1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Revenue recognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Repair income is recognised when the services are rendered.

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

Property, plant and equipment

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

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts

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

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

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

Impairment losses

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

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

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

Operating leases

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Retirement benefits scheme contribution

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

Financial instruments

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

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

Financial liabilities and equity

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

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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

Provisions

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Revenue from sale of parking garage structures

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

Warranty provision

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

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

Depreciation

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

Allowance for bad and doubtful debts

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

Allowance for inventories

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

Income taxes

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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

Credit risk

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

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

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

Interest rate risk

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

6. SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services provided to outside customers, less returns and allowances, and net of value-added tax during the year.

Business segments

For management purposes, the Group is currently organised into three operating divisions – machine tools, parking garage structures, and forklift trucks. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

For the year ended 31 December 2005

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

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At 31 December 2005

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

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

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2004

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

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At 31 December 2004

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

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

Geographical segments

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

7. OTHER INCOME

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

8. FINANCE COSTS

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

9. PROFIT BEFORE TAXATION

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

Year ended 31 December 2005

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

Year ended 31 December 2004

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

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

(b) Employees' emoluments

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

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

Their emoluments were within the following band:

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

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

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

11. TAXATION

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

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both years.

Pursuant to the approvals obtained from the relevant PRC tax authorities, the preferential income tax rate for Hangzhou Good Friend is 16.5% comprising national income tax of 15% and local income tax of 1.5%. Hangzhou Good Friend is also entitled to a tax concession period in which it is fully exempted from national and local income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the national and local income tax for the next three years. In addition, as Hangzhou Good Friend was recognised as a technologically advanced enterprise, the local income tax of Hangzhou Good Friend was specifically and fully exempted by the relevant tax authorities in 2004. The applicable tax rate for Hangzhou Good Friend is 8.25% (2004: 7.5%) for the year.

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

11. TAXATION *(Continued)*

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

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

12. DIVIDEND

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

13. EARNINGS PER SHARE

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

15. PREPAID LEASE PAYMENTS

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

16. INTANGIBLE ASSET

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

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

17. DEFERRED TAX ASSETS

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

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

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

18. INVENTORIES

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

19. DEBTORS, DEPOSITS AND PREPAYMENTS

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

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

The aging analysis of trade debtors is as follows:

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

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

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

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

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

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

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

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

22. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

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

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

23. PLEDGED BANK DEPOSITS

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

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

24. BANK BALANCES AND CASH

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

25. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

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

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

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

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

27. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

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

28. WARRANTY PROVISION

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

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

29. BANK BORROWINGS

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

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

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

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

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

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

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

29. BANK BORROWINGS *(Continued)*

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

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

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

30. SHARE CAPITAL OF THE COMPANY

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

	RMB'000
Shown in the financial statements as	–

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

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

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

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

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

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

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

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

31. SHARE OPTION SCHEME

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

The principal terms of the Scheme are summarised as follows:

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

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

(2) The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued shares from time to time.

(3) The subscription price for the shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares.

(4) An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme ("Commencement Date") and expiring on such date of the expiry of the option as the Board of Directors may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

(5) Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

(6) The Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Scheme, i.e. 22 December 2005.

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

32. MAJOR NON-CASH TRANSACTION

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

33. OPERATING LEASE ARRANGEMENTS

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

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

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

34. CAPITAL COMMITMENTS

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

35. RETIREMENT BENEFITS SCHEME

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

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

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

36. RELATED PARTY TRANSACTIONS

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

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

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

Compensation of key management personnel

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

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

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

37. SUBSIDIARIES

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

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

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

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

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