value of parking garage structures increased from approximately RMB30.18 million in 2002 to approximately RMB34.23 million in the six months ended 30 June 2005, percentage of the Group's total turnover it contributed decreased from approximately 23.68% in 2002 to approximately 13.15% in the six months ended 30 June 2005, as the growth in demand for parking garage structures was not as high as the growth in demand for machine tools and forklift trucks during the Track Record Period.

Percentage of the Group's total turnover contributed by the forklift truck business increased from approximately 1.00% in 2002 to approximately 9.31% in the six months ended 30 June 2005. As in the case of machine tools business, the growth in forklift trucks business was driven by the growth in manufacturing sector of the PRC.

The Group's turnover is a direct function of the volume of products sold and their respective selling prices. The Directors confirm that the selling prices for the Group's machine tools, parking garage structures and forklift trucks during the Track Record Period were primarily affected by competition, complexity of the design of the products and the number of components to be assembled on the products.

Turnover by geographical location

Substantially all of the Group's products were sold to customers in the PRC (based on the delivery location) during the Track Record Period. Accordingly, no geographical analysis is presented.

Cost of sales/services

The cost of sales/services of the Group during the Track Record Period primarily comprised parts and components, direct labour and manufacturing overheads. Labour costs represented the salaries, bonus and benefits paid to the Group's production staff. Manufacturing overheads mainly include costs of consumables, utilities, custom duties for imported parts and components, indirect labour costs, repair and maintenance, depreciation charges and inventory provision. Set out below is a breakdown of the Group's cost of sales/services during the Track Record Period:

	Year ended 31 December						**Six months ended 30 June**			
	2002		**2003**		**2004**		**2004**		**2005**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Parts and components	79,526	84.81%	156,460	86.15%	247,465	88.55%	104,688	89.43%	184,920	90.54%
Direct labour	852	0.91%	2,226	1.23%	3,738	1.34%	2,254	1.93%	2,956	1.45%
Manufacturing overheads	13,393	14.28%	22,920	12.62%	28,273	10.11%	10,120	8.64%	16,372	8.01%
	93,771	100.00%	181,606	100.00%	279,476	100.00%	117,062	100.00%	204,248	100.00%

Cost of parts and components was the largest component under cost of sales/services of the Group during the Track Record Period accounting for approximately 84.81%, 86.15%, 88.55% and 90.54% of the Group's total cost of sales/services for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The principal parts and components for the production of the Group's products were mainly computer numerical controllers, castings, cutting tools, engines and steel.

Set out below is a breakdown of the costs of parts and components during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*Unaudited*)	*%*	*RMB'000*	*%*
Cutting tools	16,337	21%	41,959	27%	62,570	25%	24,555	23%	45,405	25%
Computer numerical controllers	13,784	17%	31,466	20%	48,499	20%	20,132	19%	32,338	17%
Castings	8,805	11%	22,615	14%	33,723	14%	13,234	13%	24,472	13%
Engines	5,368	7%	8,770	6%	10,132	4%	4,358	4%	6,145	3%
Steel	4,015	5%	7,397	5%	9,709	4%	3,963	4%	6,638	4%
Auxiliary materials *(Note)*	31,217	39%	44,253	28%	82,832	33%	38,446	37%	69,922	38%
Total	79,526	100%	156,460	100%	247,465	100%	104,688	100%	184,920	100%

Note: Including over 700 different types of parts and components.

Direct labour costs accounted for approximately 0.91%, 1.23%, 1.34% and 1.45% of the Group's total cost of sales/services for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The trend of the general increase was primarily attributable to the larger number of production staff to meet the increasing demand for the Group's products.

Manufacturing overheads accounted for approximately 14.28%, 12.62%, 10.11% and 8.01% of the Group's total cost of sales/services for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 respectively. The Directors believe that the trend of the general decrease was primarily attributable to the economy of scale achieved by the Group's expanded production volume over the Track Record Period.

In 2003, the Group had an inventory loss of approximately RMB2.23 million. Such inventory loss represented cost of certain parts and components of parking garage structures division, which had been purchased for the development of a new model of parking garage structure during 2002. In 2003, the management of the Group decided not to pursue development of that model and hence the relevant parts and components were disposed of and written off.

Gross margin analysis

The following table shows the gross profit margin of the principal products of the Group:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
Machine tools	95,988	207,975	308,140	131,484	201,739
Parking garage structures	30,178	43,178	52,425	22,426	34,227
Forklift trucks	1,271	5,034	19,025	6,800	24,218
Total	127,437	256,187	379,590	160,710	260,184
Gross profit					
Machine tools	25,904	59,618	86,455	37,266	46,594
Parking garage structures	8,235	14,922	11,478	5,679	6,208
Forklift trucks	(473)	41	2,181	703	3,134
Total	33,666	74,581	100,114	43,648	55,936
Gross profit margin					
Machine tools	26.99%	28.67%	28.06%	28.34%	23.10%
Parking garage structures	27.29%	34.56%	21.89%	25.32%	18.14%
Forklift trucks	(37.21%)	0.81%	11.46%	10.34%	12.94%
Total	26.42%	29.11%	26.37%	27.16%	21.50%

Year ended 31 December 2002 versus year ended 31 December 2003

In 2002, sales volume of machine tools, parking garage structures (in terms of number of car parking spaces) and forklift trucks were 191 units, 1,224 units and 116 units, respectively. The machine tools division and parking garage structures division recorded a gross profit of approximately RMB25.90 million and RMB8.24 million, respectively, whereas the forklift trucks division recorded a loss of approximately RMB0.47 million. The loss in this segment was attributable to the fact that the Group only re-sold electric forklift trucks sourced from the Taiwan FF Group at a relatively low margin, which was not sufficient to cover the manufacturing overheads such as depreciation. The overall profit margin for the year ended 31 December 2002 was approximately 26.42%.

In 2003, sale volume of machine tools, parking garage structures (in terms of number of car parking spaces) and forklifts trucks were 479 units, 2,214 units and 227 units, respectively. Forklifts trucks segment returned to profitability as the Group began to manufacture its diesel forklift trucks in the second half of 2003. As a result, the profitability of the Group improved in 2003. The success in reorganising the Group's business activities and the reduction in purchase price of major raw materials resulted in the rise in overall gross profit margin of the Group from approximately 26.42% in 2002 to 29.11% in 2003.

Machine tools

Despite the fall in average selling price per unit due to intense competition in the PRC, gross profit margin for machine tools increased from approximately 26.99% in 2002 to approximately 28.67% in 2003. The improvement in gross profit margin was mainly caused by: (a) the fall in purchase price of computer numerical controllers, which accounted for approximately 17.33% of the total cost of sales/services in 2003, and (b) reduction in manufacturing overheads per unit due to the approximately 152.31% increase in production volume from 195 units in 2002 to 492 units in 2003.

Parking garage structures

Despite the fall in average selling price per unit due to the intense competition in the PRC, gross margin for parking garage structures increased significantly from approximately 27.29% in 2002 to approximately 34.56% in 2003. The significant increase in gross profit margin for parking garage structures was mainly resulted from (a) the fall in purchase price of major raw materials such as engines, which accounted for approximately 4.83% of the total cost of sales/services in 2003, and (b) reduction in manufacturing overheads per unit due to the approximately 80.88% increase in production volume from 1,224 units in 2002 to 2,214 units in 2003.

Forklift trucks

The Group commenced production of diesel forklift trucks in the second half of 2003 and adopted a marketing strategy of lowering its selling price of this segment as to obtain market share from its competitors in the PRC. This segment returned to profitability and recorded a gross profit margin of approximately 0.81% against a loss of approximately 37.21% in 2002.

Year ended 31 December 2003 versus year ended 31 December 2004

In 2004, sale volume of machine tools, parking garage structures (in terms of number of car parking spaces) and forklift trucks were 707 units, 2,920 units and 613 units respectively. Gross profit margin of the machine tools division decreased slightly from approximately 28.67% in 2003 to approximately 28.06% in 2004, due to the fall in average selling price of machine tools per unit and rise in purchase price of major parts and component. The profit margin of parking garage structure division decreased to approximately 21.89% as a result of fall in average selling price of the Group's parking garage structures per unit to cater for fierce market competition. As a result, the overall gross profit margin decreased from approximately 29.11% in 2003 to 26.37% in 2004.

Machine tools

The gross profit margin for machine tools division decreased slightly from approximately 28.67% in 2003 to approximately 28.06% in 2004. The slight decrease in gross profit margin was mainly caused by (a) fall in average selling price of machine tools per unit, as a result of the intense competition in the PRC; and (b) the rise in purchase price of major parts and component, such as computer numerical controllers, castings and cutting tools, which in aggregate accounted for approximately 51.81% of the total cost of sales/services in 2004, due to shortage of supply in the PRC.

Parking garage structures

The gross profit margin for parking garage structures decreased significantly from approximately 34.56% in 2003 to approximately 21.89% in 2004. The significant decrease in gross profit margin was resulted from the fall in average selling price per unit of parking garage structures due to intense competition in the PRC.

Forklift trucks

Despite the rise in purchase price of major parts and component caused by shortage in the PRC, gross profit margin of forklift trucks increased significantly from approximately 0.81% in 2003 to approximately 11.46% in 2004 as (a) rise in average selling prices per unit due to the launch of new models of the FD series; and (b) reduction in manufacturing overheads per unit due to the approximately 220.41% increase in production volume from 245 units in 2003 to 785 units in 2004.

Six months ended 30 June 2004 versus six months ended 30 June 2005

Although the Group recorded an impressive increase in turnover by approximately 61.89% from approximately RMB160.71 million in the six months ended 30 June 2004 to RMB260.18 million in the same period in 2005, the gross profit was only increased by approximately 28.15% from RMB43.65 million to RMB55.94 million for the six months ended 30 June 2005. As advised by the Directors, the overall gross profit margin decreased to approximately 21.50% as compared with the same period in 2004 was mainly attributable to the rise in purchase price of major parts and component, as more expensive raw materials, which were also of higher quality, especially computer numerical controllers, castings and cutting tools, were purchased to meet the stringent requirement of the Group’s customers.

Machine tools

The average selling price of the Group’s machine tool products per unit increased in the six months ended 30 June 2005 following the launch of new models of the FV and VB series, which are of higher precision. Despite this, gross profit margin for machine tools decreased significantly from approximately 28.34% in the six months ended 30 June 2004 to approximately 23.10% in the same period in 2005. The significant decrease in gross profit margin was mainly caused by the rise in purchase price of the major raw materials which was in turn resulted from (a) shortage of supply in the PRC, and (b) more expensive materials used to produce the newly launched models.

Parking garage structures

The gross profit margin for parking garage structures decreased significantly from approximately 25.32% in the six months ended 30 June 2004 to approximately 18.14% in the same period in 2005. The significant decrease in gross profit margin was resulted from the rise in purchase price of major parts and component such as steel and engines, which in aggregate accounted for approximately 6.26% of the Group's total cost of sales/services in the six months ended 30 June 2005, due to shortage in the PRC.

Forklift trucks

Gross profit margin of forklift trucks continued to increase, from approximately 10.34% in the six months ended 30 June 2004 to approximately 12.94% in the same period in 2005. The increase in gross profit margin was mainly resulted from the rise in average selling price of forklift trucks to approximately RMB50,000 per unit as compared to RMB31,000 per unit in year 2004.

Distribution costs

Distribution costs of the Group comprised primarily (a) staff costs such as salaries, wages and sales commission paid to sales representatives and staff stationed in the liaison offices; (b) travelling and other expenses incurred in the corresponding period for business development; (c) after-sales services expenses including provision for warranty; and (d) general office expenses incurred by the liaison offices. The increase in distribution costs over the Track Record Period was mainly due to the hiring of additional staff to cope with the increase in the number of liaison offices. Set out below is a breakdown of the Group's distribution costs during the Track Record Period:

	Year ended 31 December			**Six months ended 30 June**	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Staff costs	4,911	7,758	13,054	5,604	7,220
Travelling and business development	3,385	5,677	8,606	4,278	4,862
After-sale services	2,778	6,061	7,128	2,961	4,643
General office expenses - liaison offices	3,821	6,139	8,838	5,440	5,227
Transportation and delivery	1,318	2,457	3,619	1,312	3,524
Marketing expenses	981	1,211	3,148	1,288	1,576
Total	17,194	29,303	44,393	20,883	27,052

Administrative expenses

Administrative expenses comprised primarily (a) staff costs such as salaries and wages to staff; and (b) general office expenses incurred by head office in Hangzhou. The increase in staff costs during the Track Record Period was primarily attributable to the increase in headcounts required for the substantial expansion of the Group's operations. Set out below is a breakdown of the Group's administrative expenses during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Staff costs	1,644	4,785	6,755	1,402	1,610
General office expenses - Head office	2,801	4,171	4,470	2,793	1,412
Travelling	366	574	1,071	473	558
Depreciation charges	298	332	872	270	795
Provision for bad and doubtful debt	209	3,789	994	491	1,610
Total	5,318	13,651	14,162	5,429	5,985

Capital expenditures on segments of parking garage structures and forklift trucks

(a) **Parking garage structures**

As shown in the accountants' report as set out in Appendix I to this prospectus, during the Track Record Period, the capital expenditures of this segment were approximately RMB0.62 million, RMB2.99 million, RMB1.25 million and RMB0.22 million respectively. Despite the fact that this segment was either loss making or not very profitable during the Track Record Period, the Directors believe that the capital expenditures investments in this segment during the Track Record Period and in future are reasonable and justifiable due to the followings:

Set up costs for the production base

Hangzhou GF started to manufacture parking garage structures in its production plant at Xiaoshan Development Zone in 1997. During its initial stage of establishing the production plant for parking garage structures, Hangzhou GF has incurred considerable sum in the machinery and equipment. The Directors consider that it is not unusual that the initial capital expenditure is comparatively higher for setting up a new manufacturing business.

Early stage of development

During its early stage of development, considerable amount of resources and time were allocated to explore the markets and develop customer base and the number of parking garage structures sold was small. Hence, this segment was loss making or not very profitable during the Track Record Period.

Growth potential

The gross profit margin of this segment was approximately 27.3 % and 34.6% respectively for the two years ended 31 December 2003. Due to the fluctuation in the cost and demand and supply of steel in 2004, the gross profit margin of this segment declined to approximately 21.9% in the year ended 31 December 2004. The austerity measures in the PRC in 2003 resulted in the price of steel returning to stable and less fluctuating. As compared with the six months ended 30 June 2004, this segment recorded a growth in turnover of approximately 52.6% in the six months ended 30 June 2005.

Shift towards products with higher profit margin

It is the intention of the Group to shift its emphasis towards products of more advanced features, such as elevator system. As higher level of technology required in producing and installing such products would impose an entry barrier to potential entrants, competition and downward pressure on product prices are expected to be less intense, resulting in improvement in higher profit margin.

(b) **Forklift trucks**

As shown in the accountants' report as set out in Appendix I to this prospectus, during the Track Record Period, the capital expenditures of this segment were approximately RMB1.11 million, RMB2.25 million, RMB0.44 million and RMB0.47 million respectively. Despite the fact that the business of this segment was loss making in 2002, the Directors believe that the capital expenditure investments in this segment during the Track Record Period and in future were reasonable and justifiable due to the followings:

Set up costs for the production base

Hangzhou GF started to manufacture forklift trucks in its production plant at Xiaoshan Development Zone in 2003. During its initial stage of establishing the production plant for forklift trucks, Hangzhou GF has incurred considerable sum in the machinery and equipment. The Directors consider that it is not unusual that the initial capital expenditure is comparatively higher for setting up a new manufacturing business.

Early stage of development

During its early stage of development, considerable amount of resources and time were allocated to explore the markets and develop customer base and the number of forklift trucks sold during the early stage of development was small. Hence, this segment was loss making or not very profitable during the Track Record Period.

Growth potential

Significant growth in demand for forklift trucks is expected. Between 2002 and 2004, the turnover of forklift trucks has demonstrated a CAGR of approximately 286.9%. In 2004, the Group's forklift truck division of the production plant at Xiaoshan Development Zone was accredited with the ISO 9001:2000 accreditation for its design and manufacturing system. The growth in turnover is expected to continue in the future as the quality of the Group's forklift trucks products has been assured.

Improving gross profit margin

Although this segment has been operating in a net loss position over the Track Record Period, the loss as a percentage of segment turnover has been declining consistently. Such trend is expected to continue in the future as the Group is expected to be able to charge a higher price for its forklift trucks because of their better quality, which is assured by the ISO 9001:2000 accreditation.

Finance costs

Finance costs comprised mainly interest payments on bank borrowings wholly repayable within one year.

Taxation

(i) *Hong Kong profits tax*

No provision for Hong Kong profits tax has been made as the Group did not carry out any business in Hong Kong during the Track Record Period.

(ii) *Overseas income tax*

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. Pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council: (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company. The undertaking is for a period of twenty years from 20 September 2005. The Company's subsidiaries established in BVI are incorporated under the International Business Companies Acts of BVI and, accordingly, are exempted from payment of income tax of BVI.

(iii) *PRC foreign enterprise income tax ("FEIT")*

The Group's subsidiaries in the PRC are subject to the Income Tax Law of the PRC and the normal tax rate is 33%.

Pursuant to the approvals obtained from the relevant PRC tax authorities , being a production oriented enterprise established in the Economic and Technological Development Zone, Hangzhou GF is entitled to a preferential tax rate of 16.5%, comprising state income tax of 15% and local income tax of 1.5%. Furthermore, being a production oriented enterprise with at least 10 years of operation, Hangzhou GF is entitled to a tax concession period in which it is fully exempted from PRC enterprise income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the PRC enterprise income tax for the next three years. Also, being recognised as a "Foreign-invested Advanced Technology Enterprise" ("外商投資先進技術企業 ") by the MOFCOM of Zhejiang Province in May 2004, Hangzhou GF is entitled to (a) a 50% reduction in the PRC enterprise income tax for further three years, after the expiration of the tax holiday mentioned above; and (b) a full exemption of local income tax for five to ten years commencing from its first profit-making year, subject to approval by the relevant tax authorities.

As the first profit-making year of Hangzhou GF was 2002, the applicable tax rate for 2002 and 2003 was nil. Being recognised as a "Foreign-invested Advanced Technology Enterprise" ("外商投資先進技術企業 "), the local income tax was specifically and fully exempted by the relevant tax authorities in 2004 and its applicable tax rate for the year ended 31 December 2004 was 7.5%. The applicable tax rate for the six months ended 30 June 2005 was 8.25%.

Global Friend has not yet commenced its operation during the Track Record Period and therefore it did not have taxable profits for the period since its date of incorporation on 7 December 2004 to 31 December 2004 and for the six months ended 30 June 2005.

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the effective tax rate of the Group was approximately nil, - 2.54%, 8.25% and 9.01% respectively. The negative effective tax rate in 2003 represented deferred tax assets arising from allowance for bad and doubtful debts and warranty provision.

Dividends

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, no dividend has been declared.

RESULTS OF OPERATIONS

Financial year ended 31 December 2003 compared with financial year ended 31 December 2002

Turnover

Turnover of the Group for 2003 amounted to approximately RMB256.19 million, representing an increase of approximately 101.03% from turnover for 2002 of approximately RMB127.44 million. In 2003, approximately 81.18% (2002: 75.32%) of the Group's turnover was contributed by the machine tools business division.

Sales of parking garage structures increased in 2003 by approximately RMB13.00 million, or approximately 43.07%, from approximately RMB30.18 million in 2002 to approximately RMB43.18 million in 2003. Parking garage structures accounted for approximately 16.85% of the Group's total turnover in 2003 versus approximately 23.68% in 2002.

Sales of forklift trucks increased in 2003 by approximately RMB3.76 million, or a massive of approximately 296.06% in monetary value, from approximately RMB1.27 million in 2002 to approximately RMB5.03 million in 2003, though this product accounted only for approximately 1.97% of the Group's total turnover in 2003 versus approximately 1.00% in 2002. This massive increase was primarily attributable to the commencement of production and sales of diesel forklift trucks in mid 2003 which were well received by the market. Prior to mid 2003, all forklift trucks sold were electric forklift trucks purchased from Hong Kong GF.

The increase in turnover was mainly due to the following reasons: (a) strong demand for machine tools by manufacturers, in particular producers of automobiles and automobile accessories, for the expansion and enhancement of their production capacity; (b) expansion of production facilities of the Group as a result of the completion of construction of the third phase of the Hangzhou plant in June 2003; and (c) strengthening of distribution network of the Group via the establishment of new liaison offices in major cities, such as Nanjing, Guiyang, Guangzhou and Jinan of the PRC.

In terms of product mix, the portion of total turnover contributed by machine tools increased from approximately 75.32% in 2002 to approximately 81.18% in 2003 while the portion contributed by parking garage structures decreased from approximately 23.68% in 2002 to approximately 16.85% in 2003. Parking garage structures are popular in major cities where parking space is limited and will usually be installed during the construction of new buildings. Higher growth rate of parking garage structures business is expected in view of the increasing automobile ownership in major cities in the PRC.

Gross profit

Gross profit of the Group increased by approximately 121.50%, from approximately RMB33.67 million for 2002 to approximately RMB74.58 million for 2003, primarily due to the increase in turnover of all the business segments. Set out below is the percentage breakdown of the Group's cost of sales/services to its turnover for the two years ended 31 December 2003:

	Year ended 31 December			
	2002		**2003**	
	RMB'000	*% of total turnover*	*RMB'000*	*% of total turnover*
Parts and components	79,526	62.40%	156,460	61.07%
Direct labour	852	0.67%	2,226	0.87%
Manufacturing overheads	13,393	10.51%	22,920	8.95%
	93,771	73.58%	181,606	70.89%

From 2002 to 2003, the average selling prices of the major machine tool products per unit have been reduced ranging between approximately 1.7% to 11.78%.

Despite the fall in average selling prices of its major machine tools products per unit, the gross profit margin of the Group increased from approximately 26.42% in 2002 to approximately 29.11% in 2003, as a result of (a) drop in purchase prices of computer numerical controllers, which accounted for approximately 14.70% and 17.33% of the total cost of sales/services in 2002 and 2003; (b) improved production efficiency and reduced wastage of parts and components brought by economy of scale; and (c) lower manufacturing overheads per unit due to a higher production level.

Other operating income

The increase in other revenue from approximately RMB0.45 million in 2002 to approximately RMB2.85 million in 2003 was mainly resulted from the increase in the sales of materials and repair income, which was in turn caused by the increase in the quantity of products sold and the expiry of warranty period granted to products sold in previous years.

Distribution costs

The increase in distribution costs from approximately RMB17.19 million in 2002 to approximately RMB29.30 million in 2003 was mainly resulted from (a) a higher level of staff costs and general office expenses due to the establishment of liaison offices in major cities such as Nanjing, Guiyang, Guangzhou and Jinan; and (b) a higher level of after-sale services expenses.

Distribution costs accounted for approximately 11.44% of turnover in 2003, as compared to approximately 13.49% in 2002, as a result of the cost control effort of the management.

Administrative expenses

The increase in administrative expenses from approximately RMB5.32 million in 2002 to approximately RMB13.65 million in 2003 was mainly resulted from the increase in (a) staff costs due to the recruitment of additional staff; and (b) provision for bad and doubtful debts due to a higher level of accounts receivable, including a specific provision for RMB2.00 million due from a customer. The Group had brought an action against such customer demanding for the payment of the outstanding contract sum. After the mediation process facilitated at the Higher People's Court of Jiangsu, the Group and the customer agreed that the customer shall pay RMB0.46 million to the Group in settlement of such lawsuit. The remaining balance of RMB1.54 million was written off as bad debt.

Administrative expenses accounted for approximately 5.33% of turnover in 2003, as compared to approximately 4.17% in 2002, due to the non-recurring RMB2.00 million specific provision mentioned above.

Finance costs

The increase in finance costs from approximately RMB1.75 million in 2002 to approximately RMB2.37 million in 2003 was mainly resulted from the increase in bank borrowings for trade and operations from approximately RMB34.28 million as at 31 December 2002 to approximately RMB79.76 million as at 31 December 2003.

Taxation

As the first profit-making year of the Group is 2002, no provision was made for PRC enterprise income tax in 2002 and 2003. The approximately RMB0.77 million credit to income tax in 2003 represented a deferred tax asset arising from allowance for bad and doubtful debts and warranty provision.

Net profit

The Group's net profit increased by approximately 235.77% from approximately RMB9.31 million in 2002 to approximately RMB31.26 million in 2003. Net profit margin increased from approximately 7.31% in 2002 to approximately 12.20% in 2003, primarily due to the higher gross margin and decrease in distribution expenses as a percentage to turnover.

Financial year ended 31 December 2004 compared with financial year ended 31 December 2003

Turnover

The increase in the Group's total turnover of approximately RMB123.40 million, or approximately 48.17%, from approximately RMB256.19 million in 2003 to approximately RMB379.59 million in 2004 was primarily attributable to the increase in turnover from the Group's machine tool division of approximately RMB100.16 million, or approximately 48.16%, from approximately

RMB207.98 million in 2003 to approximately RMB 308.14 million in 2004. Though there was an increase of approximately RMB9.25 million, or approximately 21.42%, from approximately RMB43.18 million in 2003 to approximately RMB52.43 million in 2004 in the sale of parking garage structures, its contribution to the Group's total turnover decreased from approximately 16.85% in 2003 to approximately 13.81% in 2004. The Group also recorded a substantial increase in the Group's sale of forklift trucks from approximately RMB5.03 million in 2003 to approximately RMB19.03 million in 2004, representing an increase of approximately 278.33%. Approximately 81.18% of the Group's turnover was contributed by sale of machine tools.

The increase in turnover was mainly due to the following reasons (a) strong demand for machine tools by manufacturers, in particular manufacturers of automobiles and automobile accessories, for the expansion and enhancement of their production capacity; (b) expansion of production facilities of the Group as a result of the completion of the construction of the fourth phase of the Hangzhou production plant in May 2004; and (c) strengthening of distribution network of the Group by establishment of new liaison offices in major cities in the PRC such as Wenzhou, Harbin, Yantai and Shenyang.

In terms of product mix, the portion of the Group's total turnover contributed by machine tools remained stable at approximately 81.18% in 2003 and 2004 while the portion contributed by parking garage structures decreased from approximately 16.85% in 2003 to approximately 13.81% in 2004, as the growth rate of the former is much faster than that of the latter. Parking garage structures is popular in major cities where parking space is limited and will usually be installed during the construction of new buildings. Higher growth rate of parking garage structures business is expected in view of the increasing automobile ownership in major cities in the PRC.

Gross profit

The Group's gross profit increased from approximately RMB74.58 million in 2003 to approximately RMB100.11 million in 2004, representing an increase of approximately RMB25.53 million which was primarily due to the increase in the Group's turnover of all the business segments.

The Group's cost of sales/services as a percentage of its turnover increased from approximately 70.89% in 2003 to approximately 73.63% in 2004 as a result of massive increase of the Group's overall activities. Set out below is the percentage breakdown of the Group's cost of sales/services to its turnover for the two years ended 31 December 2004:

	Year ended 31 December			
	2003		**2004**	
	RMB'000	*% of total turnover*	*RMB'000*	*% of total turnover*
Parts and components	156,460	61.07%	247,465	65.19%
Direct labour	2,226	0.87%	3,738	0.98%
Manufacturing overheads	22,920	8.95%	28,273	7.46%
	181,606	70.89%	279,476	73.63%

Due to intense competition in the market, average selling prices of the Group's major products in particular the machine tools per unit continued to fall in 2004. Between 2003 to 2004, the average selling prices of the major machine tool products per unit have been reduced by approximately 8.8% to 13.4%. In addition, prices of major parts and components were driven upwards by shortage of supply in the PRC market, which was in turn caused by the significant growth in the manufacturing sector. Gross profit margin of the Group decreased accordingly from approximately 29.11% in 2003 to approximately 26.37% in 2004, although manufacturing overheads per unit was driven down by a higher production level.

Other operating income

The Group's other operating income increased from approximately RMB2.85 million in 2003 to approximately RMB4.76 million in 2004. The increase was mainly resulted from the increase in sales of materials and repair income, which was in turn caused by the increase in quantity of products sold and the expiry of warranty period granted to products sold in previous years.

Distribution costs

The Group's distribution costs as a percentage of turnover increased from approximately 11.44% in 2003 to approximately 11.69% in 2004. The increase in distribution costs from approximately RMB29.30 million in 2003 to approximately RMB44.39 million in 2004 was mainly resulted from (a) a higher level of staff costs as more sales representatives were hired; and (b) increase in traveling and marketing expenses as a result of more active participation in trade fairs for business development.

Administrative expenses

Although staff costs increased due to the recruitment of additional staff, in particular information technology staff for the implementation of Enterprise Resources Planning ("ERP") system, administrative expenses decreased from approximately RMB13.65 million (representing approximately 5.33% of total turnover) in 2003 to approximately RMB14.16 million (representing approximately 3.73% of total turnover) in 2004, as the RMB2.00 million specific provision for amount due from a customer in 2003 did not occur in the year.

Finance costs

Finance costs represented interest expenses on bank borrowings wholly repayable within one year.

The increase in finance costs from approximately RMB2.37 million in 2003 to approximately RMB3.59 million in 2004 was mainly resulted from the increase in bank borrowings for trade and operations from approximately RMB79.76 million as at 31 December 2003 to approximately RMB89.99 million as at 31 December 2004.

Taxation

As the first profit-making year of the Group is 2002, the PRC enterprise income tax for 2002 and 2003 has been fully exempted, resulting in nil provision for income tax. As a percentage of turnover, income tax expense was approximately 0.86% for 2004. The effective tax rate for 2004 was 8.25%.

Included in the approximately RMB3.27 million income tax expense was approximately RMB0.35 million credit representing deferred tax asset arising from allowance for bad and doubtful debts, provision for inventories and warranty provision.

Net profit

The Group's net profit increased by approximately 16.22% from approximately RMB31.26 million in 2003 to approximately RMB36.33 million in 2004. However, net profit margin decreased from approximately 12.20% in 2003 to approximately 9.57% in 2004, primarily due to the lower gross profit margin and increase in distribution expenses as a percentage to turnover.

Six months ended 30 June 2005 compared with six months ended 30 June 2004

Turnover

The Group's total turnover increased by approximately RMB99.47 million, or approximately 61.89%, from approximately RMB160.71 million in the six months ended 30 June 2004 to approximately RMB260.18 million in the same period in 2005. Sales of machine tools increased by approximately RMB70.26 million, or approximately 53.44%, from approximately RMB131.48 million in the six months ended 30 June 2004 to approximately RMB201.74 million in the same period in 2005. Sales of parking garage structures increased by approximately RMB11.80 million, or approximately 52.61%, from approximately RMB22.43 million in the six months ended 30 June 2004 to approximately RMB34.23 million in the same period in 2005. Moreover, sales of the forklift trucks increased by approximately RMB17.42 million, from approximately RMB6.80 million in the six months ended 30 June 2004 to approximately RMB24.22 million in the same period in 2005.

The increase in the Group's total turnover was attributable to (a) the consistently increasing demand for the Group's products which was driven by the continuing growth of manufacturing sector in the PRC; and (b) the Group's effort in expanding its product range and distribution networks.

Gross profit

The Group's cost of sales/services for the six months ended 30 June 2005 accounted for approximately 78.50% of its total turnover, which was higher than approximately 72.84% for the same period in 2004. Set out below is the percentage breakdown of the Group's cost of sales/services to its turnover for the six months ended 30 June 2004 and 30 June 2005:

	Six months ended 30 June			
	2004		**2005**	
	RMB'000	*% of total turnover*	*RMB'000*	*% of total turnover*
	(unaudited)			
Parts and components	104,688	65.14%	184,920	71.07%
Direct labour	2,254	1.40%	2,956	1.14%
Manufacturing overheads	10,120	6.30%	16,372	6.29%
	117,062	72.84%	204,248	78.50%

The Group's gross profit increased from approximately RMB43.65 million in the six months ended 30 June 2004 to approximately RMB55.94 million in the same period in 2005. Gross profit margin decreased from approximately 27.16% in the six months ended 30 June 2004 to approximately 21.50% in the same period in 2005 as (a) the average selling prices of the Group's major machine tools products per unit dropped due to intense competition; and (b) the price of parts and components was driven up by shortage in the market.

Other operating income

The Group's other operating income increased from approximately RMB1.69 million in the six months ended 30 June 2004 to approximately RMB6.08 million in the same period in 2005. The increase was primarily attributable to the sales of materials and repair income, which was consistent with the increase in quantity of products sold and the expiry of warranty period granted to products sold in previous years.

Distribution costs

The increase in distribution costs from approximately RMB20.88 million in the six months ended 30 June 2004 to approximately RMB27.05 million in the same period in 2005 was mainly resulted from (a) a higher level of staff costs as more sales representatives were hired; and (b) increase in expenses incurred in the provision of after-sales services.

The Group's distribution costs as a percentage of its turnover decreased from approximately 12.99% in the six months ended 30 June 2004 to approximately 10.40% in the same period in 2005, due to the Group's effort in controlling distribution expenses.

Administrative expenses

The Group's administrative expenses increased by approximately 10.31% from approximately RMB5.43 million in the six months ended 30 June 2004 to approximately RMB5.99 million in the same period in 2005. The increase was primarily attributable to increase in staff costs due to the recruitment of additional staff and increase in provision for doubtful debts due to a higher level of accounts receivable.

Finance costs

The Group's finance costs increased slightly by approximately 6.49% from approximately RMB1.85 million in the six months ended 30 June 2004 to approximately RMB1.97 million in the same period in 2005, which was consistent with the increase in bank borrowings for trade and operations from approximately RMB89.99 million as at 31 December 2004 to approximately RMB97.01 million as at 30 June 2005.

Taxation

As the first profit-making year of the Group is 2002, the PRC enterprise income tax for 2002 and 2003 has been fully exempted, resulting in nil provision for income tax. As a percentage of the Group's turnover, income tax expense was approximately 0.79% for the six months ended 30 June 2005. The effective tax rate for the same period was approximately 9.01%.

Included in the approximately RMB2.06 million income tax expense was a credit of approximately RMB25,000 representing deferred tax asset arising from allowance for inventories and warranty provision.

Net profit

The Group's net profit increased by approximately 38.36% from approximately RMB15.04 million in the six months ended 30 June 2004 to approximately RMB20.81 million in the same period in 2005. Net profit margin decreased from approximately 9.36% for the six months ended 30 June 2004 to approximately 8.00% for the same period in 2005, as a result of the lower gross profit margin.

INDEBTEDNESS

Borrowings

At the close of business on 31 October 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately RMB140.45 million, all of which were short-term borrowings. Of the total borrowings, approximately RMB18.70 million was secured by certain assets of the Group with an aggregate net book value of approximately RMB44.48 million and the remaining approximately RMB121.75 million was unsecured, approximately RMB97.00 million of which was guaranteed by Hong Kong GF, Taiwan FF, Hangzhou Fair Fine, certain executive Directors and a related party.

As at 31 October 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had available aggregate facilities from banks of approximately RMB219.43 million, of which approximately RMB128.70 million had been utilised. The remaining unutilised balance of approximately RMB90.73 million are cash line available to the Group.

The increase in the borrowings of the Group during the Track Record Period was mainly attributable to new loans drawn to finance its working capital requirements and capital expenditure for expansion of production facilities in Hangzhou.

Collateral

As at 31 October 2005, bank borrowings of the Group of approximately RMB115.70 million were secured and guaranteed by:

(i) certain land use rights, property and machinery of the Group with an aggregate net book value of approximately RMB44.48 million as at 31 October 2005;

(ii) certain corporate guarantees provided by Hong Kong GF and Taiwan FF, being the holding companies of the Company, and Hangzhou Fair Fine, being the fellow subsidiary of the Company; and

(iii) certain personal guarantees provided by certain executive Directors and a related party.

The relevant banks have agreed in principle that the guarantees under (ii) and (iii) above be replaced by corporate guarantees to be provided by members of the Group upon Listing.

Contingent liabilities

The Group had no material contingent liabilities as at 31 October 2005.

Capital commitments and other commitments

As at 31 October 2005, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental premises totalled approximately RMB1.31 million and capital commitment in respect of acquisition of property, plant and equipment totalled approximately RMB7.00 million.

Disclaimer

Save as otherwise disclosed in this paragraph headed "Indebtedness" and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 October 2005, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, guarantees or other material contingent liabilities.

No material adverse change

Save as otherwise disclosed in this paragraph headed "Indebtedness", the Directors confirm that there has been no material adverse change in the indebtedness, commitments and contingent liabilities of the Group since 31 October 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets/liabilities

As at 31 December 2002, the Group had net current liabilities of approximately RMB13.46 million. As at 31 December 2003, 2004 and 30 June 2005, the Group had net current assets of approximately RMB5.71 million, RMB30.63 million and RMB54.61 million, respectively. The Group's credit terms to its customer were generally longer than credit terms given by the Group's suppliers for its purchases of parts and components and other operating expenses. The Directors confirm that the Group mainly utilised its internally generated working capital and short term borrowings, as a more cost-effective and flexible way than long term borrowings, to finance its working capital requirements and capital expenditure. As such, the Group was in a net current liability position for 2002. The improvement in working capital position as at 31 December 2003, 2004 and 30 June 2005 was mainly due to the significant improvement in operating results in 2003, 2004 and in the first six months of 2005.

As at 31 October 2005, based on the combined balance sheet, the Group had net current assets of approximately RMB77.22 million. Current assets mainly comprised cash and bank balances (including pledged bank deposits) of approximately RMB17.01 million, inventories of approximately RMB158.96 million, debtors, deposits, prepayments of approximately RMB152.02 million, amounts due from customers for contract work of approximately RMB10.52 million and amounts due from related companies of approximately RMB2.16 million. Current liabilities mainly comprised creditors and accrued charges of approximately RMB109.20 million, short-term bank borrowings of approximately RMB128.70 million, warranty provision of approximately RMB3.41 million, amounts due to customers for contract work of approximately RMB3.72 million, amounts due to related companies of approximately RMB17.95 million and tax payables of approximately RMB0.45 million. All balances with related parties will be settled before Listing.

Capital structure

As at 31 October 2005, the Group had net tangible assets of approximately RMB174.42 million, comprising non-current assets of approximately RMB97.20 million (mainly fixed assets) and net current assets of approximately RMB77.22 million.

Borrowings and bank facilities

The Group generally finances its operations with internally generated cashflow and facilities provided by its bankers in the PRC.

As at 31 December of each of 2002, 2003 and 2004 and 30 June 2005, the Group's total bank borrowings represented approximately 24.82%, 34.11%, 27.43% and 24.62%, respectively of its then total assets.

As at 31 October 2005, the Group had in total banking facilities amounting to approximately RMB219.43 million, all of which was loan facility. These banking facilities were secured by certain land use rights, property and machinery of the Group, corporate guarantees given by holding companies of the Company and a fellow subsidiary of the Company and personal guarantees given by certain executive Directors and a related party. The lending banks have agreed in principle that they will release such corporate and personal guarantees and replace them by corporate guarantees to be provided by members of the Group upon Listing. As at 31 October 2005, the Group has drawn down the said loan facility of approximately RMB128.70 million.

The Group services its debts primarily through cash generated from its operations. After taking into consideration the financial resources available to the Group including internally generated funds, the available unutilised banking facilities and the estimated net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient financial resources to meet its foreseeable capital expenditure and debt repayment requirements.

Cash flow

The following table summarises the cash flow data during the Track Record Period:

	Year ended 31 December			**Six months ended 30 June**	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net cash (used in) from operating activities	(5,908)	(25,328)	6,975	(11,031)	(5,885)
Net cash used in investing activities	(5,910)	(19,307)	(21,187)	(15,391)	(1,806)
Net cash from financing activities	13,964	45,280	13,406	21,919	19,400
Net increase (decrease) in cash and cash equivalent	2,146	645	(806)	(4,503)	11,709
Cash and cash equivalent at the beginning of the year/period	3,665	5,811	6,456	6,456	5,650
Cash and cash equivalent at the end of the year/period	5,811	6,456	5,650	1,953	17,359

Operating activities

Cash inflow from operations is mainly derived from receipt of deposits and payments for sales of the Group's products and provision of services. Cash outflow from operations is principally generated for the purchase of parts and components, as well as staff costs, distribution costs and administrative expenses.

In 2002, the Group's net cash outflow from operations was approximately RMB5.91 million while operating cash flow before changes in working capital was approximately RMB16.36 million. The difference was mainly attributable to increase in debtors deposits and prepayments of approximately RMB19.66 million, and increase in amount due from customers for contract work of approximately RMB2.58 million.

In 2003, the Group's net cash outflow from operations was approximately RMB25.33 million while operating cash flow before changes in working capital was approximately RMB42.34 million. The difference was mainly attributable to increase in inventories of approximately RMB37.15 million, increase in debtors, deposits and prepayments of approximately RMB41.86 million and increase in amount due from customers for contract work of approximately RMB1.28 million, partially offset by increase in creditors and accrued charges of approximately RMB23.56 million.

In 2004, the Group's net cash inflow from operations was approximately RMB6.98 million while operating cash flow before changes in working capital was approximately RMB52.57 million. The difference was mainly attributable to increase in inventories of approximately RMB51.67 million and increase in debtors, deposits and prepayments of approximately RMB28.98 million, partially offset by increase in creditors and accrued charges of approximately RMB29.85 million and increase in amount due to holding company of approximately RMB4.97 million.

In the six months ended 30 June 2005, the Group's net cash outflow from operations was approximately RMB5.89 million while operating cash flow before changes in working capital was approximately RMB31.57 million. The difference was mainly resulted from increase in inventories of approximately RMB30.79 million, increase in debtors, deposits and prepayments of approximately RMB16.22 million and increase in amount due from customers for contract work of approximately RMB12.29 million, partially offset by increase in creditors and accrued charges of approximately RMB18.47 million and increase in amount due to holding company of approximately RMB6.85 million.

Investing activities

Cash inflow from investing activities was mainly derived from proceeds on disposal of fixed assets, interest received and decrease in pledged bank deposits. Cash outflow from investing activities was mainly applied towards the purchase of fixed and intangible assets and increase in pledged bank deposits and prepaid lease payments.

In 2002, the Group's net cash outflow from investing activities was approximately RMB5.91 million, which was mainly resulted from (a) purchase of fixed assets of approximately RMB4.10 million; (b) increase in bank deposits pledged as a guarantee for contract performance of approximately RMB1.75 million; and (c) purchase of computer software of approximately RMB0.11 million. Such outflow was partially offset by bank interest received of approximately RMB34,000.

In 2003, the Group's net cash outflow from investing activities was approximately RMB19.31 million, which was mainly resulted from (a) purchase of fixed assets of approximately RMB17.24 million, mainly for the construction of the third phase of the Hangzhou plant, (b) increase in bank deposit pledged as a guarantee for contract performance of approximately RMB2.29 million, and (c) purchase of computer software of approximately RMB94,000. Such outflow was partially offset by (a) proceeds on disposal of fixed assets of approximately RMB0.25 million, and (b) bank interest received of approximately RMB69,000.

In 2004, the Group's net cash outflow from investing activities was approximately RMB21.19 million, which was mainly resulted from (a) purchase of fixed assets of approximately RMB21.22 million, mainly for the construction of the fourth phase and the modification of the first phase of the Hangzhou plant, (b) increase in prepaid lease payment of approximately RMB0.30 million, and (c) purchase of computer software of approximately RMB0.79 million. Such outflow was partially offset by (a) release of bank deposits previously pledged as a guarantee for contract performance of approximately RMB0.98 million, (b) proceeds on disposal of fixed assets of approximately RMB41,000, and (c) bank interest received of approximately RMB96,000.

In the six months ended 30 June 2005, the Group's net cash outflow from investing activities was approximately RMB1.81 million, which was mainly resulted from purchase of fixed assets of approximately RMB2.09 million. Such outflow was partially offset by (a) bank interest received of approximately RMB0.12 million and (b) release of bank deposit previously pledged as a guarantee for contract performance of approximately RMB0.17 million.

Financing activities

Cash inflow from financing activities was mainly derived from capital injected by shareholder and new bank borrowings. Cash outflow from financing activities was mainly attributable to the repayment of bank borrowings.

In 2002, net cash inflow from financing activities was approximately RMB13.96 million, which was resulted from short term bank borrowings for trade and operations of approximately RMB55.31 million, partially offset by repayment of bank borrowings of approximately RMB41.03 million and decrease in amount due to ultimate holding company of approximately RMB0.31 million.

In 2003, net cash inflow from financing activities was approximately RMB45.28 million, which was resulted from short term bank borrowings for trade and operations of approximately RMB134.43 million, partially offset by repayment of bank borrowings of approximately RMB88.95 million and decrease in amount due to ultimate holding company of approximately RMB0.20 million.

In 2004, net cash inflow from financing activities was approximately RMB13.41 million, which was resulted from (a) short term bank borrowings for trade and operations of approximately RMB167.57 million and (b) capital injected by Hong Kong GF of approximately RMB3.39 million. Such inflow was partially offset by repayment of bank borrowings of approximately RMB157.34 million and decrease in amount due to ultimate holding company of approximately RMB0.22 million.

In the six months ended 30 June 2005, net cash inflow from financing activities was approximately RMB19.40 million, which was resulted from (a) short term bank borrowings for trade and operation of approximately RMB48.08 million; (b) increase in amount due to ultimate holding company of approximately RMB11.96 million; and (c) capital injected by Taiwan FF of approximately RMB0.41 million, partially offset by repayment of bank borrowings of approximately RMB41.05 million.

Financial ratios

The following table sets out the Group's financial ratios for each of the three years ended 31 December 2004 and the six months ended 30 June 2005:

		Year ended 31 December			Six months ended 30 June
	Note	**2002**	**2003**	**2004**	**2005**
Current ratio (times)	1	0.84	1.04	1.16	1.23
Quick ratio (times)	2	0.58	0.63	0.59	0.64
Inventory turnover days	3	88.74	120.48	144.87	126.64
Debtors' turnover days	4	82.82	92.45	85.50	68.19
Creditors' turnover days	5	72.05	43.32	34.14	40.92
Gearing ratio (%)	6	24.82	34.11	27.43	24.62
Interest coverage (times)	7	6.33	13.86	12.02	12.64

Notes:

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

2. Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at the end of the year or period. The numbers in the above table are expressed in the form of ratio and not as a percentage.

3. The number of inventory turnover days is equal to ending inventory divided by the cost of sales/services for the corresponding year or period and then multiplied by 365 days or 183 days respectively.

4. The number of debtors' turnover days is equal to ending trade debtors divided by the sales for the corresponding year or period and then multiplied by 365 days or 183 days respectively.

5. The number of creditors' turnover days is equal to ending trade creditors divided by the cost of sales/services for the corresponding year or period and then multiplied by 365 days or 183 days respectively.

6. Gearing ratio is calculated as total debt divided by total assets at the end of the year or period. Total debt refers to total interest bearing liabilities at the end of the year or period.

7. Interest coverage is calculated as profit before interest and tax divided by interest expense for the year or period. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Current ratio

The current ratio consistently improved from approximately 0.84 times as at 31 December 2002 to 1.23 times as at 30 June 2005, as the Group managed to maintain its liabilities at a reasonable level during the expansion of business.

Quick ratio

The quick ratio remained largely stable during the Track Record Period.

Inventory turnover days

The following table sets out the composition of inventories as at the balance sheet dates indicated and also the inventory turnover days for the years/period then ended.

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Parts and components	9,712	23,679	38,635	57,152
Work in progress	5,349	21,478	30,588	34,242
Finished goods	7,737	14,788	41,705	49,946
Total	22,798	59,945	110,928	141,340
Inventory turnover days	88.74	120.48	144.87	126.64

The balances of inventory have been increasing since 31 December 2002. Such increase was consistent with the increase in turnover due to the growth in demand for the Group's products.

The inventory turnover days have been increasing since the year ended 31 December 2002, due to (a) the maintaining of a larger quantity of parts and components to avoid the instability in supply and prices of parts and components; and (b) the increase in finished goods as a result of the increase in sales volume of the Group's products.

As at 31 December 2004 and 30 June 2005, the inventory balances amounted to approximately RMB0.61 million and RMB1.35 million, respectively, were stated at net realisable value. Such inventory balances primarily comprised parts and components used in models of machine tools launched in previous years. Although such parts and components have not been used for more than one year, they were still maintained to satisfy the need for repair and maintenance concerning models launched in previous years.

Debtors' turnover days

The following table sets out the aging structure of trade debtors as at the balance sheet dates indicated and also the debtors' turnover days for the years/period.

	As at 31 December						As at 30 June	
	2002		2003		2004		2005	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade debtors *(Note)*		28,915		64,891		88,915		96,951
1 to 30 days	24,897		39,796		61,185		63,654	
31 to 60 days	6		12,745		3,038		5,121	
61 to 90 days	1,080		1,222		3,796		4,153	
91 to 180 days	768		6,355		14,347		10,062	
181 to 360 days	2,092		3,540		5,489		11,710	
1 to 2 years	72		1,233		1,060		2,251	
Other debtors, deposits and prepayments		8,975		11,066		15,025		21,610
Total		37,890		75,957		103,940		178,561
Debtors' turnover days		82.82		92.45		85.50		68.19

Notes:

1. Set out below is the breakdown of the undue and overdue trade balances of the Group during the Track Record Period:

	As at 31 December						As at 30 June	
	2002		2003		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Undue	22,005	76.1%	34,501	53.2%	55,145	62.0%	58,971	60.8%
Overdue	6,910	23.9%	30,390	46.8%	33,770	38.0%	37,980	39.2%
Trade debtors	28,915	100.0%	64,891	100.0%	88,915	100.0%	96,951	100.0%

2. The overdue trade balances of the Group as a percentage of total trade debtors had been gradually decreased since 2003 as the Group has tightened its credit control policies.

3. The undue trade balances of the Group as a percentage of total trade debtors had been gradually increased since 2003 was mainly due to the growth of turnover.

Debtors' turnover days increased from approximately 82.82 days in 2002 to 92.45 days in 2003, primarily due to the rapid increase in business. Debtors' turnover days decreased from approximately 92.45 days in 2003 to 85.50 days in 2004 and then to 68.19 days in the six months ended 30 June 2005, as a result of the Group's effort in enhancing credit control and debt collection. During the Track Record Period, the aging of the trade receivables was not in line with the credit policy offered to the Group's customers. However, the Directors consider that such situation was in line with the industry norm.

The Group generally issues invoices to its customers upon delivery of products and credit terms ranging from 30 to 90 days are granted to them, although credit terms granted to each customer may vary, depending on factors such as length of relationship and settlement history of each customer.

The Group has implemented the following procedures to improve its debt collection:

- performs ongoing credit evaluations of its customers and revises credit limits based on payment history and the customer's current credit-worthiness and the monetary value of the purchase order;
- continuously monitors settlements from its customers;
- the person-in-charge of respective liaison office will report to the senior management of the Group on the status of the overdue trade balances on a monthly basis; and
- the person-in-charge of respective liaison office can enjoy a cash bonus should the overdue trade balances be improved to certain satisfaction level.

Provisions are made for specific default balances and any overdue balance. For the three years ended 31 December 2004 and the six months ended 30 June 2005, provisions for bad and doubtful debts charged to the income statements amounted to approximately RMB0.21 million, RMB3.79 million, RMB0.99 million and RMB1.61 million, respectively. As a percentage of the Group's turnover, these represented approximately 0.16%, 1.48%, 0.26% and 0.62%, respectively. As at 30 June 2005, unsettled balances over 180 days represents approximately 14.40% of the Group's total account receivables.

As at 31 October 2005, approximately RMB13.28 million of the undue trade balance has been settled. The balance of approximately RMB45.69 million of the undue trade debtors comprised of mainly retention money which will be collected from the customers six months (for machine tools business) or one year (for parking garage structures business) after delivery.

As at 31 October 2005, approximately RMB18.88 million of the overdue trade balance has been settled. The outstanding overdue trade balance amounted to approximately RMB19.10 million, of which approximately RMB4.68 million was in the aging of "1 to 30 days" category, approximately RMB3.82 million was in the aging of "31 to 60 days" category, approximately RMB3.10 million was in the aging of "61 to 90 days" category and approximately RMB7.50 million was in the aging of "91 to 180 days" category. The Directors confirm that the outstanding overdue trade balance are not in dispute and are being actively followed up in accordance with the Group's collection policy.

Creditors' turnover days

The following table sets out an aging analysis of the Group's trade creditors as at the balance sheet dates indicated and also the creditors' turnover days for the years/periods.

	As at 31 December						As at 30 June	
	2002		2003		2004		2005	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade creditors		18,509		21,555		26,141		45,674
1 to 30 days	5,954		13,017		17,122		29,311	
31 to 60 days	1,794		2,753		5,472		8,219	
61 to 90 days	551		1,623		118		3,316	
91 to 180 days	332		622		1,446		1,413	
Over 180 days	9,878		3,540		1,983		3,415	
Other creditors and accrued charges		17,689		38,204		63,468		62,405
Total		36,198		59,759		89,609		108,079
Creditors' turnover days		72.05		43.32		34.14		40.92

The creditors' turnover days of the Group shortened from approximately 72.05 days in 2002 to 34.14 days in 2004 due to the reduction in credit period offered by the supplier as a result from the shortage of supply of parts and components in the market. Failing to accept such terms would expose the Group to risk of insufficient supply of parts and components and delay in delivery.

As at 31 October 2005, approximately RMB37.76 million, representing 82.67% of the outstanding trade creditors as at 30 June 2005, has been settled.

Invoices would generally be received from suppliers upon delivery of goods and the Group is granted credit terms from 30 to 60 days.

Other creditors and accrued charges primarily comprised payment received in advance from customers and accrued staff costs.

Gearing ratio

The gearing ratio consistently decreased since 2003 as the Group managed to maintain its liabilities at a reasonable level during the expansion of business.

Interest coverage

The interest coverage ratios during the Track Record Period indicate that the resources generated by the Group's operations were sufficient for the payment of interest expenses on the bank borrowings.

MARKET RISKS

Interest rate risk

The Group is exposed to risks resulting from fluctuations in interest rates on its debts, which are borrowed to support general corporate purposes, mainly working capital needs. To the extent that the Group may need to raise debt financing in the future, upward adjustments in interest rates will increase the borrowing cost of the Group.

Foreign exchange risk

The Group collects virtually all of its revenue in RMB, some of which need to be converted into foreign currencies to purchase imported parts and components, mainly from Taiwan. Therefore, the Group has a certain level of exposure to foreign exchange fluctuations. The exchange rates of RMB have been relatively stable during the past few years. RMB is not a freely convertible currency. However, the PRC government may take actions that could cause future exchange rates to deviate significantly from the present or historical exchange rates. As the Group does not have any plan to carry out hedging activities, fluctuations in exchange rates may adversely affect the value of its net assets, earnings and any dividends declared, upon translation or conversion into HK dollars and/or other foreign currencies.

Inflation risk

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on the Group's business during the Track Record Period. According to the National Bureau of Statistics of the PRC, the changes in the consumer price index in the PRC were 0.8%, 1.2% and 3.9% for 2002, 2003 and 2004 respectively. The Group has not been materially and adversely affected by the recent inflationary and deflationary pressures in the PRC.

Credit risk

The Group's cash and cash equivalents are mainly deposited with licensed banks in the PRC. The carrying amount of trade debtors and cash included in the combined financial statements represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets carrying significant exposure to credit risk. The Group also has no significant concentrations of credit risk.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Property interests held and occupied by the Group in the PRC

The Group owns an industrial complex located at Xiaoshan Development Zone for industrial and office uses. The industrial complex, which is constructed on two plots of contiguous land having a total site area of approximately 56,909 sq.m., a total gross floor area of approximately 39,340.67 sq.m.. The industrial complex mainly comprises one office building, one industrial building and four workshops.

The Group also owns certain residential units in Shanghai and Beijing. These residential units are used as the Group's staff quarters.

Property interests leased by the Group in the PRC

The Group occupies a total of 20 leased properties from Independent Third Parties in the PRC. All of the Group's liaison offices are located at leased properties. As at the Latest Practicable Date, all of the tenancy agreements of the leased properties have not been registered with the relevant local authority in the PRC. The Company's legal advisers as to PRC law are of the view that, pursuant to《中華人民共和國合同法》(Law of the PRC on Contract), the non-registration of the tenancy agreements would not affect the validity of the tenancy agreements as between the relevant landlords and tenants. The Directors are of the view that the operations on the leased properties can be relocated easily and thus such relocation would not have material adverse impact to the Group's operations and financial position because the tangible assets of the offices are mostly moveable equipment and thus the cost of relocation would not be substantial. However, each of Taiwan FF, Hong Kong GF and Mr. Chu has, pursuant to a deed of indemnity, provided indemnity to the Group in connection to the non-registration of tenancy agreements. Details of such deed of indemnity are set out in Appendix VI to this prospectus.

Property valuation

The Group has obtained all building ownership certificates of its owned properties and all relevant title documents in respect of its leased properties. The Directors are of the view that there is no title defects for the Group's owned and leased properties.

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued the property interests of the Group as at 30 September 2005. The text of the letter, a summary of valuation and a valuation certificate of these property interests, are set out in Appendix IV to this prospectus.

DIVIDEND POLICY AND WORKING CAPITAL

Dividend policy

The Directors consider that the amount of future dividends to be declared by the Group will depend on the Group's results, working capital, cash positions and capital requirements and other factors as may be deemed relevant at such time by the Directors. The Directors expect that, in future, interim and final dividends, if any, will be paid in or around October and July in each year and that the interim dividend will normally represent approximately 30% of the expected total dividends for the full year, depending on the actual situation at the time. The undistributed profit will be used to finance the Group's continued growth and expansion of its business. No dividend will be declared for the year ending 31 December 2005.

Working capital

The Directors are of the opinion that, taking into account the present available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As the Company was only incorporated in the Cayman Islands on 6 September 2005, there were no reserves available for distribution to the Shareholders as at 30 June 2005.

PRC STATUTORY RESERVES

According to the《中華人民共和國外資企業法實施細則》(The Implementation Rules of the Law of the PRC on Wholly Foreign-Owned Enterprise), a wholly foreign-owned enterprise is required to allocate no less than 10% of its after-tax profit for each financial year to its reserve fund until the total amount of its cumulative reserve fund reaches 50% of the registered capital of that wholly foreign-owned enterprise. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

Hangzhou GF is required to allocate at least 10% of its net profit as reported in its statutory accounts ("**statutory profit**" prepared in accordance with the applicable accounting principles and relevant regulations in the PRC) to the reserve fund before dividend distribution, until the total amount of the cumulative reserve fund has reached 50% of its registered capital of that wholly foreign-owned enterprise.

INTERNAL CONTROL SYSTEM

With a view to enhance the Group's internal control system, the Group is in the process of improving its internal control and reporting systems. The Group is establishing the framework of corporate governance which is formulated with reference to the requirements set out in the Listing Rules. In connection with such enhancement, the Group has conducted corporate governance training to all the Directors and senior management. The Group has also made efforts to enhance its information technology governance and strengthen its information systems security controls. Principal internal control enhancement actions taken by the Group include:

— with regard to the revenue recognition process, the Group is designing and implementing more effective control mechanism in ensuring appropriate revenue recognition.

— the Group is also tightening its credit control policy and the customer evaluation procedures in order to manage its receivables.

— in the area of sales, procurement and inventory processes, the Group is setting up and implementing stricter authorisation policies and procedures.

The Directors believe that the proposed enhancements of internal control mechanisms enable them and senior management with reasonable grounds to make a proper assessment of the financial position and prospects of the Group in a considered manner.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 30 June 2005 (being the date to which the latest audited combined financial statements of the Group were made up).

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

An unaudited pro forma statement of adjusted net tangible assets of the Group, which is prepared based on the audited combined net tangible assets of the Group as at 30 June 2005 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and the related adjustments, are set out in Appendix II to this prospectus.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix III to this prospectus, the combined profit attributable to equity holders of the Company for the year ending 31 December 2005 will not be less than RMB41.68 million (HK$40.00 million). The texts of letters from Deloitte Touche Tohmatsu, the reporting accountants, and from the Sponsor in respect of the profit forecast, and further details regarding the bases of the profit forecast are set out in Appendix III to this prospectus.

On the basis of the above forecast combined profit attributable to equity holders of the Company and taking into account the weighted average number of 210,000,000 Shares expected to be in issue during the year, the forecast weighted average earnings per Share for the year ending 31 December 2005 will be approximately HK$0.19. On the basis of the above forecast combined profit attributable to equity holders of the Group (assuming that the Company had been listed since 1 January 2005) and a total of 280,000,000 Shares had been in issue during the year, the forecast fully diluted earnings per Share for the year ending 31 December 2005 will be approximately HK$0.14. No account has been taken of any interest which may have been earned if the estimated net proceeds from the Share Offer had been received on 1 January 2005.

Authorised share capital:		*HK$*
1,000,000,000	Shares of HK$0.01 each	10,000,000

Issued and to be issued, fully paid or credited as fully paid:		*HK$*
200	Shares in issue	2
209,999,800	Shares to be issued pursuant to the Capitalisation Issue	2,099,998
70,000,000	Shares to be issued pursuant to the Share Offer	700,000
280,000,000	Shares	2,800,000

ASSUMPTIONS

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional and issue of Shares is made pursuant thereto.

It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company under the general mandates referred to below.

RANKING

The Offer Shares will rank pari passu with all Shares in issue or to be issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

The Company has conditionally approved and adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:

(a) 20% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue; and

(b) the total nominal amount of the share capital of the Company repurchased pursuant to the mandate referred to in the paragraph headed "General mandate to repurchase Shares" below.

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the Company is required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set out in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue.

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules are set out in the paragraph headed "Further information about the Company" in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the Company is required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set out in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

DIRECTORS

Executive Directors

Mr. Chu Chih-Yaung (朱志洋先生), aged 59, is an executive Director and Chairman of the Board. He is also the director of Global Friend and Yu Hwa. Mr. Chu 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 graduated from 台灣省立基隆高級水產職業學校 (Provincial Keelung Marine & Fishery Senior Vocational School) in Taiwan in 1966. Mr. Chu was the 5th President of the Council for Industrial and Commercial Development (台灣工商建設研究會) in Taiwan. Mr. Chu was awarded the 11th China Youth Career Development Model by the China Youth Career Development Association (中國青年創業協會) and the 3rd Outstanding Entrepreneur Premier Award (第三屆當代傑出企業人物開拓類一尊爵獎) in Taiwan in 1996. Mr. Chu was appointed as an executive Director in September 2005.

Mr. Chen Hsiang-Jung (陳向榮先生), aged 60, is an executive Director and chief executive officer of the Company. He is also a director of Hangzhou GF and Global Friend. Mr. Chen graduated from 台灣省立基隆高級水產職業學校 (Provincial Keelung Marine & Fishery Senior Vocational School) in Taiwan in 1966 and has taken up various senior positions in the Taiwan FF Group since 1983. In August 2005, Mr. Chen resigned from the directorship role in the members of the Taiwan FF Group. Mr. Chen was appointed as a director of Hangzhou GF in 1993 and as an executive Director in December 2005. Mr. Chen is responsible for general management of the Group.

Mr. Chen Min-Ho (陳明河先生), aged 55, is an executive Director. Mr. Chen graduated from the 海軍士官學校 (Naval Petty Officers Academy) in Taiwan in 1966. From October 1979 to September 1986, he worked as the group leader of the manufacturing department at 佑華精機有限公司 (Bearing Casting Corp.). He was the 5th council member of the Taichung Branch of the National Association of Small & Medium Enterprises (台中縣中小企業協會) from January 2002 to January 2004 and the 10th supervisor of Taichung County Industry Association (台中縣工業會) from March 2003 to March 2005. He was awarded the Labour Day Outstanding Labour Award (五一勞動節優秀勞工合給獎狀) by Taichung County Government (台中縣政府) and Outstanding Labour Award (優秀勞工特給獎狀) by Taichung County Congress Union (台中縣總工會) in 1986. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. Mr. Chen is responsible for the overall business operation of the Group. Mr. Chen is appointed as a director of Hangzhou GF since 1993 and as an executive Director in December 2005.

Mr. Wen Chi-Tang (溫吉堂先生), aged 41, is an executive Director. Mr. Wen completed the study in mechanic engineering in the National Kaohsiung Institute of Technology (國立高雄工商專科學校) in Taiwan in 1996 and obtained a degree in mechanical engineering. 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 GF. Mr. Wen was appointed as an executive Director in December 2005.

Mr. Chiu Rung-Hsien (邱榮賢先生), aged 47, is an executive Director. Mr. Chiu graduated from the electric engineering division of Kwang Wu Junior College of Technology (光武工業專科學校) in

Taiwan in 1978. From July 1980 to April 1989, he worked in Yungtay Engineering Co., Ltd. (永大機電工業股份有限公司) in Taiwan. Mr. Chiu is the manager of the parking garage structures division of Hangzhou GF since December 2001 and is appointed as an executive Director in December 2005.

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 graduated with a bachelor degree in business administration from the University of California at Berkeley in March 1980 and 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. Chiang graduated with a degree of bachelor of commerce from the University of the Witwatersrand, Johannesburg in 1986.

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. He graduated from the National Central Police University (中央警官學校) in Taiwan in January 1960 and was awarded the First Award of the National Security Bureau (國家安全局一等磐石獎章) in 2001.

Directors' remuneration

For each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group was approximately RMB154,000, RMB182,000, RMB203,000 and RMB192,000 respectively. Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from the Listing Date. Each of the independent non-executive Directors has entered into a service agreement with the Company for an initial fixed term of two years commencing from the Listing Date. Under the present arrangement, the aggregate of the Directors' remuneration in cash and in kind for the year ending 31 December 2005 is estimated to be approximately RMB345,000.

Further details of the terms of the above service agreements are set out in the paragraph headed "Particulars of service agreements" in the Appendix VI to this prospectus.

AUDIT COMMITTEE

The Company established an audit committee on 22 December 2005 with written terms of reference in compliance with the Code of 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 has three members who are the three independent non-executive Directors. Mr. Koo Fook Sun, Louis has been appointed as the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 22 December 2005 with the primary duties of establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

The remuneration committee has three members who are two independent non-executive Directors namely Mr. Koo Fook Sun, Louis and Mr. Chiang Chun-Te, and one executive Director, namely Mr. Chen Hsiang-Jung. Mr. Koo has been appointed as the chairman of the remuneration committee.

NOMINATION COMMITTEE

The Company established a nomination committee on 22 December 2005 with the primary duties of reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of Directors.

The nomination committee has three members who are two independent non-executive Directors namely Mr. Koo Fook Sun, Louis and Mr. Chiang Chun-Te, and one executive Director, namely Mr. Chen Hsiang-Jung. Mr. Koo has been appointed as the chairman of the nomination committee.

SENIOR MANAGEMENT OF THE GROUP

Mr. Kuo Ming Jen (郭明仁先生), aged 43, graduated from Tunghai University (東海大學) in 1985 with a degree in Accounting. From 1987 to 2001, Mr. Kuo worked in Kindom Construction Corp. (冠德建設股份有限公司) prior to joining the Group. He joined Hangzhou GF 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, graduated from the factory's staff university operated by 寶雞叉車制造公司五廠 (the 5th factory of Baoji Forklift Manufacturing Company). From 1970 to 2003, Mr. Wang worked as the general manager of 寶雞叉車制造公司五廠 (the 5th factory of Baoji Forklift Manufacturing Company). He joined Hangzhou GF in February 2003 as the vice general 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 GF. Between 1994 to 2001, Ms Wang worked in PricewaterhouseCoopers Taiwan with the last position as manager of audit department. She was the assistant manager of Cheng Uei Precision Industry Co., Ltd (正崴精密工業股份有限公司) from 2003 to 2004. Ms. Wang joined Hangzhou GF in September 2004.

Ms. Kong Sau Ha (江秀霞女士) *FCPA, FCCA, ACIS, ACS*, aged 37, 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 graduated from the University of Hong Kong with a bachelor's degree in Science. 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.

COMPANY SECRETARY

Mr. Tse Kam Fai (謝錦輝先生) *ACIS, ACS*, *MHKSI*, 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. He is currently a director of Uni-1 Corporate Services Limited, and an executive director of Shenzhen High-Tech Holdings Limited, the shares of which are listed on the Main Board. He is also the company secretary of four listed companies in Hong Kong. Mr. Tse is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. He is also a member of the Hong Kong Securities Institute.

STAFF

Overview

As at the Latest Practicable Date, the Group employed a total of 960 staff and workers. A breakdown of the Group's workforce by function as at the Latest Practicable Date is as follows:

Functions	Machine tools	Parking garage structures	Forklift trucks	General office	Total
Administration and finance	15	22	14	60	111
Production	255	77	90	—	422
Sales and marketing	41	—	5	—	46
Procurement	25	11	—	—	36
Quality control	31	6	6	—	43
Liaison offices	198	75	29	—	302
Total	565	191	144	60	960

Benefit schemes

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 their payroll costs 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 each of the three years ended 31 December 2004 and the six months ended 30 June 2005, the Group contributed approximately RMB369,000, RMB528,000, RMB1,143,000 and RMB498,000 to the scheme respectively. The Company's legal advisers as to PRC law confirmed that other than the social welfare scheme, there is no other benefit scheme which the Group needs to comply with during the Track Record Period.

The 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 in 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 Group's relationship with staff

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties with the recruitment and retention of experienced staff. The Directors believe that the Group maintains a good working relationship with its employees.

Share Option Scheme

The Group has conditionally approved and adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

COMPLIANCE ADVISER

The Company has appointed Polaris, which is also the Sponsor, as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company in the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchase;

(3) where the Company proposes to use the net proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the securities of the Company.

The term of the appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (but without taking into account Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the Shareholders who will be interested in 10% or more of the Shares then in issue will be:

Name	Number of Shares	Percentage of shareholding
Hong Kong GF *(Note 1)*	210,000,000	75%
Taiwan FF *(Note 2)*	210,000,000	75%

Notes:

(1) These 210,000,000 Shares will be registered in the name of Hong Kong GF. As at the Latest Practicable Date, Hong Kong GF was owned as to approximately 99.99% by Taiwan FF.

(2) Taiwan FF is entitled to exercise, or control the exercise of, more than one-third of the voting power of Hong Kong GF and is therefore taken to be interested in these 210,000,000 Shares held by Hong Kong GF under the SFO.

Save as aforesaid, so far as the Directors are aware, the Company does not have any other substantial shareholder (being defined in the Listing Rules as any person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at a general meetings) of the Company.

UNDERTAKINGS GIVEN BY THE CONTROLLING SHAREHOLDERS

1. Each of Hong Kong GF, Taiwan FF, Mr. Chu and his Relatives has irrevocably and unconditionally undertaken to the Company, the Sponsor and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

(a) in the period commencing on the date by reference to which disclosure of the shareholding of each of them is made in this prospectus and ending on the date which is six months from the Listing Date (the "First Relevant Period"), dispose of, nor enter into any agreement to dispose of or otherwise create options, rights, interests or encumbrances in respect of:

(i) any of the Shares in respect of which he/she/it or they are shown by this prospectus to be the beneficial owner(s); or

(ii) any interests in Shares (which includes any interests in a company which holds any Shares (whether directly or indirectly));

(b) in the period of six months commencing on the date on which the First Relevant Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise of enforcement of such options, rights, interests or encumbrances, they would cease to be a Controlling Shareholders of the Company.

The restriction referred to in (a) above shall not apply to any transfer of shares of Taiwan FF among Mr. Chu and any of his Relatives.

2. Each of Hong Kong GF, Taiwan FF Mr. Chu and his Relatives has irrevocably and unconditionally undertaken to the Company, the Sponsor and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of the shareholding of each of them is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will:

(a) when he/she/it pledges or charges any securities of the Company beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan, immediately inform the Company of such pledge or charge together with the number of securities so pledged/charged; and

(b) when he/she/it receives indications, whether verbal or written, from the pledgee or chargee that any of the pledged or charged securities of the Company will be disposed of, immediately inform the Company of such indications.

3. The Company has agreed that it will inform the Sponsor, the Joint Bookrunners and Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Stock Exchange as soon as it has been informed of matters referred to paragraphs 2(a) and 2(b) above and disclose such matters by way of an announcement which is published in the newspapers as soon as possible.

UNDERWRITERS

Joint Bookrunners and Joint Lead Managers

GC Capital (Asia) Limited
Polaris Securities (Hong Kong) Limited

Placing Underwriters

GC Capital (Asia) Limited
Polaris Securities (Hong Kong) Limited

Public Offer Underwriters

GC Capital (Asia) Limited
Polaris Securities (Hong Kong) Limited
Kingsway Financial Services Group Limited
Sun Hung Kai International Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting agreement

Under the Underwriting Agreement, the Company has agreed to offer (a) the Public Offer Shares for subscription on and subject to the terms and conditions of this prospectus and the Application Forms; and (b) the Placing Shares for subscription by professional, institutional and private investors which are anticipated to have a sizeable demand on and subject to the terms and conditions of this prospectus.

Pursuant to the Underwriting Agreement, and conditional upon, inter alia, the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, the Placing Underwriters have severally agreed to subscribe for or procure subscribers for, on the terms and conditions of this prospectus and the placing documents, the Placing Shares and the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for, on the terms and conditions of this prospectus and the Application Forms, the Public Offer Shares which are not taken up under the Public Offer.

Grounds for termination

The Underwriters shall have the absolute right which is jointly exercisable by Polaris and GC Capital (for themselves and on behalf of the Underwriters) to terminate the Underwriting Agreement by notice in writing given to the Company (for itself and on behalf of the executive Directors and the substantial Shareholders) by Polaris and GC Capital (for themselves and on behalf of the Underwriters) if at any time prior to 5:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date (the "Termination Time"):

(a) there comes to the notice of Polaris, GC Capital or any of the Underwriters of any matter or event showing any of the representations, warranties or undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the warranties or any other obligations imposed on any party to the Underwriting Agreement (other than those undertaken by the Underwriters, Polaris and/or GC Capital) which, in any such cases, is considered, in the sole opinion of Polaris and GC Capital (for themselves and on behalf of the Underwriters), to be material in the context of the Share Offer; or

(b) any statement contained in this prospectus or the Application Forms has become or been discovered to be untrue, incorrect or misleading in any respect; or

(c) any event, series of events, matters or circumstances occurs or arises on or after the date of the Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue, incorrect or misleading in any respect, and comes to the knowledge of any of Polaris, GC Capital or any of the Underwriters and which is considered, in the sole opinion of Polaris and GC Capital (for themselves and on behalf of the Underwriters), to be material in the context of the Share Offer; or

(d) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole opinion of Polaris and GC Capital (for themselves and on behalf of the Underwriters), an omission in the context of the Share Offer; or

(e) any event, act or omission which gives or is likely to give rise to any material liability of the Company or any of the substantial Shareholders and the executive Directors arising out of or in connection with any representations, warranties or undertakings contained in the Underwriting Agreement; or

(f) there comes to the notice of Polaris, GC Capital or any of the Underwriters any breach by any party to the Underwriting Agreement other than Polaris and GC Capital or the Underwriters of any provision of the Underwriting Agreement which, in the sole opinion of Polaris and GC Capital (for themselves and on behalf of the Underwriters), is material; or

(g) there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, Taiwan, the PRC, any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the Group;

(ii) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the Cayman Islands, the BVI, Taiwan, the PRC, any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to the Group, the local, national or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

(iii) any change in the conditions of Hong Kong, the US, Taiwan, the PRC or international equity securities or other financial markets; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI, Taiwan, the PRC, any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to the Group; or

(vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of the Group; or

(vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US or by the European Union (or any member thereof) on Hong Kong or the PRC; or

(viii) a general moratorium on commercial banking activities in Taiwan, the PRC or Hong Kong declared by the relevant authorities; or

(xi) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance); or

(x) any other change whether or not ejusdem generis with any of the foregoing,

which, in the sole and absolute opinion of Polaris and GC Capital (for themselves and on behalf of the Underwriters):

(1) is or will be or is likely to be adverse, in any material respect, to the business, financial or trading condition or prospects of the Group taken as a whole or, in case of sub-paragraph (e) above, on any present or prospective shareholder in his or its capacity as such shareholder of the Company; or

(2) has or will have or is likely to have a material adverse effect on the success of the Share Offer as a whole or the level of the Offer Shares being demanded, applied for or accepted or the distribution of the Offer Shares; or

(3) for any reason makes it impracticable, inadvisable or inexpedient for the Underwriters to proceed with the Share Offer as a whole.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions. Any market fluctuations, whether or not within the normal range therefor, may be considered as a change of market conditions.

Undertakings

1. Each of Hong Kong GF and Taiwan FF jointly and severally, irrevocably and unconditionally undertakes with the Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters that:

(a) it/he shall not, and shall procure that its/his associates or companies controlled by it/him or nominees or trustees holding in trust for it/him shall not, sell, transfer or otherwise dispose of (including without limitation the creation of any option over or pledge or charge as security) any of the Shares or securities of the Company owned by it/him or the relevant company, nominee or trustee (including any interest on any shares in any company controlled by it/him which is directly or indirectly the beneficial owner of any of the Shares or securities of the Company immediately following the completion of the Share Offer and the Capitalisation Issue (the "Relevant Securities") within the period commencing on the date by reference to which disclosure of the shareholding of such persons is made in this prospectus and ending on the date which is six months from the Listing Date (the "First Lock-up Period"); and

(b) it/he shall not, and shall procure that none of its/his associates or companies controlled by it/him or nominees or trustees holding in trust for it/him shall, within the further period of six months immediately after the expiry of the First Lock-up Period (the "Second Lock-up Period") sell, transfer or otherwise, dispose of (including without limitation the creation of any option over or pledge or charge as security) any of the Relevant Securities, if immediately following such sale, transfer or disposal, Hong Kong GF and Taiwan FF collectively would cease to be a Controlling Shareholder of the Company, and that in the event of any such sale, transfer or disposal, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares during the progress of such sale, transfer or disposal or after the completion thereof.

2. The Company undertakes to and covenants with the Sponsor, the Joint Bookrunners and Joint Lead Managers and the Underwriters that, and each of Hong Kong GF, Taiwan FF and the executive Directors jointly and severally undertakes and covenants with the Sponsor, the Joint Bookrunners and Joint Lead Managers and the Underwriters to procure that, without the prior written consent of the Sponsor (for itself and on behalf of the Underwriters (such consent not to be unreasonably withheld or delayed)), and subject always to the requirements of the Stock Exchange, save for the Offer Shares and the Shares to be issued pursuant to the Capitalisation Issue, the grant of any options under the Share Option Scheme, and any Shares which may fall to be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme, or by way of scrip dividend schemes or similar arrangements in accordance with the Articles of Association, neither the Company or any of its subsidiaries from time to time shall:

   (a) allot and issue or agree to allot and issue any shares in the Company or any subsidiary of the Company from time to time or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise acquire any securities of the Company or any subsidiary of the Company from time to time during the First Lock-up Period; or

   (b) allot and issue or agree to allot and issue any of the shares or other interests referred to in (a) above during the Second Lock-up Period if, immediately following such allotment and issue, Hong Kong GF and Taiwan FF, either individually or taken together with the others of them, would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company or the single largest shareholder of the Company; or

   (c) during the First Lock-up Period purchase any Shares or securities of the Company.

Commission and expenses

The Underwriters will receive a commission of 2.5% on the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. In addition, the Sponsor will receive a financial advisory and documentation fee. The underwriting commission, financial advisory and documentation fee, Stock Exchange listing fees, legal and other professional fees together with printing and other expenses relating to the Share Offer are estimated to amount to approximately HK$16.8 million in total and will be payable by the Company.

Underwriters' interest in the Company

Save for the obligations under the Underwriting Agreement and the interests disclosed above, none of the Underwriters is interested legally or beneficially in any shares in any member of the Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

The Sponsor, being the Company's compliance adviser pursuant to Rule 3A.19 of the Listing Rules, will also receive a financial advisory fee from the Company during the term of its appointment as the compliance adviser of the Company.

PRICE PAYABLE ON APPLICATION

Based on the Offer Price of HK$1.13 per Offer Share, plus a brokerage of 1%, a SFC transaction levy of 0.005% and a Stock Exchange trading fee of 0.005%, one board lot of 2,000 Shares will amount to a total of HK$2,282.82.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Public Offer Shares is conditional upon:

1. **Listing**

   the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and

2. **Underwriting Agreement**

   the obligations of the Underwriters under the Underwriting Agreement becoming unconditional, and not being terminated, prior to 5:00 p.m. (Hong Kong time) on the day immediately before the Listing Date. Details of the Underwriting Agreement and the grounds for its termination are set out in the section headed "Underwriting" in this prospectus.

in each case, on or before the dates and times specified in the Underwriting Agreement, unless and to the extent such conditions are validly waived on or before such dates and times, and in any event not later than the date which is 30 days after the date of this prospectus.

If any of the conditions is not fulfilled or waived on or before the times specified above, your application moneys will be returned to you, without interest. The terms on which your money will be returned to you are set out under the heading "Refund of your application moneys" on the Application Forms.

In the meantime, your application moneys will be held in one or more separate bank accounts with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 70,000,000 Offer Shares will be made available under the Share Offer, of which 63,000,000 Placing Shares, representing 90% of the Offer Shares, will conditionally be placed with professional, institutional and private investors under the Placing. The remaining 7,000,000 Public Offer Shares, representing 10% of the Offer Shares, will be offered to the public in Hong Kong under the Public Offer. Both the Placing and the Public Offer are subject to re-allocation on the basis described below.

The Public Offer is open to all members of the public in Hong Kong. The Placing Underwriters and the Public Offer Underwriters have severally agreed to underwrite the Placing Shares and the Public Offer Shares, respectively, under the terms of the Underwriting Agreement. Further details of the underwriting and placing arrangements are set out in the section headed "Underwriting" in this prospectus.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both. Investors may only receive an allocation of Shares under the Placing or the Public Offer but not both.

BASIS OF ALLOCATION OF THE OFFER SHARES

The Share Offer comprises the Placing and the Public Offer.

The Placing

The Company is offering initially 63,000,000 Placing Shares at the Offer Price under the Placing. The number of Placing Shares initially available for application under the Placing represents 90% of the total number of Offer Shares being offered under the Share Offer. The Placing is fully underwritten by the Placing Underwriters. Investors subscribing for the Placing Shares are required to pay the Offer Price plus a brokerage of 1%, a SFC transaction levy of 0.005% and a Stock Exchange trading fee of 0.005%.

It is expected that the Placing Underwriters, or selling agents nominated by them, on behalf of the Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through institutions who sought Placing Shares in the Placing may also be allocated the Placing Shares.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Shares under the Public Offer.

The Company, the Directors, the Sponsor and/or the Joint Bookrunners and Joint Lead Managers (on behalf of the Underwriters) will take reasonable steps to identify and reject applications under the Public Offer from investors who receive Shares under the Placing, and to identify and reject indications of interest in the Placing from investors who receive Shares under the Public Offer.

The Placing is subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" above.

The Public Offer

The Company is initially offering 7,000,000 Public Offer Shares (subject to re-allocation) for subscription by the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares being offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus a brokerage of 1%, a SFC transaction levy of 0.005% and a Stock Exchange trading fee of 0.005%.

No application will be accepted from applicants applying for more than the total number of Public Offer Shares initially available for subscription under the Public Offer. Multiple or suspected multiple applications and any application for more than the total number of Public Offer Shares initially available for subscription under the Public Offer are liable to be rejected. An applicant for the Public Offer Shares under the Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it, his/her/its joint applicants if any, and any person(s) for whose benefit he/she/it is making the application has not received or applied for or will not receive or apply for any Placing Shares under the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected.

If the Public Offer is not fully subscribed, GC Capital will have the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

REALLOCATION OF THE OFFER SHARES BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to re-allocation on the following basis:

(a) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Public Offer Shares initially available for subscription under the Public Offer, then the Placing Shares will be re-allocated to the Public Offer from the Placing so that the total number of Shares available for subscription under the Public Offer after such re-allocation will be increased to 21,000,000 Shares, representing 30% of the total number of Offer Shares under the Share Offer;

(b) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Public Offer Shares initially available for subscription under the Public Offer, then the Placing Shares will be re-allocated to the Public Offer from Placing so that the number of Shares available for subscription under the Public Offer after such re-allocation will be increased to 28,000,000 Shares, representing 40% of the total number of Offer Shares under the Share Offer; and

(c) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more than the number of Public Offer Shares initially available for subscription under the Public Offer, then the Placing Shares will be re-allocated to the Public Offer from Placing so that the number of Shares available for subscription under the Public Offer after such re-allocation will be increased to 35,000,000 Shares, representing 50% of the total number of Offer Shares under the Share Offer.

If either the Public Offer or the Placing is under-subscribed, GC Capital (acting as one of the Joint Bookrunners and Joint Lead Managers) has the authority to re-allocate all or any unsubscribed Shares originally included in the Public Offer to the Placing (or vice versa, as appropriate) in such proportion and manner as it considers appropriate.

WHICH APPLICATION FORM TO USE

Use a **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS investor participant stock account or the stock account of your designated CCASS participant maintained in CCASS.

Note: The Public Offer Shares are not available to the Directors or chief executive of the Company or its subsidiaries or existing beneficial owners of Shares or associates of any of them.

WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus from:

Any participant of the Stock Exchange

or

GC Capital (Asia) Limited
Unit 6503-06
65th Floor
The Center
99 Queen's Road Central
Hong Kong

or

Polaris Securities (Hong Kong) Limited
Room 1003-1004
10th Floor, Admiralty Centre Tower 1
18 Harcourt Road
Admiralty
Hong Kong

or

Kingsway Financial Services Group Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

or

Sun Hung Kai International Limited
Level 12, One Pacific Place
88 Queensway
Hong Kong

or any of the following branches of The Bank of East Asia, Limited:

Hong Kong Island:	Main Branch	10 Des Voeux Road, Central
	Queen's Road Central Branch	Shop A-C, G/F, Wah Ying Cheong Central Building, 158-164 Queen's Road Central, Hong Kong
	Causeway Bay Branch	46 Yee Wo Street
	88 Des Voeux Road West Branch	Shop Nos. 2-3, G/F, Princeton Tower, 88 Des Voeux Road West
	North Point Branch	326-328 King's Road
	Shaukiwan Branch	G/F, Ka Fook Building, 289-293 Shau Kei Wan Road
Kowloon:	Tsim Sha Tsui Branch	Shop A and B, Milton Mansion, No.96 Nathan Road, Kowloon
	Mongkok Branch	638-640 Nathan Road
	Kwun Tong Branch	7 Hong Ning Road
	Waterloo Road Branch	Shop A, G/F, Richland House, 77B & 77C Waterloo Road
New Territories:	Tsuen Wan Branch	239-243 Sha Tsui Road
	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin

You can collect a **YELLOW** Application Form and a prospectus from:

the Depository Counter of HKSCC
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or

the Customer Service Centre of HKSCC
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

or your stockbrokers who may have Application Forms and the prospectuses available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions your application may be rejected.

If your application is made through a duly authorised attorney, the Company and any of the Joint Bookrunners and Joint Lead Managers, each as agent of the Company, may accept the application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Any of the Joint Bookrunners and Joint Lead Managers in its capacity as agent of the Company shall have full discretion to reject or accept any application, in full or in part, without assigning any reason.

There is only one situation where you may make more than one application for the Public Offer Shares:

If you are a nominee, you may lodge more than one Application Form in your own name on behalf of different owners. In the box on the Application Form marked "For nominees" you must include:

— an account number; or

— some other identification code,

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

— (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form; and

— (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form, and that you are duly authorised to sign the Application Form as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicants together:

— make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form; or

— both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form; or

— apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) for more than 100% of the Offer Shares initially being offered for public subscription under the Public Offer; or

— have been allocated the Offer Shares in the Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit. If an application is made by an unlisted company and

— the only business of that company is dealing in securities; and

— you exercise statutory control over that company,

then that application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

— *control the composition of the board of directors of that company; or*

— *control more than half the voting power of that company; or*

— *hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW MUCH ARE THE PUBLIC OFFER SHARES

The Offer Price of the Public Offer Shares is HK$1.13 each. You must also pay a brokerage of 1%, the SFC transaction levy of 0.005% and the Stock Exchange trading fee of 0.005% on application. This means that for every 2,000 Public Offer Shares, you will pay HK$2,282.82. The Application Forms have tables showing the exact amount payable for multiples of the Public Offer Shares.

You must pay the Offer Price, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. Your payment must be by one cheque or one banker's cashier order and must comply with the terms of the Application Forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 5 January 2006.

If your application is successful, the brokerage is paid to participants of the Stock Exchange and the transaction levy are paid to the SFC and the trading fee is paid to the Stock Exchange.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with a cheque or banker's cashier order made payable to "The Bank of East Asia (Nominees) Limited — Good Friend Public Offer" attached and securely stapled, must be lodged by 12:00 noon (Hong Kong time) on Thursday, 5 January 2006, or, if the application lists of the Public Offer are not open on that day, then by 12:00 noon (Hong Kong time) on the day the lists are open.

Your completed Application Form, with payment in Hong Kong dollars for the full amount payable on application attached and securely stapled, should be deposited in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited listed under "Where to collect the prospectuses and the Application Forms" above at the following times:

Friday, 30 December 2005 — 9:00 a.m. to 4:00 p.m.
Saturday, 31 December 2005 — 9:00 a.m. to 12:00 noon
Tuesday, 3 January 2006 — 9:00 a.m. to 4:00 p.m.
Wednesday, 4 January 2006 — 9:00 a.m. to 4:00 p.m.
Thursday, 5 January 2006 — 9:00 a.m. to 12:00 noon

Application lists

The application lists of the Public Offer will open from 11:45 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on Thursday, 5 January 2006 except as provided in the paragraph headed "Effect of bad weather on the opening of the application lists of the Public Offer".

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS OF THE PUBLIC OFFER

The application lists of the Public Offer will not open if there is:

— a tropical cyclone warning signal number 8 or above, or

— a **black** rainstorm warning,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on Thursday, 5 January 2006 in Hong Kong. Instead they will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

If the application lists of the Public Offer do not open and close on Thursday, 5 January 2006, the dates mentioned in the section headed "Expected timetable" in this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreement) may be affected. A press announcement will be made in such event in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese).

CIRCUMSTANCES IN WHICH AN APPLICANT WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:

If your application is revoked

By depositing a completed Application Form, you agree that you cannot revoke your application before the end of the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of our agreeing that we will not offer any Offer Shares to any person before the end of the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

You may only revoke your application before the end of the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

At the full discretion of the Company or its agents

Each of the Company and its agents has full discretion to reject or accept any application, or to accept only part of an application. The Company, the Sponsor and each of the Joint Bookrunners and Joint Lead Managers, each in its capacity as an agent of the Company, and their respective agents or nominees, do not have to give any reason for any rejection or acceptance.

If your application is rejected

Your application is liable to be rejected if:

- it is a multiple application or a suspected multiple application;
- your Application Form is not completed correctly in accordance with the instructions thereon;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Placing Shares; or
- the Company believes that by accepting your application, it would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction.

If your application is not accepted

Your application will not be accepted if either:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its terms or otherwise.

If the allotment of Public Offer Shares is void

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant the Listing of, and permission to deal in, the Shares either:

- within three weeks from the closing of the applications lists of the Public Offer; or

- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists of the Public Offer.

PUBLICATION OF RESULTS

The Company expects to publish the level of indication of interests in the Placing, the results of applications under the Public Offer, the basis of allotment of the Public Offer, the number of Shares, if any, reallocated from the Placing to the Public Offer and the Hong Kong Identity Card/passport/Hong Kong business registration certificate numbers of successful applicants, where applicable, under the Public Offer on Tuesday, 10 January 2006 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in the Shares on the Main Board or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional adviser(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONEYS

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application.

Your application moneys, or an appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded without interest if:

- your application is rejected, not accepted or only accepted in part;

- the conditions of the Share Offer are not fulfilled in accordance with the section headed "Structure of the Share Offer" in this prospectus; or

- any application is revoked or any allocation pursuant thereto has become void.

It is intended that special efforts will be made to avoid any undue delay in refunding application moneys where appropriate.

You will receive one share certificate for all the Public Offer Shares issued to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms where share certificates will be deposited into CCASS as described below under the heading "Deposit of share certificates into CCASS").

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **WHITE** Application Forms: (i) Share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful; and/or

- for applicants on **WHITE** and **YELLOW** Application Forms, a refund cheque or refund cheques crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application moneys for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application moneys, if the application is wholly unsuccessful.

In a contingency situation involving a very high level of over-subscription, at the discretion of the Company and the Joint Bookrunners and Joint Lead Managers, applications for certain small denominations of Public Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques accompanying such applications on Application Forms will not be presented for clearing.

Subject as mentioned below, refund cheques for surplus application moneys (if any) on Application Forms and Share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on Tuesday, 10 January 2006. We reserve the right to retain any Share certificates and any surplus application moneys pending clearance of cheque(s) or banker's cashier order(s).

If you are applying for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque (where applicable) and/or (for applicants using **WHITE** Application Forms) share certificate (where applicable) from the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque and (where applicable) share certificate from the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 10 January 2006 or any other date notified by the Company in the newspapers as the date of despatch of share certificates/refund cheques. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s), they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Public Offer Shares or if you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your share certificate(s) and/or refund cheque(s) in person, your share certificate(s) (if applying by using a **WHITE** Application Form) and/or refund cheque(s) (if applicable) will be sent to the address on your Application Form on Tuesday, 10 January 2006 by ordinary post and at your own risk.

Deposit of share certificates into CCASS

If you apply for Public Offer Shares using a **YELLOW** Application Form, and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS investor participant stock account or the stock account of your designated CCASS participant as instructed by you in the Application Form at the close of business on Tuesday, 10 January 2006, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS participant (other than a CCASS investor participant) for Public Offer Shares credited to the stock account of your designated CCASS participant (other than a CCASS investor participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

We expect to publish the application results of CCASS investor participants using **YELLOW** Application Forms together with the results of the Public Offer in the newspapers on Tuesday, 10 January 2006. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 10 January 2006 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying as a CCASS investor participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) immediately after the credit of the Public Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

COMMENCEMENT OF DEALINGS IN THE SHARES ON THE MAIN BOARD

Dealings in the Shares on the Main Board are expected to commence at 9:30 a.m. (Hong Kong time) on Wednesday, 11 January 2006.

Shares will be traded in board lots of 2,000 Shares each. The stock code for the Shares on the Main Board is 2398.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

30 December 2005

The Directors
Good Friend International Holdings Inc.
Polaris Securities (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding Good Friend International Holdings Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 (the "Relevant Periods"), for inclusion in the prospectus of the Company dated 30 December 2005 (the "Prospectus").

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability company on 6 September 2005. Pursuant to a group reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in the section headed "Further information about the Company" in Appendix VI to the Prospectus (the "Corporate Reorganisation"), the Company has become the holding company of the subsidiaries comprising the Group since 22 December 2005.

As at the date of this report, the Company has the following wholly-owned subsidiaries:

Name	**Place and date of establishment/ incorporation**	**Issued and fully paid share capital/ registered capital**	**Principal activities**
杭州友佳精密機械有限公司 Hangzhou Good Friend Precision Machinery Co., Ltd.	The People's Republic of China (the "PRC") 23 September 1993	US$8,000,000	Manufacturing and trading of machine tools, parking garage structures and forklift trucks
杭州友高精密機械有限公司 Hangzhou Global Friend Precision Machinery Co., Ltd.	The PRC 7 December 2004	US$1,500,000 *(Note)*	Manufacturing and trading of machine tools and parking garage structures

Name	Place and date of establishment/ incorporation	Issued and fully paid share capital/ registered capital	Principal activities
Yu Hwa Holdings Limited	The British Virgin Islands (the "BVI") 1 December 2004	US$1,500,000	Investment holding
Winning Steps Limited	The BVI 15 July 2005	US$110	Investment holding

Note: The registered capital of 杭州友高精密機械有限公司 Hangzhou Global Friend Precision Machinery Co., Ltd. is US$10,000,000. According to the latest verification report, the amount of capital contributed by the Group which has been verified amounted to US$1,500,000.

No audited financial statements have been prepared for the Company, 杭州友高精密機械有限公司 Hangzhou Global Friend Precision Machinery Co., Ltd. ("Global Friend"), Yu Hwa Holdings Limited ("Yu Hwa") and Winning Steps Limited since their respective dates of establishment/incorporation as they have not carried on any business, other than the transactions related to the Corporate Reorganisation. For the purpose of this report, we have, however, reviewed all the relevant transactions of these companies since their dates of establishment/incorporation to the date of this report.

The statutory financial statements of 杭州友佳精密機械有限公司 Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou GF") were prepared in accordance with relevant accounting principles and financial regulations applicable to wholly foreign owned enterprises established in the PRC and were audited by 浙江天健會計師事務所有限公司 for the year ended 31 December 2002 and by 浙江東方會計師事務所有限公司 for each of the two years ended 31 December 2004. For the purpose of this report we have carried out independent audit procedures we considered necessary in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the management accounts for each of the Relevant Periods, which were prepared by the directors of Hangzhou GF in accordance with accounting principles generally accepted in Hong Kong.

We have examined the management accounts ("Underlying Financial Statements") of all companies now comprising the Group for the Relevant Periods in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" recommended by HKICPA.

The financial information of the Group has been prepared based on the Underlying Financial Statements of the companies comprising the Group, on the basis of preparation set out in note 1 below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. The Company's directors are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 below, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2002, 2003, 2004 and 30 June 2005 and of the results and cash flows of the Group for each of the three years ended 31 December 2004 and the six months ended 30 June 2005.

The comparative combined income statement, combined cash flow statement, combined statement of changes in equity for the six months ended 30 June 2004, together with the notes thereon (the "30 June 2004 financial information") have been extracted from the Group's combined financial statements for the same period which were prepared solely for the purpose of this report. We have reviewed the 30 June 2004 financial information in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by HKICPA. Our review consisted principally of making enquires of group management and applying analytical procedures to the 30 June 2004 financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2004 financial information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2004 financial information.

A. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
	Notes	**2002**	**2003**	**2004**	**2004**	**2005**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover	3	127,437	256,187	379,590	160,710	260,184
Cost of sales/services		(93,771)	(181,606)	(279,476)	(117,062)	(204,248)
Gross profit		33,666	74,581	100,114	43,648	55,936
Other operating income	4	446	2,852	4,755	1,692	6,075
Distribution costs		(17,194)	(29,303)	(44,393)	(20,883)	(27,052)
Administrative expenses		(5,318)	(13,651)	(14,162)	(5,429)	(5,985)
Other operating expenses		(544)	(1,625)	(3,127)	(1,172)	(4,145)
Profit from operations	5	11,056	32,854	43,187	17,856	24,829
Finance costs	7	(1,746)	(2,370)	(3,593)	(1,847)	(1,965)
Profit before taxation		9,310	30,484	39,594	16,009	22,864
Taxation	8	—	773	(3,265)	(968)	(2,059)
Profit for the year/period		9,310	31,257	36,329	15,041	20,805
Dividend	9	—	—	—	—	—
Earnings per share, in RMB	10	0.04	0.15	0.17	0.07	0.10

COMBINED BALANCE SHEETS

	Notes	At 31 December 2002 RMB'000	At 31 December 2003 RMB'000	At 31 December 2004 RMB'000	At 30 June 2005 RMB'000
Non-current assets					
Property, plant and equipment	11	62,391	77,634	96,457	93,829
Prepaid lease payments	12	3,770	3,677	3,880	3,822
Intangible asset	13	93	156	860	761
Deferred tax assets	26	—	773	1,118	1,143
		66,254	82,240	102,315	99,555
Current assets					
Inventories	14	22,798	59,945	110,928	141,340
Debtors, deposits and prepayments	15	37,890	75,957	103,940	118,561
Amounts due from customers for contract work	16	2,584	3,865	875	13,164
Amount due from holding company	17	—	—	17	—
Amount due from ultimate holding company	18	321	443	1,298	1,080
Amount due from a fellow subsidiary	19	708	900	—	136
Pledged bank deposits	20	1,745	4,037	3,053	2,887
Bank balances, deposits and cash		5,811	6,456	5,650	17,359
		71,857	151,603	225,761	294,527
Current liabilities					
Creditors and accrued charges	21	36,198	59,759	89,609	108,079
Amounts due to customers for contract work	16	2,594	3,017	6,731	6,356
Amount due to holding company	22	7,546	1,111	6,076	12,921
Amount due to ultimate holding company	23	3,457	275	59	12,019
Tax payable		—	—	61	589
Bank borrowings	24	34,277	79,759	89,987	97,013
Warranty provision	25	1,240	1,971	2,612	2,945
		85,312	145,892	195,135	239,922
Net current (liabilities) assets		(13,455)	5,711	30,626	54,605
		52,799	87,951	132,941	154,160
Capital and reserves					
Paid-in capital	27	52,349	56,244	64,905	65,319
Reserves	28	450	31,707	68,036	88,841
		52,799	87,951	132,941	154,160

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	General reserve	Enterprise expansion reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2002	49,600	—	—	(8,860)	40,740
Capital injection	2,749	—	—	—	2,749
Profit for the year	—	—	—	9,310	9,310
Appropriations	—	47	24	(71)	—
At 31 December 2002	52,349	47	24	379	52,799
Capital injection	3,895	—	—	—	3,895
Profit for the year	—	—	—	31,257	31,257
Appropriations	—	3,290	1,645	(4,935)	—
At 31 December 2003	56,244	3,337	1,669	26,701	87,951
Capital injection	8,661	—	—	—	8,661
Profit for the year	—	—	—	36,329	36,329
Appropriations	—	3,829	1,914	(5,743)	—
At 31 December 2004	64,905	7,166	3,583	57,287	132,941
Increase in capital	414	—	—	—	414
Profit for the period	—	—	—	20,805	20,805
At 30 June 2005	65,319	7,166	3,583	78,092	154,160
At 1 January 2004	56,244	3,337	1,669	26,701	87,951
Capital injection	3,541	—	—	—	3,541
Profit for the period	—	—	—	15,041	15,041
At 30 June 2004	59,785	3,337	1,669	41,742	106,533

COMBINED CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Operating activities					
Profit from operations	11,056	32,854	43,187	17,856	24,829
Adjustments for:					
Interest income	(34)	(69)	(96)	(46)	(115)
Depreciation and amortisation	5,019	5,610	7,632	3,320	4,811
Prepaid lease payments charged to income statement	93	93	93	46	50
Allowance for bad and doubtful debts	209	3,789	994	491	1,610
Allowance for inventories	—	—	685	399	380
Loss on disposal of property, plant and equipment	20	63	79	1	3
Operating cash flows before movements in working capital	16,363	42,340	52,574	22,067	31,568
Increase in inventories	(757)	(37,147)	(51,668)	(29,680)	(30,792)
Increase in debtors, deposits and prepayments	(19,657)	(41,856)	(28,977)	(29,576)	(16,223)
(Increase) decrease in amounts due from customers for contract work	(2,584)	(1,281)	2,990	(7,474)	(12,289)
(Increase) decrease in amount due from holding company	—	—	(17)	(198)	17
(Increase) decrease in amount due from ultimate holding company	(7)	(122)	(855)	(119)	218
(Increase) decrease in amount due from a fellow subsidiary	(644)	(192)	900	406	(136)
(Decrease) increase in creditors and accrued charges	(2,505)	23,561	29,850	26,711	18,470
Increase (decrease) in amounts due to customers for contract work	2,594	423	3,714	3,274	(375)
Increase (decrease) in amount due to holding company	7,546	(6,435)	4,965	6,330	6,845
Decrease in amount due to ultimate holding company	(4,938)	(2,980)	—	—	—
Increase in warranty provision	427	731	641	—	333
Cash (used in) generated from operations	(4,162)	(22,958)	14,117	(8,259)	(2,364)
Interest paid	(1,746)	(2,370)	(3,593)	(1,847)	(1,965)
PRC income tax paid	—	—	(3,549)	(925)	(1,556)
Net cash (used in) from operating activities	(5,908)	(25,328)	6,975	(11,031)	(5,885)

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Investing activities					
Purchase of property, plant and equipment	(4,097)	(17,237)	(21,223)	(12,920)	(2,087)
Proceeds on disposal of property, plant and equipment	4	247	41	—	—
Interest received	34	69	96	46	115
Acquisition of intangible asset	(105)	(94)	(789)	(516)	—
Increase in prepaid lease payments	—	—	(296)	—	—
(Increase) decrease in pledged bank deposits	(1,746)	(2,292)	984	(2,001)	166
Net cash used in investing activities	(5,910)	(19,307)	(21,187)	(15,391)	(1,806)
Financing activities					
Capital injected from a shareholder	—	—	3,394	3,394	414
(Decrease) increase in amount due to ultimate holding company	(313)	(202)	(216)	(92)	11,960
New bank borrowings	55,307	134,434	167,570	88,297	48,078
Repayment of bank borrowings	(41,030)	(88,952)	(157,342)	(69,680)	(41,052)
Net cash from financing activities	13,964	45,280	13,406	21,919	19,400
Increase (decrease) in cash and cash equivalents	2,146	645	(806)	(4,503)	11,709
Cash and cash equivalents at beginning of the year/period	3,665	5,811	6,456	6,456	5,650
Cash and cash equivalents at end of the year/period	5,811	6,456	5,650	1,953	17,359
Analysis of the balances of cash and cash equivalents, representing					
Bank balances and cash	5,811	6,456	5,650	1,953	17,359

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group include the results of operations of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods. The combined balance sheets of the Group as at 31 December 2002, 2003, 2004 and 30 June 2005 have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. For the purposes of preparing and presenting financial information of the Relevant Periods, the Group has adopted all these new and revised HKFRSs.

The HKICPA has issued the following standards and interpretations ("INT") that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosure
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) - INT 4	Determining whether an Arrangement Contains a Lease
HK (IFRIC) - INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) - INT 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The principal accounting policies adopted are as follows:

Revenue recognition

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

Repair income is recognised when the services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

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

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.

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, as follows:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Contracts

When the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably, contract costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue recognised.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

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 balance sheet, as a liability, as advances received. Amount billed for work performed but not yet paid by the customer are included in the balance sheet under debtors, deposits and prepayments.

Trade debtors

Trade debtors are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Prepaid lease payments

Prepaid lease payments are carried at cost and amortised over the lease term on a straight-line basis.

Impairment of assets excluding goodwill

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets

Software are stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated on a straight-line basis over their estimate useful lives.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

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/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 profits 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 negative 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.

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 profits 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 realised. Deferred tax is charged or credited in the income statement, 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 information 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 retranslated 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 retranslated.

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 retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation 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.

For the purposes of preparing the financial information of the Group, 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 exchanges 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

The retirement benefit scheme contribution charged to the income statement represents the Group's contribution payable to the retirement funds scheme managed by local social security bureau in accordance with the government regulations in the PRC.

3. SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and service provided to outside customers, less returns and allowances, and net of value-added tax ("VAT") during the Relevant Periods.

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 2002

	Machine tools	**Parking garage structures**	**Forklift trucks**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
External sales	95,988	30,178	1,271	127,437
Segment results	11,377	3,251	(462)	14,166
Unallocated corporate revenue				446
Unallocated corporate expenses				(3,556)
Profit from operations				11,056
Finance costs				(1,746)
Profit before taxation				9,310
Taxation				—
Profit for the year				9,310

At 31 December 2002

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance sheet				
Assets				
Segment assets	100,733	28,030	1,792	130,555
Unallocated corporate assets				7,556
Combined total assets				138,111
Liabilities				
Segment liabilities	41,437	8,881	240	50,558
Unallocated corporate liabilities				34,754
Combined total liabilities				85,312

	Machine tools	Parking garage structures	Forklift trucks	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other information					
Capital expenditure	2,677	616	1,112	2,546	6,951
Depreciation and amortisation	3,775	511	61	672	5,019
Allowance for bad and doubtful debts	119	76	14	—	209
Allowance for inventories	—	—	—	—	—
Loss on disposal of property, plant and equipment	—	—	—	20	20

For the year ended 31 December 2003

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
External sales	207,975	43,178	5,034	256,187
Segment results	34,269	3,755	(1,274)	36,750
Unallocated corporate revenue				2,852
Unallocated corporate expenses				(6,748)
Profit from operations				32,854
Finance costs				(2,370)
Profit before taxation				30,484
Taxation				773
Profit for the year				31,257

At 31 December 2003

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance sheet				
Assets				
Segment assets	164,043	46,752	11,782	222,577
Unallocated corporate assets				11,266
Combined total assets				233,843
Liabilities				
Segment liabilities	45,875	17,688	2,570	66,133
Unallocated corporate liabilities				79,759
Combined total liabilities				145,892

	Machine tools	Parking garage structures	Forklift trucks	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other information					
Capital expenditure	9,659	2,989	2,247	6,331	21,226
Depreciation and amortisation	4,243	527	88	752	5,610
Allowance for bad and doubtful debts	1,171	2,598	20	—	3,789
Loss on disposal of property, plant and equipment	63	—	—	—	63

For the year ended 31 December 2004

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
External sales	308,140	52,425	19,025	379,590
Segment results	49,699	(15)	(1,602)	48,082
Unallocated corporate revenue				4,755
Unallocated corporate expenses				(9,650)
Profit from operations				43,187
Finance costs				(3,593)
Profit before taxation				39,594
Taxation				(3,265)
Profit for the year				36,329

At 31 December 2004

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*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	Parking garage structures	Forklift trucks	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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
Allowance for inventories	642	36	7	—	685
Loss on disposal of property, plant and equipment	30	26	—	23	79

For the six months 30 June 2004

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
External sales	131,484	22,426	6,800	160,710
Segment results	19,175	947	(303)	19,819
Unallocated corporate revenue				1,692
Unallocated corporate expenses				(3,655)
Profit from operations				17,856
Finance costs				(1,847)
Profit before taxation				16,009
Taxation				(968)
Profit for the period				15,041

At 30 June 2004

	Machine tools	Parking garage structures	Forklift trucks	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance sheet				
Assets				
Segment assets	224,972	49,203	17,902	292,077
Unallocated corporate assets				8,912
Combined total assets				300,989
Liabilities				
Segment liabilities	68,272	22,555	4,957	95,784
Unallocated corporate liabilities				98,566
Combined total liabilities				194,350

	Machine tools	Parking garage equipment	Forklift truck	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other information					
Capital expenditure	8,228	1,135	430	3,643	13,436
Depreciation and amortisation	2,041	784	10	485	3,320
Allowance for (reversal of) bad and doubtful debts	641	(222)	72	—	491
Allowance for inventories	399	—	—	—	399

For the six months 30 June 2005

	Machine tools	Parking garage equipment	Forklift truck	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
External sales	201,739	34,227	24,218	260,184
Segment results	24,019	79	(874)	23,224
Unallocated corporate revenue				6,075
Unallocated corporate expenses				(4,470)
Profit from operations				24,829
Finance costs				(1,965)
Profit before taxation				22,864
Taxation				(2,059)
Profit for the period				20,805

At 30 June 2005

	Machine tools	Parking garage equipment	Forklift truck	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance sheet				
Assets				
Segment assets	258,391	80,291	34,011	372,693
Unallocated corporate assets				21,389
Combined total assets				394,082
Liabilities				
Segment liabilities	92,097	27,515	10,689	130,301
Unallocated corporate liabilities				109,621
Combined total liabilities				239,922

	Machine tools	Parking garage equipment	Forklift truck	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other information					
Capital expenditure	1,145	219	473	250	2,087
Depreciation and amortisation	3,141	620	137	913	4,811
Allowance for bad and doubtful debts	1,336	56	218	—	1,610
Allowance for inventories	138	67	175	—	380

Geographical segments

All the Group's operations are located in the PRC and the Group mainly serves the PRC market. Accordingly, no segment information by geographical market is presented.

4. OTHER OPERATING INCOME

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Sales of materials	208	1,535	2,998	862	4,673
Repair income	—	749	885	443	775
Bank interest income	34	69	96	46	115
Others	204	499	776	341	512
	446	2,852	4,755	1,692	6,075

5. PROFIT FROM OPERATIONS

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit from operations has been arrived at after charging (crediting):					
Directors' remuneration	154	182	203	101	192
Other staff costs	9,591	17,556	28,930	11,317	14,676
Retirement benefits scheme contribution	369	528	1,143	661	498
Total staff cost	10,114	18,266	30,276	12,079	15,366
Auditors' remuneration	150	120	781	—	—
Depreciation	5,007	5,579	7,547	3,286	4,712
Amortisation of intangible asset included in administrative expenses	12	31	85	34	99
Allowance for bad and doubtful debts	209	3,789	994	491	1,610
Allowance for inventories	—	—	685	399	380
Operating lease rentals in respect of rented premises	524	1,045	1,552	699	787
Exchange loss (gain), net	49	116	159	53	(32)

6. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Directors					
Fees	—	—	—	—	—
Other emoluments (executive directors)					
Basic salaries and allowances	114	151	176	88	126
Bonus	40	31	27	13	66
Retirement benefits scheme contribution	—	—	—	—	—
	154	182	203	101	192

The emoluments of each of the directors during the Relevant Periods were below HK$1,000,000.

Highest paid individuals

The five highest paid individuals included two directors for the year ended 31 December 2002, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals during the year ended 31 December 2002 and the five highest paid individuals (not being directors) for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Employees					
Basis salaries and allowances	208	660	732	367	406
Bonus	113	1,164	385	194	636
Retirement benefits scheme contribution	21	35	42	21	23
	342	1,859	1,159	582	1,065

The emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2002	*2003*	*2004*	*2004*	*2005*
				(Unaudited)	
Up to HK$1,000,000	5	4	5	5	5
HK$ 1,000,001 to HK$1,500,000	—	1	—	—	—

During the Relevant Periods, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

7. FINANCE COSTS

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

8. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
PRC enterprise income tax					
Current year	—	—	3,610	1,114	2,084
Deferred tax (note 26)	—	(773)	(345)	(146)	(25)
	—	(773)	3,265	968	2,059

The Group is subject to the Income Tax Law of the PRC and the normal applicable tax rate is 33%.

Pursuant to the approvals obtained from the relevant PRC tax authorities, being a production oriented enterprise established in the Economic and Technological Development Zone, Hangzhou GF is entitled to a preferential income tax rate of 16.5%, comprising national income tax of 15% and local income tax of 1.5%, and Hangzhou GF is entitled to a tax concession period in which it is fully exempted from national and local income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the national and local income tax for the next three years. The first profit-making year of Hangzhou GF is 2002 and the applicable tax rate for 31 December 2002 and 2003 was nil. In addition, as Hangzhou GF was recognised as a 外商投資先進技術企業 (Foreign-invested Advanced Technology Enterprise), the local income tax of Hangzhou GF was specifically and fully exempted by the relevant tax authorities in 2004 and its applicable tax rate for the year ended 31 December 2004 was 7.5%. The applicable tax rate for the six months ended 30 June 2005 was 8.25%.

Global Friend did not have taxable profits for the period from 7 December 2004 (date of establishment) to 31 December 2004 and for the six months ended 30 June 2005.

The tax (credit) charge for the Relevant Periods can be reconciled to the profit before taxation per combined income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before taxation	9,310	30,484	39,594	16,009	22,864
Tax at the domestic tax rate at 16.5%	1,536	5,030	6,533	2,641	3,772
Tax effect of expenses not deductible for tax purpose	—	—	1,907	309	680
Tax effect of income not taxable for tax purpose	—	—	(498)	(498)	(283)
Utilisation of tax losses previously not recognised	(538)	—	—	—	—
Tax effect of tax concession period	(998)	(5,803)	(4,677)	(1,484)	(2,110)
Tax (credit) charge	—	(773)	3,265	968	2,059

9. DIVIDEND

No dividend was declared by the Company since its incorporation.

10. EARNINGS PER SHARE

The earnings per share for the Relevant Periods is calculated based on the profit attributable to shareholders during the Relevant Periods and the 210,000,000 shares which represent the aggregate of the 200 shares in issue as at the date of the Prospectus and 209,999,800 shares to be issued pursuant to the capitalisation issue as described more fully in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to the Prospectus, as if the shares were outstanding throughout the entire Relevant Periods.

11. 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 2002	26,508	34,582	2,017	982	2,648	66,737
Additions	—	322	834	296	2,645	4,097
Injection by a shareholder	—	2,749	—	—	—	2,749
Transfer	1,895	532	—	177	(2,604)	—
Disposals	—	—	(5)	(40)	—	(45)
At 31 December 2002	28,403	38,185	2,846	1,415	2,689	73,538
DEPRECIATION						
At 1 January 2002	2,021	3,223	572	345	—	6,161
Provided for the year	1,255	3,190	402	160	—	5,007
Elimination on disposals	—	—	(4)	(17)	—	(21)
At 31 December 2002	3,276	6,413	970	488	—	11,147
NET BOOK VALUES						
At 31 December 2002	25,127	31,772	1,876	927	2,689	62,391
COST						
At 1 January 2003	28,403	38,185	2,846	1,415	2,689	73,538
Additions	—	2,036	1,388	228	13,585	17,237
Injection by a shareholder	—	2,483	1,122	290	—	3,895
Transfer	9,296	—	—	—	(9,296)	—
Disposals	—	(629)	—	—	—	(629)
At 31 December 2003	37,699	42,075	5,356	1,933	6,978	94,041
DEPRECIATION						
At 1 January 2003	3,276	6,413	970	488	—	11,147
Provided for the year	1,275	3,526	552	226	—	5,579
Eliminated on disposals	—	(319)	—	—	—	(319)
At 31 December 2003	4,551	9,620	1,522	714	—	16,407
NET BOOK VALUES						
At 31 December 2003	33,148	32,455	3,834	1,219	6,978	77,634

	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
Injection by a shareholder	—	4,968	299	—	—	5,267
Transfer	17,632	242	1,721	8	(19,603)	—
Disposals	—	—	(400)	(214)	—	(614)
At 31 December 2004	56,512	50,398	8,944	3,953	110	119,917
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	6,555	13,576	2,374	955	—	23,460
NET BOOK VALUES						
At 31 December 2004	49,957	36,822	6,570	2,998	110	96,457
COST						
At 1 January 2005	56,512	50,398	8,944	3,953	110	119,917
Additions	396	434	578	517	162	2,087
Transfer	162	10	—	—	(172)	—
Disposals	—	—	(19)	—	—	(19)
At 30 June 2005	57,070	50,842	9,503	4,470	100	121,985
DEPRECIATION						
At 1 January 2005	6,555	13,576	2,374	955	—	23,460
Provided for the period	1,276	2,283	769	384	—	4,712
Eliminated on disposals	—	—	(16)	—	—	(16)
At 30 June 2005	7,831	15,859	3,127	1,339	—	28,156
NET BOOK VALUES						
At 30 June 2005	49,239	34,983	6,376	3,131	100	93,829

The buildings are situated in the PRC and are held under medium-term leases.

12. PREPAID LEASE PAYMENTS

	At 31 December			At 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current	3,770	3,677	3,880	3,822
Current (included in debtors, deposits and prepayments)	93	93	93	101
	3,863	3,770	3,973	3,923

The amount represents the cost paid for land use rights in the PRC for a period of 50 years.

13. INTANGIBLE ASSET

	Software
	RMB'000
COST	
At 1 January 2002	—
Additions	105
At 31 December 2002	105
AMORTISATION	
At 1 January 2002	—
Amortised for the year	12
At 31 December 2002	12
NET BOOK VALUE	
At 31 December 2002	93
COST	
At 1 January 2003	105
Additions	94
At 31 December 2003	199
AMORTISATION	
At 1 January 2003	12
Amortised for the year	31
At 31 December 2003	43
NET BOOK VALUE	
At 31 December 2003	156
COST	
At 1 January 2004	199
Additions	789
At 31 December 2004	988
AMORTISATION	
At 1 January 2004	43
Amortised for the year	85
At 31 December 2004	128
NET BOOK VALUE	
At 31 December 2004	860
COST	
At 1 January 2005 and 30 June 2005	988
AMORTISATION	
At 1 January 2005	128
Amortised for the period	99
At 30 June 2005	227
NET BOOK VALUE	
At 30 June 2005	761

Software is amortised on a straight-line basis over 5 years.

14. INVENTORIES

	At 31 December			At 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Parts and components	9,712	23,679	38,635	57,152
Work-in-progress	5,349	21,478	30,588	34,242
Finished goods	7,737	14,788	41,705	49,946
	22,798	59,945	110,928	141,340
At cost	22,798	59,945	110,315	139,986
At net realisable value — parts and components	—	—	613	1,354
	22,798	59,945	110,928	141,340

15. DEBTORS, DEPOSITS AND PREPAYMENTS

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

The aged analysis of trade debtors is as follows:

	At 31 December			At 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 30 days	24,897	39,796	61,185	63,654
31 - 60 days	6	12,745	3,038	5,121
61 - 90 days	1,080	1,222	3,796	4,153
91 - 180 days	768	6,355	14,347	10,062
Over 180 days	2,164	4,773	6,549	13,961
Trade debtors	28,915	64,891	88,915	96,951
Advance deposits to suppliers	3,206	4,448	6,710	10,504
Other debtors	3,938	4,459	5,502	8,144
Deposits paid	1,701	2,051	2,533	2,185
Prepayments	130	108	280	777
	37,890	75,957	103,940	118,561

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

Contracts in progress at the balance sheet date

	At 31 December			At 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract costs incurred plus recognised profits less recognised losses	12,312	20,163	19,901	17,710
Less: progress billings	(12,322)	(19,315)	(25,757)	(10,902)
	(10)	848	(5,856)	6,808
Analysed for reporting purposes as:				
Amounts due from contract customers	2,584	3,865	875	13,164
Amounts due to contract customers	(2,594)	(3,017)	(6,731)	(6,356)
	(10)	848	(5,856)	6,808
At balance sheet dates, retentions held by customers for contract work which have been included in debtors amounted to:	100	937	3,944	3,604

17. AMOUNT DUE FROM HOLDING COMPANY

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

18. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount is of trading nature and aged below 60 days. The amount is unsecured, interest free and has been fully settled subsequent to 30 June 2005.

19. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount is of trading nature and aged below 60 days. The amount is unsecured, interest free and has been fully settled subsequent to 30 June 2005.

20. PLEDGED BANK DEPOSITS

The amounts represent guarantee deposits in banks for the purpose of bidding contracts.

21. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors is as follows:

	At 31 December			At 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 30 days	5,954	13,017	17,122	29,311
31 - 60 days	1,794	2,753	5,472	8,219
61 - 90 days	551	1,623	118	3,316
91 - 180 days	332	622	1,446	1,413
Over 180 days	9,878	3,540	1,983	3,415
Trade creditors	18,509	21,555	26,141	45,674
Advance deposits from customers	12,113	26,719	46,238	51,514
Other payables	1,968	3,349	9,273	5,402
Other taxes payable	2,465	5,726	3,410	2,259
Accrued payroll	1,059	2,236	4,217	2,564
Others	84	174	330	666
	36,198	59,759	89,609	108,079

22. AMOUNT DUE TO HOLDING COMPANY

The amount is of trading nature and aged below 60 days. The amount is unsecured, interest free and has been fully settled subsequent to 30 June 2005.

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest free and repayable on demand. The amount is of non-trading nature except for the portion of RMB2,980,000 included in the balance at 31 December 2002 which arose from the purchase of goods from ultimate holding company. The amount at 30 June 2005 has been capitalised as share capital of Yu Hwa according to Corporate Reorganisation on 23 November 2005.

24. BANK BORROWINGS

	At 31 December			At 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured *(note a)*	26,000	29,963	24,228	15,524
Unsecured *(note b)*	8,277	49,796	65,759	81,489
	34,277	79,759	89,987	97,013

(a) At 30 June 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 RMB43,757,000 (31 December 2004: RMB48,080,000; 31 December 2003: RMB37,975,000; 31 December 2002: RMB40,588,000). The average effective interest rates ranged from 2% to 7% during the Relevant Periods.

(b) At 30 June 2005, the amount guaranteed by the holding companies and certain directors is RMB 69,937,000 (31 December 2004: RMB47,259,000; 31 December 2003: RMB29,796,000; 31 December 2002: RMB8,277,000). The amount guaranteed by a fellow subsidiary is RMB11,552,000 (31 December 2004 RMB18,500,000; 31 December 2003: RMB11,000,000; 31 December 2002: Nil).

(c) At 30 June 2005, the carrying amount of the bank borrowings included RMB78,213,000 (31 December 2004: RMB50,487,000; 31 December 2003: RMB37,659,000; 31 December 2002: RMB8,277,000) which are denominated in US dollar. All remaining borrowings are denominated in Renminbi.

25. WARRANTY PROVISION

	Year ended 31 December			Six months ended 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	813	1,240	1,971	2,612
Provision for the year/period	1,162	2,138	3,082	1,605
Utilisation of provision	(735)	(1,407)	(2,441)	(1,272)
At end of the year/period	1,240	1,971	2,612	2,945

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.

26. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Allowance for bad and doubtful debts	Allowance for inventories	Warranty provision	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2002 and 31 December 2002	—	—	—	—
Credit to income for the year	625	—	148	773
At 31 December 2003	625	—	148	773
Credit to income for the year	164	113	68	345
At 31 December 2004	789	113	216	1,118
(Charge) credit to income for the period	(64)	62	27	25
At 30 June 2005	725	175	243	1,143

The following is the analysis of the deferred tax balances for balance sheet purposes:

	At 31 December			At 30 June
	2002	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	—	773	1,118	1,143

27. PAID-IN CAPITAL

At 31 December 2002 and 31 December 2003, the balance represented the paid-in capital of Hangzhou GF at respective balance sheet dates.

At 31 December 2004 and 30 June 2005, the balance represented the paid-in capital of Hangzhou GF and Yu Hwa.

28. RESERVES

(i) Basis of appropriations to reserves

The transfers to general reserve and enterprise expansion reserve are based on the net profit in the financial statements prepared under the PRC accounting standards.

(ii) General reserve and enterprise expansion reserve

The Articles of Association of respective subsidiaries in the PRC requires the appropriation of certain percentage of its profit after taxation determined under 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.

(iii) Retained profits

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under PRC accounting standards and that determined under general accepted accounting principles of Hong Kong after deduction of the current year's appropriations to the general reserve and enterprise expansion reserve.

The reserve available for distribution to the shareholders as at 30 June 2005 is RMB78,092,000 (31 December 2004: RMB57,287,000; 31 December 2003: RMB26,701,000; 31 December 2002: RMB379,000).

29. MAJOR NON-CASH TRANSACTION

During the Relevant Periods, the sole shareholder of Hangzhou GF contributed property, plant and equipment of RMB2,749,000, RMB3,895,000, RMB5,267,000 for each of the three years ended 31 December 2004 as capital injection.

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

	At 31 December			At 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	182	349	987	1,237
In the second to fifth year inclusive	115	151	380	439
	297	500	1,367	1,676

The leases are negotiated for an average term of two years with fixed monthly rentals.

31. CAPITAL COMMITMENTS

	At 31 December			At 30 June
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	2,880	4,241	—	—
Capital expenditure in respect of the acquisition of property, plant and equipment authorised for but not contracted for	—	—	—	6,996

As 30 June 2005, a subsidiary of the Group, Yu Hwa, was committed to invest RMB70,352,000 (31 December 2004: RMB82,767,000; 31 December 2003: Nil; 31 December 2002: Nil) for the injection of registered capital of its subsidiary, Global Friend.

32. 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.

33. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group had the following transactions with its related companies:

Name of company	Relationship	Nature of transactions	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2005
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
友嘉實業股份有限公司 Fair Friend Enterprise Company Limited	Ultimate holding company	Purchase of goods (i)	8,536	851	—	—
		Sales of goods (i)	—	575	836	1,092
友佳實業(香港)有限公司 Good Friend (H.K.) Corporation Limited	Holding company	Purchase of goods (i)	24,095	89,215	120,709	79,355
		Sales of goods (i)	—	—	248	—
杭州友維機電有限公司 Hangzhou Fair Fine Electric & Machinery Co., Ltd.	Fellow subsidiary	Sales of goods (i)	158	4	14	15
		Rental income (ii)	156	259	269	134
		Reimbursement of expenses (iii)	—	72	—	—
杭州友嘉高松機械有限公司 Hangzhou Feeler Takamatsu Machinery Co., Ltd.	Fellow subsidiary	Rental income (ii)	—	—	—	54

Notes:

(i) Sales and purchase are carried out at market prices.

(ii) Operating lease rentals were determined based on the terms agreed by both parties.

(iii) Expenses were reimbursed at cost.

Details of the balances with related companies are set out in notes 17, 18, 19, 22 and 23.

The directors confirmed that all the above transactions will not be continued after the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

34. FINANCIAL RISKS AND MANAGEMENT

(i) Credit risk

The Group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

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

(ii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short terms in nature. Interest bearing financial liabilities are mainly bank borrowings with fixed interest rates. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

(iii) Fair values of financial assets and financial liabilities

The directors consider that the fair values of financial assets and financial liabilities reported in the combined balance sheets approximate their carrying amounts.

35. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the financial statements is disclosed below.

Allowance on trade debtors

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within the Group's expectations and the provisions established, there is no guarantee that it will continue to experience the same credit loss that it has had in the past.

B. NET TANGIBLE ASSETS OF THE COMPANY

The Company was incorporated on 6 September 2005. Pursuant to the Corporate Reorganisation, the Company became the holding company of the Group on 22 December 2005. Had the Corporate Reorganisation been completed and the Company been incorporated on 30 June 2005, the net tangible assets of the Company at that date would have been approximately RMB153,399,000 representing the Company's investment in its subsidiaries.

C. DIRECTORS' REMUNERATIONS

Save as disclosed herein, no other remuneration has been paid or is payable to the Company's directors by the Company during the Relevant Periods.

Under the arrangement currently in force, the aggregate amount of remuneration payable to the directors of the Company for the year ending 31 December 2005 is estimated to be RMB345,000.

D. SUBSEQUENT EVENTS

The following transactions took place subsequent to 30 June 2005:

(a) On 22 December 2005, written resolutions were passed to give effect to the transactions which are set out in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to the Prospectus; and

(b) The Group underwent a group reorganisation to rationalise the Group's structure in preparation for the listing of shares of the Company on the Stock Exchange of Hong Kong Limited, the details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix VI to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 30 June 2005.

E. ULTIMATE HOLDING COMPANY

At the date of this report, the directors of the Company consider 友佳實業股份有限公司 Fair Friend Enterprise Company Limited, a company incorporated in Taiwan, to be the ultimate holding company of the Company.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 30 June 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information, is set out here to provide the prospective investors with further information about the effect of the Listing on the financial position of the Group after completion of the Share Offer and should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report of the Group set out in Appendix I to this prospectus.

Although reasonable care had been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial position of the Group after the Share Offer and the actual earnings per share for the year ending 31 December 2005.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 30 June 2005, as shown in the accountants' report set out in Appendix I to this prospectus, adjusted as described below:

	Audited combined net tangible assets of the Group as at 30 June 2005 *(Note 1)*		**Estimated net proceeds from the Share Offer** *(Note 2)*		**Unaudited pro forma adjusted net tangible assets** *(Note 3)*		**Unaudited pro forma adjusted net tangible assets per Share** *(Notes 3 and 4)*	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB*	*HK$*
Based on the Offer Price of HK$1.13 per Share	153,399	147,499	64,792	62,300	218,191	209,799	0.78	0.75

Notes:

1. Net tangible assets of the Group as at 30 June 2005 is derived from the net assets of RMB154,160,000 as disclosed on page I-5 in Appendix I to this prospectus after deducting the intangible asset of RMB761,000.

2. The estimated net proceeds from the Share Offer are based on the Offer Price of HK$1.13 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of any options which may be granted under the Share Option Scheme or of any Shares which may be issued or repurchased by the Company pursuant to the general mandates referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

3. As at 30 September 2005, the Group's property interests were revalued by DTZ Debenham Tie Leung Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. Pursuant to the valuation performed by DTZ Debenham Tie Leung Limited, the valuation of the Group's interest in the properties as at 30 September 2005 amounted to approximately RMB68,050,000. This resulted in a revaluation surplus, net of applicable deferred tax liabilities, of approximately RMB13,039,000 when compared with the net book value of approximately RMB52,435,000 as at 30 September 2005. Such revaluation surplus will not be incorporated in the Group's financial statements for the year ending 31 December 2005. If the revaluation surplus was included in the Group's financial statements for the year ending 31 December 2005, an additional depreciation charge of no more than approximately RMB860,000 per annum would be incurred.

4. The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that a total of 280,000,000 Shares were in issue (including Shares in issue as at the date of this prospectus and Shares to be issued pursuant to the Capitalisation Issue and the Share Offer but without taking into account of any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme).

(B) UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

Forecast combined profit attributable to the equity holders of the Company for the year ending 31 December 2005 *(Note 1)* . . . . Not less than RMB41.68 million (equivalent to approximately HK$40.00 million)

Unaudited pro forma forecast earnings per Share on a fully diluted basis *(Note 2)* . . . . .Not less than RMB0.15 (equivalent to approximately HK$0.14)

Notes:

1. The forecast combined profit attributable to the equity holders of the Company for the year ending 31 December 2005 is extracted from the section headed "Financial information" in this prospectus. The bases on which the above profit forecast for the year ending 31 December 2005 has been prepared are summarised in Appendix III to this prospectus.

   The forecast combined profit attributable to the equity holders of the Company for the year ending 31 December 2005 prepared by the Directors is based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results based on the management accounts of the Group for the three months ended 30 September 2005 and a forecast of the combined results for the remaining three months of the financial year ending 31 December 2005 on the basis that the current group structure had been in existence throughout the whole financial year ending 31 December 2005.

2. The calculation of the unaudited pro forma forecast earnings per Share on a fully diluted basis is based on the forecast profit attributable to equity holders of the Company for the year ending 31 December 2005 (assuming that the Company had been listed since 1 January 2005) and a total of 280,000,000 Shares had been in issue during the year, but takes into no account of any Shares which may be allotted and issued upon exercise of the options that may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in paragraph headed "Written resolutions of the sole shareholder of the Company" in Appendix VI to this prospectus.

(C) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

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30 December 2005

The Directors
Good Friend International Holdings Inc.
Polaris Securities (Hong Kong) Limited

Dear Sirs,

We report on the unaudited pro forma financial information set out in Sections A and B of Appendix II to the prospectus dated 30 December 2005 (the "Prospectus") in connection with the placing and public offer of 70,000,000 shares of HK$0.01 each in Good Friend International Holdings Inc. (the "Company"), which has been prepared, for illustrative purposes only, to provide information about how the listing might have affected the relevant financial information presented.

Responsibilities

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the listing rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out in Sections A and B of Appendix II to the Prospectus for illustrative purposes only and, because of its nature, it may not be an indicative of the financial position of the Company and its subsidiaries (the "Group") as at 30 June 2005 or at any future date nor the earnings per share of the Group for the year ending 31 December 2005.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2005 is set out in the paragraph headed "Profit forecast" under the section headed "Financial information" in this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2005 on the basis of the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results based on the management accounts of the Group for the three months ended 30 September 2005, and a forecast of the combined results of the Group for the remaining three months of the financial year ending 31 December 2005 on the basis that the current group structure had been in existence throughout the whole financial year ending 31 December 2005. The forecast has been presented on the basis of accounting policies consistent in all material respects with those adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus, and is based on the following principal assumptions:

(i) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC, or any other countries and territories in which the Group carries on business or to which the Group obtains materials;

(ii) there will be no material changes in legislation or regulations or rules, whether in the PRC, Hong Kong or elsewhere, which materially affect the business, suppliers or customers of the Group;

(iii) the inflation rate, exchange rates and interest rates will not differ materially from those presently prevailing;

(iv) there will be no material changes in the bases or rates of taxation in the countries or territories in which the Group operates or in the countries or territories in which the Company or its subsidiaries were incorporated;

(v) the Group is not materially adversely affected by any of the risk factors set out in the section headed "Risk factors" of this prospectus; and

(vi) the Group's business and operation will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseen reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes (such as floods or typhoons), epidemics or serious accidents.

(B) LETTERS

(i) Letter from Deloitte Touche Tohmatsu

The following is the text of a letter, prepared for inclusion in this prospectus, received from Deloitte Touche Tohmatsu in connection with the forecast of the combined profit attributable to equity holders of the Company for the year ending 31 December 2005.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

30 December 2005

The Directors
Good Friend International Holdings Inc.
Polaris Securities (Hong Kong) Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit attributable to equity holders of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2005 (the "Forecast"), for which the directors of the Company are solely responsible, as set out in the prospectus dated 30 December 2005 issued by the Company (the "Prospectus"). The Forecast is prepared based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results based on the management accounts of the Group for the three months ended 30 September 2005, and a forecast of the combined results of the Group for the remaining three months of the financial year ending 31 December 2005 on the basis that the current group structure had been in existence throughout the whole financial year ending 31 December 2005.

In our opinion the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in Section A of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 30 December 2005, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(ii) **Letter from Polaris Securities (Hong Kong) Limited**

The following is the text of a letter, prepared for inclusion in this prospectus, received from the Sponsor in connection with the forecast of the combined profit attributable to equity holders of the Company for the year ending 31 December 2005

寶來證券(香港)有限公司
Polaris Securities (Hong Kong) Limited

30 December 2005

The Directors
Good Friend International Holdings Inc.

Dear Sirs,

We refer to the forecast of the combined profit attributable to equity holders of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together with the Company, the "Group") for the year ending 31 December 2005 (the "Forecast") as set out in the prospectus issued by the Company dated 30 December 2005 (the "Prospectus"). The Forecast is prepared based on the audited combined results of the Group for the six months ended 30 June 2005, the unaudited combined results based on the management accounts of the Group for the three months ended 30 September 2005 and a forecast of the combined results of the Group for the remaining three months of the financial year ending 31 December 2005 on the basis that the current group structure had been in existence throughout the whole financial year ending 31 December 2005.

We have discussed with you the bases and assumptions made by you, as directors of the Company, as set out in Section A of Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated 30 December 2005 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful inquiry.

Yours faithfully,
For and on behalf of
Polaris Securities (Hong Kong) Limited
Catherine Wong
Managing Director

香港皇后大道中99號中環中心65樓6503室
Unit 6503, The Center, 99 Queen's Road Central, Hong Kong
Tel: (852) 2918 0799 Fax: (852) 2869 6916

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this prospectus and received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with their valuations as at 30 September 2005 of the property interests of the Group.

DTZ Debenham Tie Leung 戴德梁行
International Property Advisers
National Grade A Real Estate Valuation Company in China
National Land Valuation Company in China

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

30 December 2005

The Directors
Good Friend International Holdings Inc.
No. 120 Shixin North Road
Xiaoshan Economic & Technological Development Zone
Xiaoshan District
Hangzhou City
Zhejiang Province
The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests of Good Friend International Holdings Inc. (referred to as the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such property interests as at 30 September 2005.

Our valuation of the property interests represents their market values which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances restrictions and outgoings of any onerous nature which could affect their values.

In the course of our valuation of the property interests in the PRC, we have assumed that transferable land use rights in respect of the property interests for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have relied on the information and advice given by the Group and its legal adviser, Jingtian & Gongcheng, on PRC law, regarding the title to each of the property interests and the interests of the Group in the properties. In valuing the property interests, we have assumed that the Group has an enforceable title to each of the property interests and has free and uninterrupted right to use, occupy or assign the property interests for the whole of the respective unexpired terms as granted.

In respect of the property interests situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group and the advice provided by Jingtian & Gongcheng, are set out in the notes in the respective valuation certificate.

In valuing property no. 1 in Group I, which is held and occupied by the Group in the PRC, we have valued the property interest by "Depreciated Replacement Cost" ("DRC") Approach. DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. The term gross replacement cost is defined as the estimated cost of erecting the building or a modern substitute building having the same area as the existing building at prices current at the relevant date. This figure includes fees and finance charges payable during the construction period and other associated expenses directly related to the construction of the building. The DRC Approach generally furnishes a reliable indication of value for properties with specific nature and design of buildings, in the absence of identifiable market sales comparables. The DRC is subject to adequate potential profitability of the business.

In valuing property nos. 2 and 3 in Group I which are held and occupied by the Group in the PRC, we have valued them on market basis by Direct Comparison Approach assuming sale of the property interests in their existing state with the benefit of vacant possession and by making reference to comparable sale evidences as available in the relevant market.

The property interests in Group II, which are leased by the Group in the PRC, have no commercial value due mainly to prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

In valuing the property interests, we have complied with the requirements set out in Chapter 5, Practice Note 12 and the Practice Note 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited and the Valuation Standards (First Edition 2005) on Valuation of Properties published by The Hong Kong Institute of Surveyors.

In respect of the property interests in the PRC, we have been provided with extracts of documents in relation to the titles to the property interests. However, we have not inspected the original documents to ascertain any amendments, which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and advice given by its PRC legal advisers on PRC law and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, identification of buildings, particulars of occupancy, development schemes, construction costs, site and gross floor area and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and, where possible, the interior of each of the properties. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no unexpected costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and gross floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Unless otherwise stated, all money amounts stated herein are in Renminbi, the official currency of the PRC.

We enclose herewith a summary of our valuations and our valuation certificate.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K. F. Chan
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S
Director

Note: Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has over 17 years of experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

	Property	Capital value in existing state as at 30 September 2005	Attributable interest to the Group	Capital value in existing state attributable to the Group as at 30 September 2005
		RMB	*%*	*RMB*
Group I — Property interests held and occupied by the Group in the PRC				
1.	An industrial complex situated at eastern side of No. 120 Shixin North Road, Xiaoshan Economic & Technological Development Zone, Xiaoshan District, Hangzhou City, Zhejiang Province	60,000,000	100	60,000,000
2.	Units 1401 and 1402, Block B (Hengda Apartment), Hengda Plaza, Lane 295, No. 8 Changshou Road, Putuo District, Shanghai Municipality	3,350,000	100	3,350,000
3.	Units A21C, A21D and A21E, Block A, No. 8 East Tucheng Road, Chaoyang District, Beijing Municipality	4,700,000	100	4,700,000
			Sub-total:	68,050,000

	Property	Capital value in existing state as at 30 September 2005 *RMB*	Attributable interest to the Group *%*	Capital value in existing state attributable to the Group as at 30 September 2005 *RMB*
Group II — Property interests leased by the Group in the PRC				
4.	Units 3101 and 3106, situated at the east side of Zhongcha Building, north side of Tianhe Road, Tianhe District, Guangzhou City, Guangdong Province	No commercial value	100	No commercial value
5.	Unit 2308, Hongying Building, No. 49 Daguang Road, Nanjing City, Jiangsu Province	No commercial value	100	No commercial value
6.	Unit 606, New Century Tower, Renmin East Road, Lucheng District, Wenzhou City, Zhejiang Province	No commercial value	100	No commercial value
7.	Unit 1702, Fukang Building, Jiahe Road, Xiamen City, Fujian Province	No commercial value	100	No commercial value
8.	Unit A-8C, Linda Building, No. 8 East Tucheng Road, Chaoyang District, Beijing Municipality	No commercial value	100	No commercial value
9.	Unit 3007, Block A, Changjiang Plaza, Yingwu Avenue, Hanyang District, Wuhan City, Hubei Province	No commercial value	100	No commercial value

	Property	Capital value in existing state as at 30 September 2005 *RMB*	Attributable interest to the Group *%*	Capital value in existing state attributable to the Group as at 30 September 2005 *RMB*
10.	Unit 1505, Level 15, Zhineng Building, Honglou West Road, Licheng District, Jinan City, Shandong Province	No commercial value	100	No commercial value
11.	Unit 1010, Level 10, Gouwu Cheng, Nanda Street, Yantai City, Shandong Province	No commercial value	100	No commercial value
12.	Unit 224-6-17-2, Shibei Jiayuan, No. 224 Shifu Road, Heping District, Shenyang City, Liaoning Province	No commercial value	100	No commercial value
13.	Unit G, Level 18, Block C, Jindu Garden, No. 37 Donghai Road, Shinan District, Qingdao City, Shandong Province	No commercial value	100	No commercial value
14.	Unit 2-202, Xindeli Building, Maoyuan- International Commercial/Residential City, No. 88 Jinsha Road, Chengdu City, Sichuan Province	No commercial value	100	No commercial value

	Property	Capital value in existing state as at 30 September 2005 *RMB*	Attributable interest to the Group *%*	Capital value in existing state attributable to the Group as at 30 September 2005 *RMB*
15.	Room 14-9, Unit No. 2, Block B, Yugao Plaza, No. 65 Kechuang Road, Shiqiaopu, Chongqing Municipality	No commercial value	100	No commercial value
16.	Unit 2091, Mingyuan Building, Jiazi No. 8, Youyi East Road, Xian City, Shaanxi Province	No commercial value	100	No commercial value
17.	Unit 1-1-4, Changjiangshiji Block No. 3, No. 278 Bingshan Avenue, Liuzhou City, Guangxi ZAR	No commercial value	100	No commercial value
18.	Unit E, Level 16, Xinhai Building, No. 81 Yanan Middle Road, Guiyang City, Guizhou Province	No commercial value	100	No commercial value
19.	Flat 402, Unit No. 2, Block A, Jinguiyuan, No. 389 Hanshui Road, Nangang District, Harbin City, Heilongjiang Province	No commercial value	100	No commercial value
20.	Room 1401, Level 14, Block C, Jindu Garden, No. 37 Donghai West Road, Shinan District, Qingdao City, Shandong Province	No commercial value	100	No commercial value

	Property	Capital value in existing state as at 30 September 2005 *RMB*	Attributable interest to the Group *%*	Capital value in existing state attributable to the Group as at 30 September 2005 *RMB*
21.	Flat 802, Honglida Building, No. 50 Lanbaiye Street, Loufeng Town, Suzhou City, Jiangsu Province	No commercial value	100	No commercial value
22.	Flat 702, Unit Ding, Block 9, Lijing Garden, Changzhou City, Jiangsu Province	No commercial value	100	No commercial value
23.	Flat 212, Gongxing North, No. 15 Third Street, Hangzhou Economic & Technological Development Zone, Hangzhou City, Zhejiang Province	No commercial value	100	No commercial value
			Sub-total:	No commercial value
			Grand-total:	68,050,000

VALUATION CERTIFICATE

Group I - Property interests held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2005
1.	An industrial complex situated at eastern side of No.120 Shixin North Road, Xiaoshan Economic & Technological Development Zone, Xiaoshan District, Hangzhou City, Zhejiang Province	The property comprises an industrial complex erected upon two plots of contiguous irregular shape land having a total site area of approximately 56,909 sq.m. (612,568 sq.ft.). The industrial complex mainly comprises one office building, one industrial building and four workshops with a total gross floor area of approximately 39,340.67 sq.m. (423,463 sq.ft.) completed in 1990s and 2000s. The land use rights of the property have been granted for a term due to expire in July 2044 for industrial use and use of forming the new company respectively.	Portion of Workshop Phase III with a gross floor area of 2,244 sq.m. is leased to a connected party, Hangzhou Fair Fine, at a monthly rental of RMB22,440 from 1 January 2005 to 31 December 2005. Portion of Workshop Phase IV with a gross floor area of 894.74 sq.m. is leased to a connected party, Hangzhou Feeler Takamatsu Machinery Co., Ltd. (杭州友嘉高松機械有限公司), at a monthly rental of RMB8,947.40 from 1 January 2005 to 31 December 2005. The remaining portion of the property is currently occupied by the Group for industrial use.	RMB60,000,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (94) 8 dated 23 June 1997, the land use rights of the property comprising a site area of 53,507 sq.m. have been granted to Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou GF") for a term of 50 years from July 1994 to July 2044 for the use of forming the new company.

According to Certificate for the Use of State-owned Land dated 8 May 2004, the land use rights of the property comprising a site area of 3,402 sq.m. have been transferred to Hangzhou GF due to expire on 7 July 2044 for industrial use.

(2) According to Contract for Grant of State-owned Land Use Rights entered into between Hangzhou Qianjiang Foreign Firm & Taiwan Firm Investment Area, Jiangnan Administrative Committee (杭州錢江外商台商投資區江南管理委員會) and Hangzhou GF on 18 March 1993, the land use rights of the property comprising a site area of approximately 80 mu (53,333.33 sq.m.) have been granted to Hangzhou GF for a term of 50 years for industrial use at a consideration of RMB4,640,000.

According to Contract for Transfer of State-owned Land Use Rights entered into between Hangzhou Taihua Service Co., Ltd (杭州台華服務有限公司) and Hangzhou GF on 20 January 2004, the land use rights of the property comprising a site area of approximately 3,402 sq.m. have been transferred to Hangzhou GF at a consideration of RMB295,974.

(3) According to 5 Building Ownership Certificates Nos. 1335403, 1360330, 1381540, 00000586 and 00000587 issued on 29 June 2002, 26 November 2001, 14 April 2004 and 24 October 2005 respectively, the building ownership of the property have been vested to Hangzhou GF with details as follows:

Certificate No.	**Building Name**	**No. of Storey**	**Gross Floor Area**
			sq.m.
1335403	Office Building	2	1,220.40
	Workshop Phase I	1	4,391.36
	Switchboard Room (1)	1	78.00
1360330	Workshop Phase II	1	9,700.46
1381540	Workshop Phase III	3	9,744.04
00000587	Workshop Phase IV	1	11,169.41
00000586	Ancillary Industrial Building	3	3,037.00
			39,340.67

(4) According to Planning Permit for Construction Use of Land No. 0111025 dated 8 June 1994, the land parcel No.19 in the Development Zone with a total site area of 53,506.93 sq.m is permitted for the use of Hangzhou GF.

(5) According to Planning Permit for Construction Works No. 0110071, the new extension work is permitted for construction with a total gross floor area of 11,594 sq.m.

(6) According to Business Licence No. 001333, Hangzhou Good Friend Precision Machinery Co., Ltd., a wholly owned subsidiary of the Group, was incorporated as wholly foreign-owned enterprise with a registered capital of US$8,000,000 and an operation period from 23 September 1993 to 22 September 2043.

(7) According to PRC legal opinion:

(i) The land use rights of the property comprising 2 plots of land is held by Hangzhou GF for a term due to expire in July 2044 for industrial use and use of forming the new company respectively.

(ii) Hangzhou GF has obtained the building ownership of the property with a gross floor area of 39,340.67 sq.m..

(iii) Portion of the property with a gross floor area of 9,744.04 sq.m. and a site area of 15,053.61 sq.m. is subject to mortgage in favour of Industrial and Commercial Bank of China Hangzhou Xiaoshan Branch for a consideration of RMB12,000,000.

(iv) Portion of the property with a gross floor area of 15,390.22 sq.m. and a site area of 35 mu (23,333.35 sq.m.) is subject to a mortgage in favour of Agricultural Bank of China Hangzhou Xiaoshan Economic & Technological Development Zone Branch for a consideration of RMB18,400,000.

(v) The 2 tenancies at Workshop Phase III and IV are valid and binding and have been registered at the relevant local authority in September 2005.

(vi) The current use of the property complies with the approved use. Hangzhou GF is entitled to occupy and use the property.

(vii) Hangzhou GF has to obtain the written consent of the mortgagee so as to assign, transfer, sell, lease or remortgage the property.

(8) In accordance with the PRC legal opinion and the information provide by the Group, the status of title and grant of major approvals and licences are as follows:

Certificate for the Use of State-owned Land	Yes
Contract for Grant of State-owned Land Use Rights	Yes
Contract for Transfer of State-owned Land Use Rights	Yes
Building Ownership Certificates	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permits for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Completion Certificates	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2005
2.	Units 1401 and 1402, Block B (Hengda Apartment), Hengda Plaza, Lane 295, No. 8 Changshou Road, Putuo District, Shanghai Municipality	The property comprises two residential units on level 14 of a 24-storey residential building completed in 1997. The property has a total gross floor area of 293.30 sq.m. (3,157 sq.ft.). The land use rights of the property has been granted for an unspecified term for residential use.	The property is currently occupied by the Group for staff quarter use.	RMB3,350,000

Notes:

(1) According to Shanghai Certificate of Real Estate Ownership (1998) No. 005785 dated 30 July 1998, the land use rights and building ownership of the property comprising two residential units with a total gross floor area of 293.30 sq.m. have been vested to Hangzhou Good Friend Precision Machinery Co., Ltd. (杭州友佳精密機械有限公司) ("Hangzhou GF") for an unspecified term for residential use.

(2) According to Business Licence No. 001333, Hangzhou Good Friend Precision Machinery Co., Ltd., a wholly owned subsidiary of the Group, was incorporated as wholly foreign-owned enterprise with a registered capital of US$8,000,000 and an operation period from 23 September 1993 to 22 September 2043.

(3) According to PRC legal opinion:

(i) Hangzhou GF has obtained the land use rights and building ownership of the property with a total gross floor area of 293.30 sq.m for residential use.

(ii) According to Mortgage Contract No. (2004) 0002, the property is subject to a mortgage in favour of Agricultural Bank of China Xiaoshan Branch to secure a loan of RMB1,200,000 from 6 January 2004 to 5 January 2006.

(iii) The current use of the property complies with the approved use. Hangzhou GF is entitled to occupy and use the property.

(iv) Hangzhou GF has to obtain the written consent of the mortgagee so as to assign, transfer, sell, lease or remortgage the property.

(4) In accordance with the PRC legal opinion and the information provide by the Group, the status of title and grant of major approvals and licences are as follows:

Certificate of Real Estate Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2005
3.	Units A21C, A21D and A21E, Block A, No. 8 East Tucheng Road, Chaoyang District, Beijing Municipality	The property comprises 3 residential units on Level 21 of a 25-storey residential building completed in 1999. The property has a total gross floor area of 585.60 sq.m. (6,303 sq.ft.) with the details as follows:-	The property is currently occupied by the Group as staff quarter use.	RMB4,700,000

Unit	Approximate Gross Floor Area	
	sq.m.	*sq.ft.*
A21C	199.66	2,149
A21D	192.16	2,068
A21E	193.78	2,086
	585.60	6,303

The land use rights of the property have been granted for a term due to expire on 19 July 2070 for apartment uses.

Notes:

(1) According to 2 Certificates for the Use of State-owned Land Nos. 2002(2230003) and 2004 (2230017) dated 24 December 2002 and 2 June 2004 respectively, the land use rights of the property, comprising a total apportioned site area of 30.37 sq.m., is vested in Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou GF") for a term due to expire on 19 July 2070 for apartment uses.

(2) According to 2 Building Ownership Certificates Nos. 2230003 and 2230027, the building ownership of the property comprising a total gross floor area of 585.60 sq.m. is vested in Hangzhou GF for a term due to expire on 19 July 2070 for apartment uses and the details are summarised as follow:

Certificate No.	Unit	Gross floor area
		sq.m.
2230003	A21C	199.66
	A21D	192.16
2230027	A21E	193.78
	Total	585.60

As advised by the Group, the cost of original acquisition for Unit A21C, A21D was RMB3,314,798 in 2001, whilst the cost of original acquisition for unit A21E was RMB1,639,379 in 2003.

(3) According to Business Licence No. 001333, Hangzhou Good Friend Precision Machinery Co., Ltd., a wholly owned subsidiary of the Group, was incorporated as a wholly foreign-owned enterprise with a registered capital of US$8,000,000 and an operation period from 23 September 1993 to 22 September 2043.

(4) According to PRC legal opinion:

(i) Hangzhou GF has obtained the land use rights and building ownership of the property comprising a total gross floor area of 585.60 sq.m. for a term due to expire on 19 July 2070 for apartment uses.

(ii) The current use of the property complies with the approved use. The property is not subject to any mortgage and other parties' interest.

(iii) Hangzhou GF can freely transfer, lease or mortgage the property.

(5) The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and information provided by the Group are as follows:

Certificates for the Use of State-owned Land	Yes
Building Ownership Certificates	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group II - Property interests leased by the Group in the PRC

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
4.	Units 3101 and 3106, situated at the east side of Zhongcha Building, north side of Tianhe Road, Tianhe District, Guangzhou City, Guangdong Province	The property comprises an office unit on level 31 of a 32-storey commercial building completed in 2003. The property has a gross floor area of approximately 254 sq.m. (2,734 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou GF"), a wholly subsidiary of the Group for a term of 2 years from 30 April 2004 to 29 April 2006 at a monthly rent of RMB17,272, exclusive of management fees and other fees. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
5.	Unit 2308, Hongying Building, No. 49 Daguang Road, Nanjing City, Jiangsu Province	The property comprises an office unit on level 23 of a 25-storey commercial building completed in 1999. The property has a gross floor area of approximately 111.79 sq.m. (1,203 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 5 years from 10 December 2004 to 9 December 2009 at a monthly rent of RMB3,500, exclusive of water, utilities fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
6.	Unit 606, New Century Tower, Renmin East Road, Lucheng District, Wenzhou City, Zhejiang Province	The property comprises an office unit on level 6 of a 33-storey commercial building completed in 1999. The property has a gross floor area of approximately 127.14 sq.m. (1,369 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Wenzhou Branch Office, a wholly owned subsidiary of the Group for a term of 1 year from 10 March 2005 to 9 March 2006 at a monthly rent of RMB4,704, exclusive of water, utilities fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
7.	Unit 1702, Fukang Building, Jiahe Road, Xiamen City, Fujian Province	The property comprises an office unit on level 17 of a 24-storey commercial building completed in 1997. The property has a gross floor area of approximately 122 sq.m. (1,313 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 2 years from 1 December 2003 to 30 November 2005 at a monthly rent of RMB1,500, exclusive of management fees and others. The property has been renewed for a term of 1 year from 1 December 2005 to 30 November 2006 at the same monthly rent. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
8.	Unit A-8C, Linda Building, No. 8 East Tucheng Road, Chaoyang District, Beijing Municipality	The property comprises an office unit on level 8 of a 25-storey commercial building completed in 1999. The property has a gross floor area of approximately 209 sq.m. (2,250 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 2 years from 1 August 2004 to 31 July 2006 at a monthly rent of RMB15,000, inclusive of management fees but exclusive of other fees. According to the PRC legal opinion, the lessor has provided the Sales and Purchase Agreement and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
9.	Unit 3007, Block A, Changjiang Plaza, Yingwu Avenue, Hanyang District, Wuhan City, Hubei Province	The property comprises an office unit on level 30 of a 31-storey commercial building completed in 1999. The property has a gross floor area of approximately 162.27 sq.m. (1,747 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 5 years from 15 March 2005 to 15 March 2010 at a monthly rent of RMB5,600, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Sales and Purchase Agreement and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
10.	Unit 1505, Level 15, Zhineng Building, Honglou West Road, Licheng District, Jinan City, Shandong Province	The property comprises an office unit on level 15 of a 18-storey commercial building completed in 1998. The property has a gross floor area of approximately 118 sq.m. (1,270 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Jinan Branch Office, a wholly owned subsidiary of the Group for a term of 1 year from 11 June 2005 to 10 June 2006 at a monthly rent of RMB3,000, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
11.	Unit 1010, Level 10, Gouwu Cheng, Nanda Street, Yantai City, Shandong Province	The property comprises an office unit on level 10 of a 16-storey commercial building completed in 2000. The property has a gross floor area of approximately 125 sq.m. (1,346 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 1 year from 5 January 2005 to 4 January 2006 at a monthly rent of RMB2,500, inclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
12.	Unit 224-6-17-2, Shibei Jiayuan, No. 224 Shifu Road, Heping District, Shenyang City, Liaoning Province	The property comprises an office unit on level 17 of a 24-storey commercial building completed in 2003. The property has a gross floor area of approximately 168 sq.m. (1,808 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Shenyang Branch Office, a wholly owned subsidiary of the Group for a term of 1 year from 10 July 2005 to 10 July 2006 at a monthly rent of RMB3,705, inclusive of management fees and air-conditioning fee but exclusive of water, utilities fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
13.	Unit G, Level 18, Block C, Jindu Garden, No. 37 Donghai Road, Shinan District, Qingdao City, Shandong Province	The property comprises a unit on level 18 of a 32-storey residential building completed in 1990s. The property has a gross floor area of approximately 130 sq.m. (1,399 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 2 years from 2 January 2005 to 1 January 2007 at a monthly rent of RMB3,000, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
14.	Unit 2-202, Xindeli Building, Maoyuan-International Commercial/ Residential City, No. 88 Jinsha Road, Chengdu City, Sichuan Province	The property comprises a unit on level 2 of a 7-storey residential building completed in 1998. The property has a gross floor area of approximately 150 sq.m. (1,615 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Chengdu Branch Office, a wholly owned subsidiary of the Group for a term of 3 years from 22 September 2003 to 21 September 2006 at a monthly rent of RMB3,000, inclusive of taxes but exclusive of management fees and other fees. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
15.	Room 14-9, Unit No. 2, Block B, Yugao Plaza, No. 65 Kechuang Road, Shiqiaopu, Chongqing Municipality	The property comprises an office unit on level 14 of a 19-storey commercial building completed in 1999. The property has a gross floor area of approximately 157 sq.m. (1,690 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 1 year from 1 January 2005 to 31 December 2005 at a monthly rent of RMB3,200, exclusive of management fees and others. The property has been renewed for a term of 1 year from 1 January 2006 to 31 December 2006 at the same rent. According to the PRC legal opinion, the lessor has provided the Sales and Purchase Agreement and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
16.	Unit 2091, Mingyuan Building, Jiazi No. 8, Youyi East Road, Xian City, Shaanxi Province	The property comprises an office unit on level 20 of a 25-storey commercial building completed in 1999. The property has a gross floor area of approximately 102 sq.m. (1,098 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Xian Branch Office, a wholly owned subsidiary of the Group for a term of 2 years from 1 January 2005 to 30 December 2006 at a monthly rent of RMB1,900, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
17.	Unit 1-1-4, Changjiangshiji Block No. 3, No. 278 Bingshan Avenue, Liuzhou City, Guangxi ZAR	The property comprises an office unit on level 1 of a 6-storey commercial building completed in 2004. The property has a gross floor area of approximately 107.91 sq.m. (1,162 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 2 years from 1 January 2005 to 31 December 2006 at a monthly rent of RMB1,500, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Sales and Purchase Agreement and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
18.	Unit E, Level 16, Xinhai Building, No. 81 Yanan Middle Road, Guiyang City, Guizhou Province	The property comprises an office unit on level 16 of a 26-storey commercial building completed in 2000. The property has a gross floor area of approximately 108.27 sq.m. (1,165 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Guiyang Branch Office, a wholly owned subsidiary of the Group for a term of 1 year from 21 June 2005 to 22 June 2006 at a monthly rent of RMB2,500, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Sales and Purchase Agreement and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
19.	Flat 402, Unit No. 2, Block A, Jinguiyuan, No. 389 Hanshui Road, Nangang District, Harbin City, Heilongjiang Province	The property comprises an office unit on level 4 of a 16-storey commercial building completed in 2002. The property has a gross floor area of approximately 106.62 sq.m. (1,148 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 1 year from 2 January 2005 to 2 January 2006 at a monthly rent of RMB2,600, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
20.	Room 1401, Level 14, Block C, Jindu Garden, No. 37 Donghai West Road, Shinan District, Qingdao City, Shandong Province	The property comprises a unit on level 14 of a 32-storey residential building completed in 1990s. The property has a gross floor area of approximately 132.43 sq.m. (1,425 sq.ft.). The property is currently leased from an independent third party to Hangzhou Good Friend Qinghai Branch Office, a wholly owned subsidiary of the Group for a term of 1 year from 1 February 2005 to 31 January 2006 at a monthly rent of RMB3,667, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value
21.	Flat 802, Honglida Building, No. 50 Lanbaiye Street, Loufeng Town, Suzhou City, Jiangsu Province	The property comprises a unit on level 8 of a 9-storey residential building completed in 2004. The property has a gross floor area of approximately 126 sq.m. (1,356 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 1 year from 1 August 2005 to 31 July 2006 at a monthly rent of RMB2,500, exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
22.	Flat 702, Unit Ding, Block 9, Lijing Garden, Changzhou City, Jiangsu Province	The property comprises an office unit on level 7 of a 11-storey commercial building completed in 1995. The property has a gross floor area of approximately 155.64 sq.m. (1,675 sq.ft.). The property is currently leased from an independent third party to Hangzhou GF, a wholly owned subsidiary of the Group for a term of 1 year from 1 December 2004 to 30 November 2005 at a monthly rent of approximately RMB2,583, exclusive of management fees and others. The property has been renewed for a term of 3 years from 1 December 2005 to 30 November 2008 at a monthly rent of approximately RMB3,100 at the first year, a 5% increase at the second year, and a 5% increase at the third year. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

	Address	Property Description	Particulars of occupancy	Capital value in existing state as at 30 September 2005
23.	Flat 212, Gongxing North, No. 15 Third Street, Hangzhou Economic & Technological Development Zone, Hangzhou City, Zhejiang Province	The property comprises an office unit on level 2 of a multi-storey commercial building completed in 1990s'. The property has a gross floor area of approximately 100 sq.m. (1,076 sq.ft.) for non-domestic use. The property is currently leased from an independent third party to Hangzhou Global Friend Precision Machinery Co., Ltd., a wholly owned subsidiary of the Group for a term of 1 year from 1 December 2004 to 30 November 2005 at nil monthly rent. The property has been renewed for a term of 1 year from 1 December 2005 to 30 November 2006 at a monthly rent of RMB20,000 exclusive of management fees and others. According to the PRC legal opinion, the lessor has provided the Realty Title Certificate and is entitled to lease the property. The tenancy has not been registered at the relevant local authority yet. According to the PRC law, the lease is still valid and binding.	The property is currently occupied by the Group as office use.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 September 2005 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 22 December 2005. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) **Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) **Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) **Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) **Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) **Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) **Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) **Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) **Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) **Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) **Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) **Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) **Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the

Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) **Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) **Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) **Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) **Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) **Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 20 September 2005.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) **Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) **Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) **Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) **Winding up**

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 September 2005. The Company was previously known as Good Friend International Holdings Inc. and Good Friend Limited respectively. It changed its name from Good Friend International Holdings Inc. to Good Friend Limited on 19 October 2005 and subsequently to Good Friend International Holdings Inc. (友佳國際控股有限公司) on the same date. The Company has established a place of business in Hong Kong at Unit 2, 23rd Floor, Pacific Plaza, 410-8 Des Voeux Road West, Hong Kong and was registered with the Registrar of Companies as an oversea company under Part XI of the Companies Ordinance on 17 November 2005. Mr. Tse Kam Fai of House No. A9, Maple Gardens, 80 Castle Peak Road, Mai Po, Yuen Long, New Territories, Hong Kong has been appointed as the agent of the Company for the acceptance of service of process and notices in Hong Kong. As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises a memorandum of association and the Articles of Association. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital

(a) As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.10 each, one of which was allotted and issued nil paid, to Codan Trust Company (Cayman) Limited, which share was subsequently transferred to Hong Kong GF on 6 September 2005.

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

(c) By written resolutions 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 Shares to rank pari passu with the existing Shares in all respects.

(d) As consideration for the acquisition by the Company of the entire issued share capital of Winning Steps from Hong Kong GF, (i) 100 Shares, credited as fully paid, were allotted and issued to Hong Kong GF; and (ii) 10 nil paid Shares held by Hong Kong GF were credited as fully paid at par on 22 December 2005.

(e) As consideration for the acquisition by the Company of the entire issued share capital of Yu Hwa from Taiwan FF, 90 Shares, credited as fully paid, were allotted and issued, at the direction of Taiwan FF, to Hong Kong GF on 22 December 2005.

Assuming that the Share Offer becomes unconditional, the Capitalisation Issue is completed and the Offer Shares are issued and taking no account of any Share which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK$10,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK$2,800,000 divided into 280,000,000 Shares, fully paid or credited as fully paid, with 720,000,000 Shares remaining unissued.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. **Written resolutions of the sole shareholder of the Company**

Written resolutions were passed by the sole Shareholder on 22 December 2005 pursuant to which:

(i) the Company approved and adopted the new Articles of Association;

(ii) 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 Shares to rank pari passu with the existing Shares in all respects;

(iii) conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the obligations of the Underwriters under the Underwriting Agreement being unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived by Polaris and GC Capital (for themselves and on behalf of the Underwriters) on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus:

(a) the Public Offer and the Placing were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Public Offer and the Placing;

(b) the rules of the Share Option Scheme were approved and adopted and the committee of Directors as referred to in the Share Option Scheme was authorised, at its absolute discretion, to implement the same, to grant options thereunder and to allot, issue and deal with the Shares thereunder and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme; and

(c) conditional on the share premium account being credited as a result of the Share Offer, the Directors were authorised to capitalise HK$2,099,998 standing to the credit of the Company's share premium account towards paying up in full at par 209,999,800 Shares for allotment and issue to holders of Shares whose names appeared on the register of members of the Company at the close of business on 22 December 2005 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in the Company;

(iv) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of options granted under the Share Option Scheme or any Shares allotted in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or the Public Offer, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately upon completion of the Share Offer and the Capitalisation Issue. Such mandate to expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held; or when revoked or varied by an ordinary resolution of Shareholders in general meeting of the Company, whichever occurs first;

(v) a general unconditional mandate was given to the Directors authorising the purchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules (or of such other stock exchange), of Shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately upon completion of the Share Offer and the Capitalisation Issue. Such mandate to expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held; or when revoked or varied by an ordinary resolution of Shareholders in general meeting of the Company, whichever occurs first; and

(vi) the general unconditional mandate as mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase shares referred to in sub-paragraph (v) above.

4. **Corporate reorganisation**

The companies comprising the Group underwent a reorganisation to rationalise its structure in preparation for the Listing and as a result of which the Company became the holding company of the Group.

The corporate reorganisation involved the following:

(a) On 15 July 2005, Winning Steps was incorporated in the BVI with an authorised share capital of US$50,000.00 divided into 50,000 shares of US$1.00 each. On 2 August 2005, an aggregate of 10 shares were allotted and issued at par to Hong Kong GF.

(b) On 5 September 2005, Hong Kong GF and Winning Steps entered into an equity interests transfer agreement whereby Hong Kong GF transferred the entire equity interests in Hangzhou GF to Winning Steps at a consideration which was satisfied by the allotment and issue of a total of 100 shares of US$1.00 each in the share capital of Winning Steps to Hong Kong GF, credited as fully paid at par.

(c) On 6 September 2005, the Company was incorporated in the Cayman Islands as described in paragraph 1 above.

(d) On 23 November 2005, the authorised share capital of Yu Hwa was increased from US$50,000.00 to US$1,500,000 by the creation of an additional 1,450,000 shares of US$1 each.

(e) On 23 November 2005, Yu Hwa issued and allotted 1,450,000 shares of US$1.00 each to Taiwan FF by capitalising a loan of US$1,486,772 owed by Yu Hwa to Taiwan FF.

(f) Pursuant to an approval dated 29 November 2005 issued by the management committee of Xiaoshan Development Zone, the registered capital of Hangzhou GF was approved to be increased from US$8,000,000 to US$11,000,000.

(g) On 22 December 2005, the Company and Hong Kong GF entered into a share transfer agreement whereby the Company acquired the entire issued share capital of Winning Steps in consideration of the Company (i) allotting and issuing a total of 100 Shares, credited as fully paid, to Hong Kong GF; and (ii) crediting as fully paid at par the 10 nil paid Shares held by Hong Kong GF.

(h) On 22 December 2005, the Company and Taiwan FF entered into a share transfer agreement whereby the Company acquired the entire issued share capital of Yu Hwa in consideration of the Company allotting and issuing a total of 90 Shares, credited as fully paid, to Hong Kong GF at the direction of Taiwan FF.

5. **Changes in share capital of subsidiaries**

The subsidiaries of the Company are referred to in the accountant's report, the text of which is set out in Appendix I to this prospectus.

On 1 December 2004, Yu Hwa was incorporated in the BVI with an authorised share capital of US$50,000.00 of US$1.00 each. On the same date, an aggregate of 50,000 shares were allotted and issued at par to Taiwan FF.

Save as disclosed herein and in the paragraph headed "Corporate reorganisation" above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the issue of this prospectus.

6. **Repurchase by the Company of its own securities**

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders of the company, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to written resolutions of the sole shareholder of the Company passed on 22 December 2005, subject to the fulfillment of certain conditions, a general unconditional mandate (the "repurchase mandate") was given to the Directors authorising the Directors to exercise all powers of the Company (including the power to determine the manner of repurchase) to repurchase on the Stock Exchange or any other stock exchange recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue at any time until the conclusion of the next annual general meeting of the Company or when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws of the Cayman Islands or the Articles of Association to be held, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any purchase by the Company may be made out of the profits of the Company or out of a fresh issue of shares made for the purpose of the purchase or, if authorised by the Articles of Association and subject to the

Companies Law, out of capital and, in the case of any premium payable on redemption or purchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase Shares in the market. Repurchases of shares will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purchase in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands and Hong Kong.

(d) *Share capital*

Exercise in full of the repurchase mandate, on the basis of 280,000,000 Shares in issue immediately after the Listing, could accordingly result in up to 28,000,000 Shares being repurchased by the Company during the period prior to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held; and (iii) the revocation or variation of the repurchase mandate by ordinary resolution of shareholders of the Company in general meeting, whichever is the earliest.

(e) *Dealing restrictions*

Pursuant to the Listing Rules, the Company:

(i) shall not purchase its Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Stock Exchange;

(ii) shall not purchase its Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time;

(iii) shall not knowingly purchase its Shares from a Connected Person and a Connected Person shall not knowingly sell Shares to the Company, on the Stock Exchange;

(iv) shall procure that any broker appointed by the Company to effect the purchase of its Shares shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the Company as the Stock Exchange may request;

(v) shall not purchase its Shares on the Stock Exchange at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding the earlier of:

(i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, the Company may not purchase its Shares on the Stock Exchange, unless the circumstances are exceptional;

(vi) may not purchase its Shares on the Stock Exchange if that purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage for the Company as determined by the Listing Rules from time to time.

The Stock Exchange may waive all or part of the above restrictions if, in its opinion, there are exceptional circumstances.

(f) *Reporting requirements*

The Company shall:

(i) report to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following any day on which the Company makes a purchase of shares (whether on the Stock Exchange or otherwise), information required under the Listing Rules and/or by the Stock Exchange. The Company should make arrangements with its brokers to ensure that they provide to the Company in a timely fashion the necessary information to enable the Company to make the report to the Stock Exchange; and

(ii) include in its annual report and accounts a monthly breakdown of purchases of shares made during the financial year under review pursuant to the Listing Rules.

(g) *Status of purchased shares*

The listing of all Shares which are purchased by the Company (whether on the Stock Exchange or otherwise) shall be automatically cancelled upon purchase. The Company shall ensure that the documents of title of the purchased Shares are cancelled and destroyed as soon as reasonably practicable following settlement of any such purchase.

(h) *General*

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their associates, has any present intention, if the repurchase mandate is exercised, to sell any Shares to the Company or any of its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Articles of Association, the Listing Rules and the applicable laws of Hong Kong and the Cayman Islands. The Company shall not purchase Shares otherwise than by cash or arrange for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. The Company shall procure the broker who effects the purchase to disclose to the Stock Exchange such information in relation to the purchase as the Stock Exchange may request.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate is exercised in full. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

No Connected Person has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases of Shares pursuant to the repurchase mandate.

7. Information about the Group's subsidiaries in the PRC

(a)

Name:	杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.)
Date of establishment:	23 September 1993
Place of establishment:	The PRC
Nature:	Wholly foreign owned enterprise
Term:	23 September 1993 to 22 September 2043
Total investment:	US$14,500,000 *(note)*
Registered capital:	US$8,000,000 (fully paid up) *(note)*
Attributable interest of the Company:	100%
Scope of business:	Manufacture and sale of, standard components of precision dies and moulds, vehicle and motorcycle moulds, CNC machine tools, mechanically-driven components, forklift trucks; injection moulding machines, pneumatic tools; and manufacture, sale and installation of three-dimensional car parking garage structures
Legal representative:	Mr. Chen Hsiang-Jung
Directors:	Mr. Chen Hsiang-Jung Mr. Chen Min-Ho Mr. Wen Chi-Tang

Note: Pursuant to an approval dated 29 November 2005 issued by the management committee of Xiaoshan Development Zone, (i) the amount of the total investment was approved to be increased from US$14,500,000 to US$20,500,000; and (ii) the amount of the registered capital was approved to be increased from US$8,000,000 to US$11,000,000.

(b)

Name:	杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.)
Date of establishment:	7 December 2004
Place of establishment:	The PRC
Nature:	Wholly foreign owned enterprise
Term:	50 years from the date of establishment
Total investment:	US$25,000,000
Registered capital:	US$10,000,000 (of which US$1,500,000 had been paid up as at the Latest Practicable Date)
Attributable interest of the Company:	100%

Scope of business:	Research, manufacture and sale of three-dimensional car parking garage structures and CNC machine tools
Legal representative:	Mr. Chen Hsiang-Jung
Directors:	Mr. Chu Chih-Yaung Mr. Chen Hsiang-Jung Mr. Wen Chi-Tang

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

(a) An equity interests transfer agreement dated 5 September 2005 between Hong Kong GF and Winning Steps pursuant to which Hong Kong GF transferred the entire equity interest in Hangzhou GF to Winning Steps at a consideration which was settled by Winning Steps issuing and allotting 100 shares in its share capital to Hong Kong GF;

(b) A share transfer agreement dated 22 December 2005 between Hong Kong GF and the Company pursuant to which Hong Kong GF transferred the entire issued share capital of Winning Steps to the Company at a consideration which was settled by the Company (i) issuing and allotting 100 Shares, credited as fully paid, to Hong Kong GF and (ii) crediting as fully paid at par the 10 nil paid Shares then held by Hong Kong GF;

(c) A share transfer agreement dated 22 December 2005 between Taiwan FF and the Company pursuant to which Taiwan FF transferred the entire issued share capital of Yu Hwa to the Company at a consideration which was settled by the Company issuing and allotting 90 Shares, credited as fully paid, to Hong Kong GF at the direction of Taiwan FF;

(d) A trademark licence agreement dated 22 December 2005 between Taiwan FF and Hangzhou GF in relation to the licence of four registered trademarks from Taiwan FF to Hangzhou GF at a consideration of RMB1.00;

(e) A deed of non-competition dated 22 December 2005 given by Taiwan FF, Hong Kong GF and Mr. Chu in favour of the Group regarding certain non-competition undertakings given by Taiwan FF, Hong Kong GF and Mr. Chu, the particulars of which are set out in the paragraph headed "Deed of Non-competition" under the section headed "Relationship with the Taiwan FF Group" in this prospectus;

(f) A deed of indemnity dated 29 December 2005 executed by Taiwan FF, Hong Kong GF and Mr. Chu in favour of the Group containing, inter alia, the indemnities referred to in the paragraph headed "Estate duty and tax indemnity" below;

(g) A deed of indemnity dated 29 December 2005 executed by the Company in favour of Polaris, under which the Company has given certain indemnities against all losses, claims, damages and liabilities related to, arising out of or in connection with the due diligence support services provided by Grant Thornton in relation to the Listing; and

(h) The Underwriting Agreement, the details of which are set out in the section headed "Underwriting" in this prospectus.

2. **Intellectual property rights**

(a) As at the Latest Practicable Date, the Group was the registered owner of the following trademarks:

Trademark	Registered owner	Place of registration	Class	Class description	Registration Number	Effective Period
FEELER	Hangzhou GF	PRC	9	computers; motor stoppage chronographs; mobile telephone; cameras; seismometer; elevator operating devices; fire escape; monitors (computer hardware)	3629710	14 April 2005 to 13 April 2015
友佳	Hangzhou GF	PRC	7	pneumatic small tool; power-driven hand-operated driller; rise and fall equipment; loading and unloading facilities; flusher; sweeping machine (automatic); pneumatic welding devices; electronic equipment	3340517	14 August 2004 to 13 August 2014

(b) Pursuant to the Trademark Licence Agreement, Hangzhou GF has been granted licences by Taiwan FF to use the following trademarks:

Trademark	Registered owner	Place of registration	Class	Class description	Registration Number	Effective Period
FEELER	Taiwan FF	PRC	7	Numerical control machining centres (CNC machining centres), Numerical control parking garage structures, air compressors	654457	21 August 1993 to 20 August 2013 (as extended)
友嘉機械	Taiwan FF	PRC	7	Numerical control machining centres (CNC machine tools), CNC Lathe, air compressors	654456	21 August 1993 to 20 August 2013 (as extended)
友嘉	Taiwan FF	PRC	7	The elevator, rise and fall parking garage structures	1179675	28 May 1998 to 27 May 2008
FEELER	Taiwan FF	PRC	7	lift (the elevator), rise and fall parking garage structures	1179663	28 May 1998 to 27 May 2008

(c) As at the Latest Practicable Date, the Group was the registered owner of the following patents:

Patent	Place of registration	Category	Patent Number	Effective period
升降橫移機械式停車設備 rise-and-fall and lateral movement mechanical parking garage structure	PRC	New Utility Model	ZL 00 2 45507.2	18 August 2000 to 17 August 2010
一種立體車庫停車台下降導正裝置 a device to guide the descending of the parking platform of a 3-D parking garage structure	PRC	New Utility Model	ZL 2004 2 0019667.8	15 January 2004 to 14 January 2014
一種立體車庫上車台下定位裝置 a positioning device to position the car lifting platform of a 3-D parking garage structure	PRC	New Utility Model	ZL 2004 2 0019666.3	15 January 2004 to 14 January 2014
一種安全掛鈎連動裝置 a continuous rotation device equipped with safety latch hooks	PRC	New Utility Model	ZL 2004 2 0019664.4	15 January 2004 to 14 January 2014
大梁安全保護結構 a structure to protect the safety of the main beam	PRC	New Utility Model	ZL 2004 2 0019662.5	15 January 2004 to 14 January 2014

(d) As at the Latest Practicable Date, the Group was the registered owner of the following domain names:

Domain Name	Effective period
www.goodfriend.com.cn *(Note)*	3 June 2002 - 3 June 2006
www.feeler.com.cn *(Note)*	28 July 1999 - 28 July 2006

Note: the contents of these websites do not form part of the prospectus.

C. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Directors

(a) *Directors' interests and short positions in the share capital and debentures of the Company and its associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of the Shares which may fall to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the interest or short position of each of the Directors and chief executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed, will be as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and classes of securities *(Note 1)*	Approximate percentage of shareholding
Mr. Chu	Taiwan FF	Beneficial owner	23,836,668 shares (L)	15.44%
Mr. Chu *(Note 2)*	Taiwan FF	Spouse interest	4,737,182 shares (L)	3.07%
Mr. Chu *(Note 3)*	Taiwan FF	Family interest	326,513 shares (L)	0.21%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	4,721,413 shares(L)	3.06%

Name of Director	Company/name of associated corporation	Capacity	Number and classes of securities *(Note 1)*	Approximate percentage of shareholding
Mr. Chu	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 5)*	Beneficial owner	21,988 shares (L)	0.22%
Mr. Chu *(Note 4)*	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 5)*	Spouse interest	21,988 shares (L)	0.22%
Mr. Chen Min-Ho	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 5)*	Beneficial owner	43,976 shares (L)	0.44%
Mr. Chu	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) *(Note 5)*	Beneficial owner	1,000 shares (L)	0.01%
Mr. Chu *(Note 6)*	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) *(Note 5)*	Spouse interest	1,000 shares (L)	0.01%
Mr. Chu	友嘉全球航太股份有限公司 (Turbofair Corporation) *(Note 5)*	Beneficial owner	600 shares (L)	0.10%
Mr. Chu *(Note 7)*	友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 5)*	Spouse interest	50,000 shares (L)	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 5)*	Beneficial owner	10,000 shares (L)	0.12%
Mr. Chu	Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 5)*	Beneficial owner	750 shares (L)	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 5)*	Beneficial owner	750 shares (L)	0.03%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of the associated corporations of the Company.

2. Ms. Wang Jin-Zu ("Ms. Wang"), Mr. Chu's spouse, holds 3.07% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

3. 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 is deemed to be interested in all the shares held by Mr. Chu Yi-Chia in Taiwan FF under the SFO.

4. Ms. Wang holds 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.

5. This company is a non-wholly owned subsidiary of Taiwan FF and is therefore an associated corporation of the Company for the purposes of the SFO.

6. 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.

7. 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.

(b) *Particulars of service agreements*

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service agreement with the Company. The terms and conditions of such service agreements are briefly described as follows:

(a) each service agreement in respect of executive Directors commenced on the Listing Date and is for a term of three years unless and until terminated by either party thereto giving to the other party not less than three months' prior written notice or terminated in accordance with the provisions set out in the respective service agreement;

(b) each service agreement in respect of the independent non-executive Directors commenced on the Listing Date and is for a term of two years. Either party may terminate the appointment by giving to the other party not less than three months' prior written notice; and

(c) each of the executive Directors may receive a discretionary bonus as the Board may suggest, the amount of which shall not exceed 2% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the remuneration committee of the Board.

Save as disclosed herein, none of the Directors has entered into or has proposed to enter into any service agreements with the Company (other than agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(c) *Directors' remuneration*

(i) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group in respect of the 12 months ended 31 December 2004 was approximately RMB203,000. Further information in respect of Directors' remuneration is set out in Appendix 1 to this prospectus.

(ii) It is estimated that approximately RMB345,000 in aggregate will be payable to Directors as remuneration in cash and in kind pursuant to the present arrangements for the year ending 31 December 2005.

2. **Substantial Shareholders**

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of the Shares which may fall to be allotted and issued pursuant to the exercise of options granted under the Share Option Scheme, the following persons (not being a Director or chief executive of the Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	**Nature of Interest**	**Number of Shares**	**Position**	**Percentage of shareholding in the Company**
Hong Kong GF	Beneficial owner	210,000,000 *(Note)*	Long	75%
Taiwan FF	Interest in a controlled corporation	210,000,000 *(Note)*	Long	75%

Note: These shares will be registered in the name of Hong Kong GF. Hong Kong GF is owned as to approximately 99.99% by Taiwan FF. Taiwan FF will be deemed to be interested in all of the Shares held by Hong Kong GF under the SFO.

3. **Agency fees or commissions received**

Information on the agency fees or commissions received by the Underwriters is set out in the section headed “Underwriting” of this prospectus.

4. **Personal guarantees**

Mr. Chu and Mr. Chen Hsiang-Jung have provided personal guarantees in favour of certain banks for certain banking facilities granted to certain members of the Group. As at 30 June 2005, the Group had utilised banking facilities of approximately RMB97,013,000. Applications have been made to the relevant banks for the release of the relevant personal guarantees of Mr. Chu and Mr. Chen Hsiang-Jung and their replacement thereof by corporate guarantees from members of the Group. The Directors confirmed that the banks have given their respective consents in principle to release all such guarantees and replace such guarantees by corporate guarantees provided by members of the Group upon Listing.

5. **Disclaimers**

Save as disclosed in this prospectus:

(i) none of the Directors nor any chief executive of the Company has any interest in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case, once the Shares are listed;

(ii) none of the Directors nor any of the experts whose names are referred to in the paragraph headed “Consents” in this Appendix is interested, directly or indirectly, in the promotion of the Company or in any assets which have been, within the two (2) years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group;

(iii) none of the Directors nor any of the experts whose names are referred to in the paragraph headed “Consents” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;

(iv) taking no account of any Shares which may be taken up pursuant to the Share Offer and the Capitalisation Issue, and any options to be granted under the Share Option Scheme, the Directors are not aware of any legal person or individual (not being a Director or chief executive of the Company) who will, immediately following completion of the Share Offer and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

(v) none of the experts whose names are referred to in the paragraph headed “Consents” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(vi) there is no existing or proposed service agreements (excluding agreements expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between the Company or any of its subsidiaries and any of the Directors; and

(vii) so far as the Directors are aware, except for the Taiwan FF Group, none of the Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

D. SHARE OPTION SCHEME

1. Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a written resolution of the sole shareholder of the Company dated 22 December 2005:

(i) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to motivate Eligible Persons (as defined hereinbelow) to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

(ii) *Who may join*

The Directors may, at their discretion, invite any person belonging to any of the following classes of participants ("Eligible Persons"), to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (iv) below. :

(a) any proposed employee or employee (full-time or part-time) of any member of the Group, or a person for the time being seconded to work full-time or part-time for any member of the Group (the "Executive");

(b) a director or proposed director (including an independent non-executive director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate of any of the foregoing persons.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

(iii) *Grant of options to connected persons or any of their associates*

Any grant of options to a Connected Person must be approved by the independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the grantee of the option).

Where any grant of options to a substantial Shareholder of the Company or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate more than 0.1% of the total issued Shares of the Company; and having an aggregate value, based on the closing price of the Shares at the date of such grant, in excess of HK$5 million, then such further grant of options must be subject to the approval of Shareholders in general meeting. The Company will send a circular to the Shareholders containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) *Price for Shares*

The subscription price for the Shares under the Share Option 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 a Share 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 a Share 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 a Share.

(v) *Maximum number of Shares*

(a) the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group must not in aggregate exceed 10% of the issued share capital of the Company as at the Listing Date (which shall be 28,000,000 Shares) unless Shareholders' approval has been obtained pursuant to paragraphs (b) and (c) below;

(b) the Company may at any time as the Board may think fit seek approval from its Shareholders in general meeting to refresh the 10% limit. However, the maximum number of Shares available for issue upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the issued share capital of the Company as at the date of approval by the Shareholders in general meeting of the refreshing of the 10% limit. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the 10% limit as refreshed;

(c) the Company may seek separate Shareholders' approval in general meeting for granting options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to the Eligible Persons specified by the Company before such approval is obtained.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Shares in issue from time to time.

(vi) *Maximum entitlement of each Eligible Person*

The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

(vii) *Time of exercise of option*

An option may be exercised in whole or in part in accordance with the terms of the Share Option 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 Share Option Scheme ("Commencement Date") and expiring on such date of the expiry of the option as the Board may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date ("Option Period") but subject to the provisions for early termination thereof as set out in the Share Option Scheme.

(viii) *Rights are personal to grantee*

An option may not be transferred or assigned and is personal to the grantee.

(ix) *Lapse of options*

(a) in the evant that the grantee dies or becomes permanently disabled before exercising an option (or exercising it in full), he (or his legal representative(s)) may exercise the option up to the grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine; or

(b) in the event that the grantee ceases to be the Executive by reason of his retirement pursuant to such retirement scheme applicable to the Group at the relevant time, his option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period; or

(c) in the event that the grantee ceases to be the Executive by reason of his transfer of employment to a Controlling Shareholder or a subsidiary or an associate of a Controlling Shareholder ("Affiliate Company"), his option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or

(d) in the event that the grantee ceases to be the Executive for any reason (including his employing company ceasing to be a member of the Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to the Group at the relevant time or the transfer of his employment to the Affiliate Company or the termination of his employment with the relevant member of the Group by resignation or termination on the grounds that he has been guilty of serious misconduct, or there exists grounds allowing his summary dismissal under his employment contract or under common law, or he is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) or any other applicable law, or he has become otherwise insolvent or has made any arrangement or composition with his creditors generally, or he has been convicted of any criminal offence involving his integrity or honesty ("Culpable Termination"), the option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation; or

(e) in the event that the grantee ceases to be the Executive by reason of the termination of his employment by resignation or Culpable Termination, the option (to the extent not already exercised) shall lapse on the date on which the notice of termination is served (in the case of resignation) or the date on which the grantee is notified of the termination of his employment (in the case of Culpable Termination) and not be exercisable unless the Board otherwise determines in which event the option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such service or notification.

(x) *Cancellation of options*

The Board shall be entitled to cancel any option in whole or in part by giving notice in writing to the grantee stating that such option is thereby cancelled with effect from the date specified in such notice.

(xi) *Effect of alterations to capital*

In the event of any alteration to the capital structure of the Company while any option remains exercisable, whether by way of capitalisation of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of the Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to the maximum number of Shares subject to the Share Option Scheme, and/or the aggregate number of Shares subject to the option so far as unexercised, and/or the subscription price of each outstanding option, provided that any such adjustments will be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any option will remain as nearly as practicable the same as (but shall not be greater than) as it was before such alteration, and that any such adjustment shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time and that no Share will be issued at less than its nominal value.

(xii) *Rights on a general offer by way of takeover and scheme of arrangement*

If a general offer is made to all the Shareholders and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of the Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the option (in the case of a scheme of arrangement) (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by the Company.

(xiii) *Rights on winding-up*

In the event a notice is given by the Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company) by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid.

(xiv) *Rights on compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company, the Company shall give notice thereof to the grantees who have options unexercised at the same date as it despatches notices to all members or creditors of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of (i) the Option Period; (ii) the period of two months from the date of such notice; or (iii) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his option. Except insofar as exercised in accordance with this paragraph (xiv), all options outstanding at the expiry of the relevant period referred to in this paragraph (xiv) shall lapse. The Company may thereafter require each grantee to transfer or otherwise deal with the Shares issued on exercise of the options to place the grantee in the same position as would have been the case had such Shares been subject to such compromise or arrangement.

(xv) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank pari passu in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

(xvi) *Alterations to terms and conditions*

The Share Option Scheme may be altered in any respect by a resolution of the Board except for some material alterations thereto which shall not be carried out except with the prior sanction of an ordinary resolution of the Shareholders in general meeting.

(xvii) *Conditionality of Share Option Scheme*

The Share Option Scheme is conditional upon (a) the approval of the sole Shareholder of the Company for the adoption of the Share Option Scheme; and (b) the approval of the Stock Exchange for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the options in accordance with the terms and conditions of the Share Option Scheme.

(xviii) *Period of the Share Option Scheme*

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of the adoption of the Share Option Scheme. Upon the expiry of the Share Option Scheme, no further options will be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other aspects.

(xix) *Termination*

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further options shall be offered but the provision of the Share Option Scheme shall remain in force and effect in all respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

2. **Present status of the Share Option Scheme**

As at the date of this prospectus, no option has been granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in 28,000,000 Shares which may fall to be allotted and issued pursuant to the exercise of the options under the Share Option Scheme.

E. OTHER INFORMATION

1. **Estate duty and tax indemnity**

Each of Taiwan FF, Hong Kong GF and Mr. Chu (each an "**Indemnifier**") has entered into a deed of indemnity with and in favour of the Group to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any of the members of the Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance) to any of the members of the Group on or before the date on which the Share Offer becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Cayman Islands, the British Virgin Islands and the PRC.

Under the deed of indemnity, each of the Indemnifiers has also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any of the members of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional, save in certain circumstances including:

(a) where provision has been made for such taxation in the audited accounts of any of the members of the Group up to 30 June 2005; or

(b) where taxation falling on any of the members of the Group in respect of their current accounting periods or any accounting period commencing on or after 1 July 2005 unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of such members (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

    (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 30 June 2005; or

    (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2005; or

(iii) consisting of any of the members of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or

(c) where any provisions or reserve made for taxation in the audited accounts of the Company or any of the members of the Group up to 30 June 2005 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(d) where such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice coming into force after the date on which the Share Offer becomes unconditional or to the extent that such claim arises or is increased by an increase in rates of taxation after the date on which the Share Offer becomes unconditional with retrospective effect.

Under the deed of indemnity, each of the Indemnifiers has also given indemnities to the Group, on a joint and several basis, in connection with any costs, claims, losses, fines and liabilities which may be reasonably incurred or suffered by members of the Group as a result of any such member being legally prohibited from using or occupying or being legally evicted from the relevant PRC properties before the expiration of the current term of the lease, whether by the landlord or the head landlord or any third party whosoever (including without limitation any PRC governmental authorities, or any other competent authorities in the PRC) on the ground that any requisite procedure (including but not limited to registration or filing of the relevant lease with the relevant PRC governmental authorities) has not been completed.

2. **Litigation**

None of the Company or any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

3. **Sponsor**

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned in this prospectus and 28,000,000 Shares which fall to be issued pursuant to the exercise of any options granted under the Share Option Scheme.

4. **Promoters**

There is no promoter of the Company.

5. **Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately US$3,000 and are payable by the Company.

6. **Qualification of experts**

The following are the qualifications of the experts who have given their opinion or advice in this prospectus:

Name of expert	**Qualification**
Polaris	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Lee and Li	Legal advisers as to Taiwan law
Jingtian & Gongcheng	Legal advisers as to PRC law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
DTZ Debenham Tie Leung Limited	Professional surveyors and valuers

7. **Material adverse changes**

The Directors believe that save as disclosed in this prospectus, there has been no material adverse change in the financial position of the Group since 30 June 2005 (being the date to which the latest audited consolidated financial statements of the Group were made up).

8. **Miscellaneous**

(a) Save as disclosed in this prospectus:

(i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued as fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founder shares, management shares or deferred shares of the Company or any of its subsidiaries has been issued or agreed to be issued; and

(iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share of loan capital of the Company or any of its subsidiaries.

(b) The Company has no outstanding convertible debt securities.

(c) All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

F. CONSENTS

Each of Polaris, Deloitte Touche Tohmatsu, Lee and Li, Jingtian & Gongcheng, Conyers Dill & Pearman and DTZ Debenham Tie Leung Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name in the form and context in which they are respectively included.

G. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned to be bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the paragraph headed "Consents" in Appendix VI to this prospectus, the statement of adjustments prepared by Deloitte Touche Tohmatsu referred to in item (b) below and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP at 39th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the memorandum of association of the Company and the Articles of Association;

(b) the accountants' report on the Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus, and the related statement of adjustments;

(c) the audited financial statements of Hangzhou GF for each of the three years ended 31 December 2004;

(d) the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information included in this prospectus, the text of which is set out in Appendix II to this prospectus;

(e) the letters from each of Deloitte Touche Tohmatsu and Polaris in relation to the profit forecast of the Group for the year ending 31 December 2005, the texts of which are set out in Appendix III to this prospectus;

(f) the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by DTZ Debenham Tie Leung Limited, the texts of which are set out in Appendix IV to this prospectus;

(g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in the paragraph headed "General" in Appendix V to this prospectus;

(h) the Companies Law;

(i) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus;

(j) the written consents referred to in the paragraph headed "Consents" in Appendix VI to this prospectus;

(k) the legal opinion prepared by Jingtian & Gongcheng in respect of the validity of certain properties of the Group in the PRC;

(l) the legal opinion prepared by Jingtian & Gongcheng in respect of the establishment and operation of certain PRC entities within the Group;

(m) the legal opinions prepared by Lee & Li as referred to in the section headed "Relationship with the Taiwan FF Group" of this prospectus;

(n) the service agreements of the Directors referred to in the paragraph headed "Further information about the Directors, management, staff, substantial Shareholders and experts" in Appendix VI to this prospectus; and

(o) the rules of the Share Option Scheme.