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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2398

Annual Report
2006

Contents

Corporate Information

BOARD OF DIRECTORS

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

Independent Non-Executive Directors
KOO Fook Sun, Louis
CHIANG Chun-Te
YU Yu-Tang

COMPANY SECRETARY

LEUNG Pui Ki, *ACIS*, *ACS*

QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
LEUNG Pui Ki

COMPLIANCE ADVISER

Polaris Securities (Hong Kong) Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo (appointed in March 2007)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2003, 20th Floor
Kai Tak Commercial Building
317-319 Des Voeux Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 120 Shixin North Road
Xiaoshan Economic and Technological Development Zone
Xiaoshan District
Hangzhou City
Zhejiang Province
The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
The Bank of East Asia, Limited
Hang Seng Bank Limited

STOCK CODE

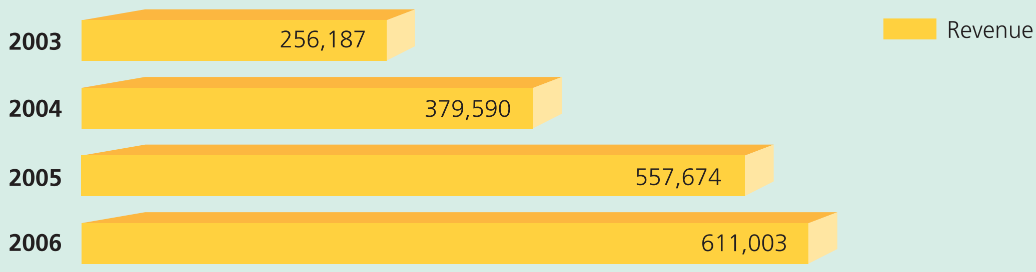
2398

WEBSITE

www.goodfriend.com.cn

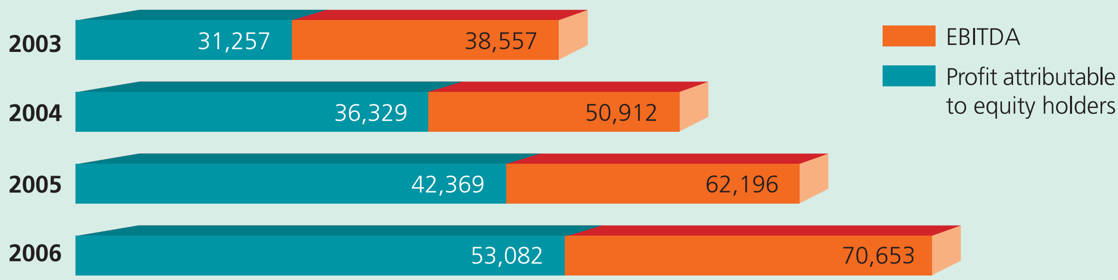
Financial Highlights

STEADY REVENUE GROWTH (RMB'000)



For the year ended 31 December

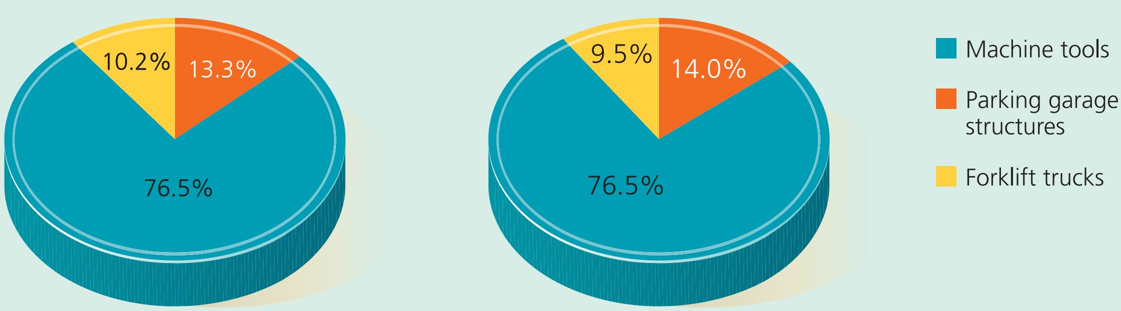
REMARKABLE PROFIT GROWTH (RMB'000)



For the year ended 31 December

BUSINESS SEGMENTS

(in terms of revenue)



2005 2006

Financial Highlights

TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	FY2006	FY2005	Change
	RMB'000	RMB'000	(%)
Revenue	**611,003**	557,674	9.6%
Gross profit	**153,158**	119,325	28.4%
EBITDA	**70,653**	62,196	13.6%
Profit attributable to equity holders	**53,082**	42,369	25.3%
Shareholders' equity	**296,852**	187,743	58.1%
Total assets	**496,788**	405,949	22.4%
Earnings per share – basic (RMB)	**0.19**	0.20	(5.0%)

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	FY2006	FY2005	Change (%)
Gross profit margin *Note 1*	**25.1%**	21.4%	17.3%
Net profit margin *Note 2*	**8.7%**	7.6%	14.5%
Inventory turnover days *Note 3*	**87.1**	100.9	(13.7%)
Debtors' turnover days *Note 4*	**70.0**	82.5	(15.2%)
Creditors' turnover days *Note 5*	**42.3**	48.0	(11.9%)
Current ratio (Times) *Note 6*	**1.8**	1.4	28.6%
Quick ratio (Times) *Note 7*	**1.2**	0.8	50.0%
Gearing ratio (%) *Note 8*	**9.4%**	20.8%	(54.8%)
EBITDA/Finance costs (Times) *Note 9*	**28.8**	11.9	142.0%
Return on equity (%) *Note 10*	**17.9%**	22.6%	(20.8%)

Note 1: Gross profit margin is calculated as gross profit divided by revenue.

Note 2: Net profit margin is calculated as profit attributable to equity holders divided by revenue.

Note 3: Inventory turnover days is calculated as the ending inventory divided by cost of sales and multiplied by 365 days.

Note 4: Debtors' turnover days is calculated as the ending trade debtors divided by revenue and multiplied by 365 days.

Note 5: Creditors' turnover days is calculated as the ending trade creditors divided by cost of sales and multiplied by 365 days.

Note 6: Current ratio is calculated as total current assets divided by total current liabilities at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 7: Quick ratio is calculated as total current assets excluding inventories divided by total current liabilities at the end of the corresponding year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 8: Gearing ratio is calculated as total debts divided by total assets at the end of the year. Total debts refer to total interest bearing liabilities at the end of the year.

Note 9: EBITDA/Finance costs is calculated as earnings before finance costs, taxation, depreciation and amortization divided by finance costs for the year. The numbers in the above table are expressed in the form of ratio and not as a percentage.

Note 10: Return on equity is calculated as profit attributable to equity holders divided by total shareholders' equity at the end of the corresponding year.

Move Ahead

For a Bigger Leap

CHU Chih-Yaung
Chairman

I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the report on the results of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2006 ("the year").

FINANCIAL REVIEW

With a prospective view on the market by our management and good quality of products, we achieved encouraging results during the year. For the year ended 31 December 2006, we recorded a revenue of approximately RMB611.00 million, representing an increase of approximately 9.6% compared to the previous year; profit attributable to equity holders amounted to approximately RMB53.08 million, representing an increase of approximately 25.3% compared to 2005.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.05 (equivalent to approximately HK$0.05) per ordinary share for the year ended 31 December 2006 (2005: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board proposed a bonus issue of shares be made to shareholders whose names appear on the register of members on 21 May 2007 in the proportion of 1 bonus share for every 5 shares held (the "Bonus Issue"). Based on the 280,000,000 shares in issue as at the date of this report, 56,000,000 bonus shares will be issued. The bonus shares will be credited as fully paid and will rank pari passu in all respects with the existing issued shares with effect from the date of issue, except for the Bonus Issue or the final dividend for the year ended 31 December 2006. No fractional shares will be issued but will be aggregated and sold. The proceeds of sale will be retained for the benefit of the Company.

Shareholders should refer to details of the Bonus Issue as disclosed in the circular of the Company of 25 April 2007.

BUSINESS REVIEW

The year 2006 marked a new beginning for our business. With our belief in credibility, accountability and perpetual operations, we have been committed to offering customers high quality products so as to

Chairman's Statement

capture business opportunities in the market and expand the scale of our business continuously. We recorded satisfactory growth in sales and sales volume for the year with all the three business segments, namely machine tools, parking garage structures and forklift trucks posting satisfactory growth, in which our key products, computer numerical controlled machine tools (CNC machine tools) achieved an increase of approximately 9.6% in sales compared to same period in 2005. For the year ended 31 December 2006, our annual sale volume of machine tools, parking garage structures and forklift trucks amounted to 1,151 units, 4,828 units and 957 units respectively.

During the year, machine tools remained the major source of our revenue, representing approximately 76.5% of the total revenue. During the period, we had developed new models of NB and FB machine tools, which are more appropriate for the processing need of automobile components that require heavy cutting. They also complement well with small-sized hard rail lathes (硬軌機床) that the Group has traditionally focused on, and help fulfilled our market demand. In 2007, we will concentrate on the research and development of high precision CNC lathe (高精度數控車床) to satisfy with the demand from high-end automobile component manufacturing sectors, and explore the application areas for machine tools.

As for parking garage structures, the Group successfully explored the markets in Hong Kong, Macau, Singapore and the United States, with the development of the overseas-accommodated NP series of pit and elevators features, which invoke huge demands in the Japanese market and is expected to export against Japan. The Group will focus on the research and development of cargo warehouse products to cope with the demands emerging from the new market pattern. As for forklift trucks, we developed tri-wheel counter balance electronic forklift truck (三支點平衡重式電瓶叉車). The low noise and flexible turning features of this new product meet the needs of overseas high-end cargo warehouse market. We have strengthened our expansion of this product into the PRC and successfully entered into the market in Henan province so far. As a result, sales in Zhejiang province increased to approximately 45% of our total sales. In respect of the overall sales network, the number of our liaison offices in China has increased from 19 in 2005 to 26 this year to provide prompt services to customers, with the new liaison offices set up in places such as Ningbo, Dalian, Ganzhou, Hefei, etc. providing broad coverage in the PRC market. In respect of our overseas markets, the Group has sought prominent overseas sales agents, and has established long term co-operation relationship with agents in countries including United States, France and the Netherlands, to satisfy the overseas markets of forklift trucks.

To cope with the vast demand of the markets, we have already planned to expand the production capacity and the scale of production. First phase of the new factory of 杭州友高精密機械有限公司 (Hangzhou Global Friend Precision Machinery Co., Ltd.) ("Hangzhou Global Friend"), which is situated in Xiasha, Zhejiang province, has duly completed all the installations and ancillary facilities in December

2006, and started the production of forklift trucks instead of machine tools and parking garage structures as originally planned in the prospectus for the listing of the Company's shares dated 30 December 2005 ("Prospectus") in early 2007, while 杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd.) ("Hangzhou Good Friend"), the factory for production which is originally situated in Xiaoshan will continue to expand the production and research and development of machine tools. The Directors consider that the new arrangement will (1) enable the Group to achieve a better allocation and sharing of resources and avoid duplication of resources; (2) enable the elimination of transportation costs which could increase production efficiency and lower machine tools manufacturing cost; and (3) improve utility of production machinery and equipment. As a result, the Group will be able to reduce manufacturing costs, boost production efficiency, expand production capacity and achieve a higher level of economy of scale. The new plant will help to expand the production capacity of the Group, and its contribution to the Group is expected to be reflected in 2007.

Furthermore, at the end of 2006, the Group acquired a land use right in Xiasha, Zhejiang province, with total floor area of about 70,300 sq. m., which is expected to further enhance the production capacity of the Group, with the relevant cost of approximately RMB14.07 million. The new production plant will be owned by 杭州友華精密機械有限公司 (Hangzhou Every Friend Precision Machinery Co., Ltd.) ("Hangzhou Every Friend"), and construction will be divided into two phases. The first phase is expected to commence in the second quarter of 2007, and the construction cost is expected to be RMB43.80 million.

Besides, the Group has established a trading company, namely 友盛(上海)精密機械有限公司 (Rich Friend (Shanghai) Precision Machinery Co., Ltd.) ("Rich Friend Shanghai") during the year, and has explored the domestic market with a prestigious machine tools manufacturer in France. Machine tools sold by French machine tools manufacturer are classified as high performance milling centre with portal, and target at customers who are the manufacturers of aviation, aerospace and precision mould products. By expanding the market together with manufacturers in Europe, the Group is able to provide diversified products, in order to respond to the market needs quickly and introduce state-of-the-art technology from overseas, in order to improve the quality of the products of the Group.

PROSPECTS

2006 is the first year of the "Eleventh Five-year Development Plan for National Economic and Social Development". There will be more large scale infrastructure project plans in the country. Investment in industrial fixed assets will be accelerated and there will be growing demand for technique

improvement in manufacturing industry. China has a great demand for high quality and precision tools, especially high-end CNC machine tools. As the technique and product quality of China's CNC machine tools improves, they are gradually replacing imported machine tools. In the mean time, as the largest machine tools consuming country with low production cost, more overseas companies are producing CNC machine tools in China.

In the future, more resources of the Group will go to overseas markets and be used for improving product quality and boosting production capacity. In addition, the Group will seize opportunities, to utilize its advantage of familiarity with the China market to become partners of overseas producers, to introduce international advanced technology to the domestic market so as to improve the product quality and portfolio and help the Group enter into the overseas market. The forklift trucks business is also booming as a result of increased market demand for forklift trucks, which is used for cargo transfer. In addition, since there are more and more private cars in each developing cities there will be ample room for the Group's parking garage structure business.

As for production, the Group will expand its production capacity in the coming years. The second phase construction plan of the production plant of Hangzhou Global Friend at Xiasha started at the end of 2006 and is expected to complete in the second half of 2007 with a construction cost of approximately RMB25.00 million. It is estimated that once Hangzhou Global Friend is in full operation, maximum annual production capacity of parking garage structures and forklift trucks will reach 10,000 units and 5,000 units respectively. The maximum annual production capacity of parking garage structures is expected to increase from 2,000 units (as disclosed in the interim report for the six months ended 30 June 2006) to 10,000 units. Such increase is mainly due to the better reallocation of resources as the second phase of the production plant will predominately be used to produce parking garage structures. In addition, the newly acquired land mentioned above belonged to Hangzhou Every Friend will be used for building production plant. The construction is expected to start in the second quarter of 2007 and the first phase and second phase is expected to be completed before the end of 2007 and the end of 2008 respectively.

The Group believes that with its competitive edge in the industry and by assimilating advanced manufacture technology from abroad, together with its improved management system and measurement for manufacture techniques and quality, the Group will enhance its capability to meet customers' need and demand. We are committed to becoming an international CNC machine tools manufacturer, and bring the best return to the shareholders.

Last but not least, I, on behalf of the Board, would like to take this opportunity to thank the shareholders, customers, and business partners for their continual support for the Group. I would also like to thank the whole staff for their efforts and contributions to the Group over the last year.

By Order of the Board
Chu Chih-Yaung
Chairman

Hong Kong, 20 April 2007

FINANCIAL REVIEW

The Group successfully maintained its growth momentum this year. Revenue increased by approximately RMB53.33 million to approximately RMB611.00 million in 2006, an increase of approximately 9.6% over approximately RMB557.67 million in 2005. Profit attributable to equity holders achieved a significant rise of approximately 25.3% from approximately RMB42.37 million in 2005 to approximately RMB53.08 million in 2006.

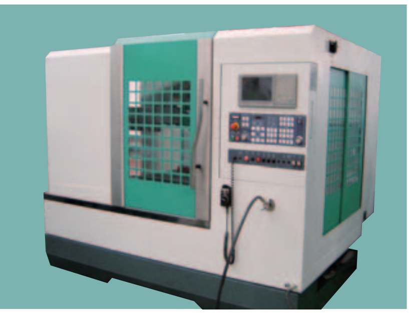
Machine tools

In recent years, the dramatic growth and development in China's manufacturing sectors has fuelled the market for machine tools. Consumption of CNC machine tools constituted more than 50% of the value of the total machine tools market. However, the number of the CNC machine tools in use account for less than 10%. As China modernizes, CNC machine tools will gradually replace existing ordinary machine tools. The Group's target customers include automobile, electronics and electrical products manufacturers, mould processing and mechanical related manufacturers, and these markets will create increasing demand as they shift from small and ordinary-type machines to large and high-grade CNC machine tools.

As a result, the Group achieved a remarkable growth in sales volume of CNC machine tools. The number of machine tools sold increased from 960 to 1,151 units this year. Sales from machine tools products rose from approximately RMB426.40 million in 2005 to approximately RMB467.35 million in 2006, with an increase of approximately 9.6% over the year and represented approximately 76.5% of the Group's total revenue. Due to the intense competition in the market, the Group thereby reduced its average selling prices of some products with low and medium gross profit margin to broaden its customer bases and attract new customers. Besides, raw material costs had declined and become fairly stable in 2006. Gross profit margins was improved by bringing costs down sharply through proactive sourcing of raw materials from the local suppliers with lower prices for major parts and components. Overall operating gross profit for machine tools therefore improved to approximately 27.3% in 2006.

Parking garage structures

Revenue from parking garage structures rose from approximately RMB74.43 million in 2005 to approximately RMB85.35 million in 2006, representing an increase of approximately 14.6% over the year and remained at approximately 14% of the Group's total revenue. Sales volume grew by approximately 6.2% to 4,828 units with average selling price grow by approximately 6.8% as compared with the previous year. Operating gross profit for parking garage structures improved to approximately 19.9%. Parking garage structures will effectively increase the number of car parking spaces on a plot of land and the increase of our revenue reflected an escalating demand for parking garage structure is expected as the ownership of motor vehicles has risen rapidly during the year.



Forklift trucks

In 2006, revenue from forklift trucks products increased from approximately RMB56.85 million in 2005 to approximately RMB58.31 million in 2006, with an increase of approximately 2.6% and representing approximately 9.5% of the Group's total revenue. The sales volume dropped by approximately 4.0% to 957 units as compared with the previous year due to the relocation of production lines to Hangzhou Global Friend in December 2006, which led to temporary suspension of operations. However, the Group launched new models and increased overseas sales this year and such contribution will offset the decrease of sales, part of which represented approximately 17.2% and approximately 26.5% of total sales volume and revenue respectively in 2006. Overseas sales of forklift trucks have higher selling prices and gross profit, which operating margin for forklift trucks products improved to approximately 15.9%.

Cost of sales and gross profit

The cost of sales increased from approximately RMB438.35 million in 2005 to approximately RMB457.85 million in 2006 while the Group's gross profit increased from approximately RMB119.33 million in 2005 to approximately RMB153.16 million in 2006. Overall gross profit margin of the Group improved from approximately 21.4% to approximately 25.1%. The increase was due to the improved sales mix of the Group with larger proportion of high margin products in the sector of machine tools being sold.

Other income

The Group's other income increased significantly to approximately RMB8.95 million in 2006 from approximately RMB6.84 million in the previous year. Such increase was primarily due to the government subsidies granted by the local government bureaus for rewarding the successful listing of the Company and the development of technology and reinvestment incentive of the Group during the year.

Operating expenses

Distribution and selling costs increased by approximately 26.4% from approximately RMB 54.55 million in 2005 to approximately RMB68.96 million in 2006. The Group had gained new customers by actively participating in a number of machine tools shows and exhibitions in the PRC markets and liaising with sales agents to expand its sales force and sales networks. Distribution and selling costs as a percentage of the Group's revenue increased from approximately 9.8% to approximately 11.3% over the year. Administrative expenses increased by approximately 64.3% from approximately RMB18.05 million in 2005 to approximately RMB29.65 million in 2006. The increase was due to the recruitment of additional staff, increase in the allowance for bad and doubtful debts and increase of professional fees. Administrative expenses as a percentage of the Group's revenue increased from approximately 3.2% to approximately 4.9% over the year.

Other expenses increased sharply to approximately RMB3.66 million in 2006 from approximately RMB1.23 million in 2005, which included approximately RMB2.95 million of one-off listing expenses. The fee was incurred when the Company was listed in January 2006. Finance costs decreased substantially by approximately 52.8% as compared to the previous year as the Group reduced its bank loans during the year.

Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2006 was approximately RMB53.08 million, an increase of approximately RMB10.71 million or approximately 25.3% over the previous year. Net profit margin attributable to equity holders increased from approximately 7.6% in 2005 to approximately 8.7% in 2006.

Liquidity and financial resources

As at 31 December 2006, the Group had net current assets of approximately RMB151.78 million (2005: RMB89.81 million), shareholders' fund of approximately RMB296.85 million (2005: RMB187.74 million) and short-term bank borrowings of approximately RMB46.51 million (2005: RMB84.56 million). The Group's working capital was financed by internal cash flows generated from its operation and existing banking facilities.

Cash and cash equivalents as at 31 December 2006 amounted to approximately RMB69.22 million (2005: RMB22.00 million) representing an increase of approximately RMB47.22 million. The Group had mastered its cash position by increasing the net cash from its operating activities. The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 1.8 times (2005: 1.4 times). The gearing ratio (a ratio of total debts to total assets) was approximately 9.4% (2005: 20.8%), reflecting the Group's improved financial position.

Capital structure and treasury policies

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

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks in the PRC. As of 31 December 2006, the total outstanding short-term borrowings stood at approximately RMB46.51 million (2005: RMB84.56 million). Borrowing methods used by the Group mainly include bank loans. The Group has fixed-rate borrowings and the contractual maturity dates are within one year. The Group had no interest rate hedging arrangement during the year. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Significant investment

The Group had no significant investment held for the year ended 31 December 2006.

Material acquisitions and disposals of subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2006.

Segmental information

Details of segmental information for the year ended 31 December 2006 are set out in note 6 to the consolidated financial statements.

Staff and remuneration policies

At 31 December 2006, the Group employed a total of 1,051 (2005: 945) full-time employees in Hong Kong and the PRC. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB50.65 million (2005: RMB42.03 million). The promotion and salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various regions and are reviewed periodically.

The Company also hold a share option scheme, for the purpose of providing incentive and rewards to eligible participants for their contributions to the Group.

The employees of the Company's subsidiaries join a state-managed social welfare scheme operated by the local government of the PRC and the employees in Hong Kong participate in the Mandatory Provident Fund Scheme. During the year under review, the Group contributed approximately RMB2.01 million (2005: RMB1.91 million) to the said schemes.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB4.21 million (2005: 6.45 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2006 (2005: Nil).

Charges on the Group's assets

As at 31 December 2006, pledged bank deposits with an amount of approximately RMB2.75 million (2005: RMB1.67 million) represented guarantee deposit in banks for the purpose of bidding contracts.

The Group had repaid all the bank borrowings that were secured by the Group's assets as at 31 December 2005 during the year.

Future plans for material investments or capital assets

The Group started the second phase of construction plan of production plant of Hangzhou Global Friend at the end of 2006 and trial production is expected to commence in the second half of 2007. It will predominately be used to produce parking garage structures. The construction cost is estimated to be approximately RMB25.00 million and will be financed by internal resources or banking facilities. The Group acquired the land use right in Xiasha, Zhejiang province with a total floor area of approximately 70,300 sq. m. at a cost of approximately RMB14.07 million in December 2006. The land belonged to new factory of Hangzhou Every Friend and the construction is expected to be divided into two phases. The first phase is expected to commence in the second quarter of 2007 with an estimated cost of construction of approximately RMB43.80 million.

Foreign exchange risk

The Group mainly operates in the PRC. During the year ended 31 December 2006, the Group collected most of its revenue in Renminbi, some of which were converted into foreign currencies such as United States dollars, Japanese Yen and other foreign currencies for the payment of imported parts and components. As such, the Group had a certain level of exposure to foreign exchange fluctuations. The Group has no hedging activities as it is considered that the impact to the Group is insignificant.

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

EXECUTIVE DIRECTORS

Mr. Chu Chih-Yaung (朱志洋先生), aged 60, was appointed as an executive Director in September 2005 and Chairman of the Board. He is responsible for the Group's overall strategic planning, management, business development, and the formulation of the Group's corporate policies. Mr. Chu has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. Mr. Chu is also a director of Hangzhou Global Friend and Hangzhou Every Friend, both are wholly-owned subsidiaries of the Company.

Mr. Chen Hsiang-Jung (陳向榮先生), aged 61, was appointed as an executive Director in December 2005 and chief executive officer. He is responsible for general management of the Group. Mr. Chen has more than 30 years of experience in the mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend, Hangzhou Global Friend and Hangzhou Every Friend. Mr. Chen joined the Group in 1993.

Mr. Chen Min-Ho (陳明河先生), aged 56, was appointed as an executive Director in December 2005. He is responsible for the overall business operation of the Group. Mr. Chen has more than 15 years of experience in mechanics, manufacturing and machine tools industry. He is also a director of Hangzhou Good Friend and Rich Friend (Shanghai). He joined the Group in 1993.

Mr. Wen Chi-Tang (溫吉堂先生), aged 42, was appointed as an executive Director in December 2005. He is currently the vice general manager of machine tools division of Hangzhou Good Friend and is responsible for the production and operation of this division. Mr. Wen has more than 10 years of experience in the machine tools industry. He is also a director of Hangzhou Good Friend and Hangzhou Global Friend. He joined the Group in 2003.

Mr. Chiu Rung-Hsien (邱榮賢先生), aged 49, was appointed as an executive Director in December 2005. Mr. Chiu is the manager of the parking garage structures division of Hangzhou Good Friend and is responsible for the production and operation of this division. Mr. Chiu has more than 25 years of experience in the mechanics and manufacturing industry. He joined the Group in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis (顧福身先生), aged 50, 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, Midland Holdings Limited and China Communications Construction Company Limited, which are companies listed on the Main Board, and EVI Education Asia Limited, which is listed on the Growth Enterprise Market of the Stock Exchange. He is a certified public accountant.

Biographical Details of Directors and Senior Management

Mr. Chiang Chun-Te (江俊德先生) aged 46, was appointed as an independent non-executive Director in December 2005. Mr. Chiang is the 14th Representative of the Delegates Committee of the Importers and Exporters Association of Taipei (台北市進出口商業同業公會會員代表大會代表) and the director of 特力和樂股份有限公司(Hola Home Furnishings Co., Ltd.). He is also the director of 文華國際花苑有限公司 (Mandarin Florist Co.), 首席創業投資股份有限公司(Premier Venture Capital Corp.), 首席財務管理顧問股份有限公司(Premier Capital Management), 寶德科技股份有限公司(Dexin Corp.) and the chairman and general manager of 德鎂實業股份有限公司(Istra Corp.).

Mr. Yu Yu-Tang (余玉堂先生), aged 70, was appointed as an independent non-executive Director in December 2005. He was appointed as a provincial government consultant of the Taiwan Hsin Chu County Government (台灣新竹縣政府) in May 2004.

SENIOR MANAGEMENT

Mr. Wang Gui Sheng (王桂生先生), aged 53, was appointed as the vice general manager of the forklift trucks division and is responsible for the operation and management of this division. He joined the Group in February 2003 and has over 37 years of experience in forklift and mechanical industry.

Mr. Chiang Chia-Shin (強家鑫先生), aged 48, was appointed as the production manager of Hangzhou Global Friend and is responsible for the operation and administration of the factory. Mr. Chiang graduated from mechanical engineering department of Taiwan Fushin Institute Technology School (台灣復興工業專科學校) in 1979. He joined the Group in April 2006 and has over 24 years of experience in the design, manufacturing and production of the motor vehicle parts and forklifts trucks.

Mr. Wu Li-Chen (吳立城先生), aged 45, was appointed as the manager of after sales services division of machine tools of Hangzhou Good Friend. He joined the Group in October 2000 and has over 22 years of experience in the machine tools industry.

Mr. Yeh Ming-Pin (葉明彬先生), aged 39, was appointed as the vice general manager and is responsible for the general administrative and management functions of the Group. Mr. Yeh graduated from Tamkang University, Taiwan (台灣淡江大學) in 1994 with a degree in Accounting. Before he joined the Group in January 2007, Mr. Yeh worked in TNS CPA firm in Taiwan from 1994 to 1998 and has over 12 years of experience in the fields of auditing, accounting and finance.

Mr. Yeung Shun-Hsing (楊順興先生), aged 46, was appointed as the manager and is responsible for the administration, human resource and finance management of the Group. Mr. Yeung obtained an Executive Master of Business Administration in Finance from Taiwan Chang Gung University (台灣長庚大學工商管理財務碩士學位). He joined the Group in December 2006 and has over 22 years of experience in the fields of accounting, finance and banking.

Ms. Kong Sau Ha (江秀霞女士) *FCPA, FCCA, ACIS, ACS,* aged 39, was appointed as the qualified accountant of the Company and is responsible for the finance and accounting functions of the Group. Ms. Kong is a fellow of both the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. She is also an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Ms. Kong joined the Group in December 2005 and has over 17 years of experience in the fields of corporate finance, auditing and accounting.

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2006.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares in January 2006, less listing expenses, amounted to approximately HK$62.30 million. During the year ended 31 December 2006, net proceeds were utilised as follows:

	HK$'million
Acquisition of land for the production base of Hangzhou Global Friend	6.26
Construction of the production base of Hangzhou Global Friend	10.61
Purchase of new production equipment and machinery for Hangzhou Global Friend	1.07
Repayment of bank loans	11.84
General working capital	4.77
	34.55

The remaining balance was placed in short term deposits with licensed banks in Hong Kong and the PRC.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the subsidiaries are principally engaged in the design and production of CNC machine tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2006 is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 33 to 67.

The Directors have declared an interim dividend of RMB0.05 (equivalent to approximately HK$0.049) per share to those shareholders whose names appear on the register of members on 5 October 2006, amounted to RMB14,000,000 which was paid on 18 October 2006.

The Directors proposed a final dividend of RMB0.05 (equivalent to approximately HK$0.05) per ordinary share for the year ended 31 December 2006, amounting to RMB14 million (equivalent to approximately HK$14 million). The dividend warrants will be despatched on Monday, 28 May 2007 to those shareholders whose names appear on the register of members of the Company at the close of business on Monday, 21 May 2007, subject to the approval of the shareholders at the forthcoming annual general meeting (the "2007 AGM").

PROPOSED BONUS ISSUE OF SHARES

The Board proposed the Bonus Issue be made to shareholders whose names appear on the register of members on 21 May 2007 in the proportion of 1 bonus share for every 5 shares held. Based on the 280,000,000 shares in issue as at the date of this report, 56,000,000 bonus shares will be issued. The bonus shares will be credited as fully paid and will rank pari passu in all respects with the existing issued shares with effect from the date of issue, except for the Bonus Issue or the final dividend for the year ended 31 December 2006. No fractional shares will be issued but will be aggregated and sold. The proceeds of sale will be retained for the benefit of the Company.

Shareholders should refer to details of the Bonus Issue as disclosed in the circular of the Company of 25 April 2007.

RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 36.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution to the shareholders amounted to approximately RMB44.87 million.

ANNUAL GENERAL MEETING

The 2007 AGM will be held on Monday, 21 May 2007. Shareholders should refer to details regarding the 2007 AGM in the circular of the Company of 25 April 2007 and the notice of meeting and form of proxy accompanying thereto.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to receive the final dividend, participate in the Bonus Issue and attend and vote at the 2007 AGM, the register of members of the Company will be closed from Wednesday, 16 May 2007 to Monday, 21 May 2007, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 15 May 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2006 are set out in note 30 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2006 are set out in note 29 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

Mr. Chu Chih-Yaung *(Chairman)*
Mr. Chen Hsiang-Jung *(Chief Executive Officer)*
Mr. Chen Min-Ho
Mr. Wen Chi-Tang
Mr. Chiu Rung-Hsien

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Mr. Chiang Chun-Te
Mr. Yu Yu-Tang

In accordance with article 87(1) of the articles of association of the Company ("Articles"), Mr. Chen Min-Ho, Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of three years commencing from 11 January 2006 until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the independent non-executive Directors has entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of two years commencing from 11 January 2006 until terminated by not less than three months' notice in writing served by either party to the other.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as those set out in note 36 to the consolidated financial statements, none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2006, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group in the PRC, Hong Kong and Macau.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 22 December 2005, pursuant to which the Board may, at its discretion, grant options to Directors and other eligible persons (as defined in the Scheme) to enable them to subscribe for shares of the Company as incentives and/or rewards for their contribution to the success of the Group. Particulars of the Scheme are set out in note 31 to the consolidated financial statements.

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2006, the interests or short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung *(Note 1)*	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited) ("Taiwan FF")	Beneficial owner	23,836,668 shares	15.44%
Mr. Chu Chih-Yaung *(Note 2)*	Taiwan FF	Spouse interest	4,737,182 shares	3.07%
Mr. Chu Chih-Yaung *(Note 3)*	Taiwan FF	Family interest	326,513 shares	0.21%
Mr. Chen Hsiang-Jung *(Note 4)*	Taiwan FF	Beneficial owner	4,721,413 shares	3.06%

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 6)*	Beneficial owner	21,988 shares	0.22%
Mr. Chu Chih-Yaung *(Note 5)*	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 6)*	Spouse interest	21,988 shares	0.22%
Mr. Chen Min-Ho	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 6)*	Beneficial owner	43,976 shares	0.44%
Mr. Chu Chih-Yaung	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) *(Note 6)*	Beneficial owner	1,000 shares	0.01%
Mr. Chu Chih-Yaung *(Note 7)*	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) *(Note 6)*	Spouse interest	1,000 shares	0.01%
Mr. Chu Chih-Yaung	友嘉全球航太股份有限公司 (Turbofair Corporation) *(Note 6)*	Beneficial owner	600 shares	0.10%
Mr. Chu Chih-Yaung *(Note 8)*	友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 6)*	Spouse interest	50,000 shares	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 6)*	Beneficial owner	10,000 shares	0.12%
Mr. Chu Chih-Yaung	Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 6)*	Beneficial owner	750 shares	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 6)*	Beneficial owner	750 shares	0.03%

Notes:

1. Mr. Chu Chih-Yaung ("Mr. Chu") holds 24,512,401 shares, which constitute 15.57% of the issued share capital of Taiwan FF as at 20 April 2007.

2. Ms. Wang Jin-Zu ("Ms. Wang"), Mr. Chu's spouse, holds 4,831,925 shares, which constitute 3.07% of the issued share capital of Taiwan FF. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO. As at 20 April 2007, Ms. Wang holds 4,831,925 shares.

3. Mr. Chu Yi-Chia, Mr. Chu's son under the age of 18, holds 454,283 shares, which constitute 0.29% of the issued share capital of Taiwan FF, Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Mr. Chu Yi-Chia in Taiwan FF under the SFO. As at 20 April 2007, Mr. Chu holds 454,283 shares.

4. Mr. Chen Hsiang-Jung holds 4,815,841 shares, which constitute 3.06% of the issued share capital of Taiwan FF as at 20 April 2007.

5. Ms. Wang holds 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.

6. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO .

7. 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.

8. Ms. Wang holds 0.59% of the issued share capital of Decaview Asia Corporation. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Decaview Asia Corporation under the SFO.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2006, none of the Directors or chief executive of the Company, had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

1. Aggregate long position in the shares and underlying shares of the Company

Name of shareholder	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Beneficial owner	210,000,000 shares *(Note)*	75%
Taiwan FF	Interest of controlled corporation	210,000,000 shares *(Note)*	75%

Note: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF, Taiwan FF is deemed to be interested in 210,000,000 shares of the Company held by Hong Kong GF under the SFO.

2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2006, the Company had not been notified of any short positions being held by any substantial shareholders in the shares or underlying shares of the Company.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the Scheme are set out in note 31 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Related party transactions

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly related to contracts entered into by the Group in the usual and ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 36 to the consolidated financial statements.

Some of these transaction constituted connected transactions or continuing connected transactions under the Listing Rules, as identified below.

Discontinued connected transactions

Taiwan FF is the holding company of Good Friend (H.K.) Corporation Limited ("Hong Kong GF"). Hong Kong GF owned 75% of the issued share capital of the Company. Both parties are controlling shareholders and therefore connected persons.

The Group had sold machine tools, parts and components to Taiwan FF and Hong Kong GF of which sales agreement were entered prior the listing of Company's shares. Such sale orders were completed in the first quarter of 2006. The transactions had been recorded subsequent to listing and reflected in the books of accounts during the year. Transaction of this nature had ceased and discontinued. Such transactions were disclosed in the Prospectus as "Discontinued connected transactions" and, as per the disclosure contained in the Prospectus, for which no applicable Listing Rules relate.

The Group had sourced parts and components from Hong Kong GF of which purchase agreement were entered prior the listing of Company's shares. Such purchase orders were completed in the first quarter of 2006. The transactions had been recorded subsequent to listing and reflected in the books of accounts during the year. Transaction of this nature had ceased and discontinued. Such transactions were disclosed in the Prospectus as "Discontinued connected transactions" and, as per the disclosure contained in the Prospectus, for which no applicable Listing Rules relate.

Exempt continuing connected transactions

Hangzhou Fair Fine Electric & Machinery Co., Ltd. ("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.

The Group had sold machine tools and parts to Hangzhou Fair Fine as its fixed assets. The Directors were of view that the price of machine tools and parts supplied by Hangzhou Good Friend was at the then prevailing market price. Such transactions were conducted on an arm's length basis and on normal commercial terms. Such transactions were carried out on a continuing or recurring basis in the course of the financial period. Since each of the applicable percentage ratios, where applicable, calculated at the material times for the financial period and as at the date of this annual report by reference to Rule 14.07 of the Listing Rules, is on an annual basis less than 2.5% and the annual consideration is and will be less than HK$1,000,000. Accordingly, the transactions qualified under Rule14A.33(3)(b) of the Listing Rules as de minimis continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Hangzhou Feeler Takamatsu") is owned as to 40% by Taiwan FF and 60% by Takamatsu Machinery., Co. Ltd.（高松機械工業株式會社）, the latter being an independent third party of the Group. As such, it is regarded as an associate of Taiwan FF and is therefore a connected person.

The Group had provided processing services to and sourced parts and components from Hangzhou Feeler Takamatsu. The processing fee payable by Hangzhou Feeler Takamatsu was determined based on rate charged to third party customers. Such transactions were conducted on an arm's length basis and on normal commercial terms. Such transactions were carried out on a continuing or recurring basis and are expected to extend over a period of time into the future. Since each of the applicable percentage ratios, where applicable, calculated at the material times for the financial period and as at the date of this annual report by reference to Rule 14.07 of the Listing Rules, is on an annual basis less than 2.5% and the annual consideration is and will be less than HK$1,000,000. Accordingly, the transactions qualified under Rule14A.33(3)(b) of the Listing Rules as de minimis continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Group had entered into sales transactions with Giantful Corporation Limited ("Giantful Corporation") for the sale of materials on an arm's length basis and normal commercial terms. Giantful Corporation is considered an associate of Ms. Tsai Shu-Ping ("Ms. Tsai")（蔡淑萍女士）, a relative of Mr. Chu Chih-Yaung ("Mr. Chu")（朱志洋先生）, an executive Director and the Chairman of the Board. Ms. Tsai, being a director and a shareholder of Gaintful Corporation, together with Mr. Chu are considered as the controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus. Therefore, Giantful Corporation is considered an associate of a connected person of this Company under the Listing Rules.

Such Transactions were carried out on a continuing or recurring basis and are expected to extend over a period of time into the future. The transactions were regarded as de minimis continuing connected transactions under Rule 14A.33(3)(b) and exempted from the reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Each of the percentage ratios, where applicable, calculated by reference to the Rule 14.07 of the Listing Rules, is less than 2.5% and the total consideration is less than HK$1,000,000.

Continuing Connected transactions

Richest Way Limited ("Richest Way") is an associate of Ms. Lu Hui-Wen ("Ms. Lu")（呂惠文女士）, a director and a 50% shareholder of each of Richest Way and Profit Group International Limited ("Profit Group") respectively and a niece of Mr. Chu. Ms. Lu, being one of the relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus.

Profit Group is an associate of Mr. Lee Le-Shen ("Mr. Lee")（李力生先生）, a director and a 50% shareholder of Profit Group and a cousin of Mr. Chu. Mr. Lee, being one of the relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus.

Therefore, both Richest Way and Profit Group are associates of a connected person of the Company under the Listing Rules.

Both Richest Way and Profit Group are principally engaged in trading business.

The Group entered into purchases of parts and components for the purpose of its production of machine tools on various dates during the periods being the financial year ended 31 December 2006 and between 1 January 2007 and 3 April 2007 (the "Relevant Periods"), from Richest Way. The purchases of parts and components from Richest Way constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such purchases during the year were more than 2.5% and the total consideration was more than HK$10,000,000 as set out in Chapter 14A of the Listing Rules, such purchases should have been subject to (i) reporting; (ii) announcement; and (iii) independent shareholders approval requirements under the Listing Rules.

The purchases of parts and components between Richest Way and Hangzhou Good Friend were determined at arm's length negotiation.

The Board considers that purchases of parts and components from Richest Way were on normal commercial terms and in the ordinary and usual course of business of the Group. The Board also considers that such purchases were in the interests of the Company and its shareholders as a whole.

The Group entered sales of machine tools to Profit Group for the purpose of export sales and in the course of its ordinary sales. The sales of machine tools to Profit Group also constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such sales during the year were more than 2.5% but less than 25% and the total consideration was less than HK$10,000,000 as set out in Chapter 14A of the Listing Rules, such sales should have been only subject to (i) reporting and (ii) announcement requirements under the Listing Rules but exempt from the independent shareholders approval requirement.

The sales of machine tools between Profit Group and Hangzhou Good Friend were determined at arm's length negotiation.

The Board considers that the sales of goods to Profit Group were on normal commercial terms and in the ordinary and usual course of business of the Group. The Board also considers that such sales were in the interests of the Company and its shareholders as a whole.

During the audit work for the financial year ended 31 December 2006 of the Group, the Group discovered that Hangzhou Good Friend, (a wholly foreign owned enterprise established in the PRC on 23 September 1993 and an indirect wholly owned subsidiary of the Company) had, during the Relevant Periods, entered into the above connected transactions with Richest Way and Profit Group which had not been disclosed in accordance with the Listing Rules, the respective accounts were as follows:

Type of transaction	**Year ended 31 December 2006** Audited *RMB (million)*	**From 1 January 2007 to 3 April 2007** Unaudited *RMB (million)*
1. Purchases of parts and components from Richest Way by Hangzhou Good Friend	84.6	44.0
2. Sales of machine tools from Hangzhou Good Friend to Profit Group	8.6	8.5

The Directors explain that the non-compliance of Listing Rules was due to late reporting of such transactions from the management of Hangzhou Good Friend. Such transactions were not reported to the Company until the auditors of the Company reviewed the accounts of the Group in the advanced stage in the process of preparing the final results of the Group for the financial year ended 31 December 2006 on 12 April 2007. Accordingly, the failure to comply with the Listing Rules requirements was partly due to the non-awareness of the obligation of the management of Hangzhou Good Friend to disclose such Transactions and partly due to oversight of the management of the Company but was not intentional.

Accordingly, the conduct of the Richest Way and Profit Group transactions by the Group and the failure by the Company to report and announce the details thereof and to seek independent shareholders' approval (as the case may be) have constituted a breach of the Listing Rules.

An independent board committee will be established to advise the independent shareholders of the Company in relation to the Richest Way transactions. An independent financial adviser will be appointed by the Company to advise the independent board committee and the independent shareholders of the Company in relation to the Richest Way transactions as if there shall be a general meeting of the Company to approve the Richest Way transactions.

A circular containing, inter alia, further details of the Richest Way transactions together with a letter from the independent board committee to the independent shareholders and a letter from the independent financial adviser to the independent board committee and the independent shareholders will be despatched to the shareholders of the Company as soon as practicable.

Details of all the above continuing connected transactions were excerpted from and further disclosed in the announcement dated 18 April 2007.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 9.8% of the Group's total turnover for the year and the largest customer accounted for approximately 2.4% of the Group's total turnover. The five largest suppliers accounted for approximately 48.3% of the Group's total purchases for the year and the largest supplier accounted for approximately 21.8% of the Group's total purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above except for one of the largest suppliers which is owned as to 50% by a relative of Mr. Chu.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 20 April 2007 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in this report).

CHARITABLE DONATIONS

During the year, the Group made a charitable donation of HK$1,000,000 to the Community Chest of Hong Kong for fixing the stock code of 2398.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company established an audit committee (the "Audit Committee") on 22 December 2005 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors, Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang. The Audit Committee has reviewed with the management the audited consolidated financial statements of the Group for the year ended 31 December 2006.

On 12 April 2007, the Board reported to the Audit Committee in relation to (i) the conduct of certain transactions with Richest Way and Profit Group which constituted connected transactions subject to Listing Rules requirements and (ii) the failure by the Company to report and announce the details of such transactions and to seek independent shareholders' approval (as the case may be) have constituted a breach of the Listing Rules. Details of such connected transactions were disclosed in the announcement of the Company dated 18 April 2007.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 27 to 31 of the 2006 Annual Report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 68.

AUDITORS

The financial statements for the year ended 31 December 2006 have been audited by the Group's auditors, Messrs. Deloitte Touche Tohmatsu (who shall retire and, being eligible, offer themselves for re-appointment at the 2007 AGM).

On behalf of the Board
Good Friend International Holdings Inc.
Chu Chih-Yaung
Chairman

Hong Kong, 20 April 2007

The Company is committed to maintaining good corporate governance standard through a solid and efficient framework to promote the integrity, transparency and quality of disclosure in order to enhance shareholders' value.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted its own code of corporate governance practices which meets the code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules.

Since the listing of the Company's shares on 11 January 2006 and up to 31 December 2006, the Company had adopted the principles and been in compliance with code provisions set out in the CG Code.

The Company noted code A.4.2 of the CG Code provides that all directors appointed to fill a casual vacancy shall be subject to re-election at the first general meeting after their appointment. This may create potential inconsistency in operation with the Articles which provided that any Director so appointed by the Board shall hold office until the next following annual general meeting (instead of the first general meeting as per code A.4.2) and be eligible for re-election thereat. A special resolution was passed at the annual general meeting of the Company held on 22 May 2006 whereby the Articles was duly amended to align with code A.4.2 of the CG Code. Prior to such amendment, the relevant provision in the Articles was never invoked during the twelve months period ended 31 December 2006 and up to the date thereof, as no Director was appointed by the Board to fill a casual vacancy and no general meeting other than the annual general meeting of 22 May 2006 had been held during such period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code in respect of the period from the date of listing to the date of this report.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's budget, significant policies and transactions, financial results, businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the various board committees referred to below. Further details of these committees are set out in this report.

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

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

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

Such balanced board composition is formed to ensure a strong independent objectivity exists across the Board and has adhered to the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 13 to 14 under the section headed "Biographical Details of Directors and Senior Management".

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

Chairman and Chief Executive Officer

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

Independent non-executive Directors

The three Directors serving the non-executive role are all independent and are appointed as the independent non-executive Directors of the Company.

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting and finance. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Amongst them, Mr. Koo Fook Sun, Louis has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules. Each independent non-executive Director has provided an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

The three independent non-executive Directors are appointed for a specific term of two years and are subject to retirement by rotation, at least once every three years, in accordance with the Articles.

Frequency of Board Meetings and Attendance

Board meetings are held at least four times a year and the Board meets as and when required. During the financial year ended 31 December 2006, the Board convened a total of four regular meetings and the attendances of the Directors at these Board meetings are as follows:

Directors	Number of attendance
Mr. CHU Chih-Yaung	4/4
Mr. CHEN Hsiang-Jung	4/4
Mr. CHEN Min-Ho	2/4
Mr. WEN Chi-Tang	4/4
Mr. CHIU Rung-Hsien	4/4
Mr. KOO Fook Sun, Louis	4/4
Mr. CHIANG Chun-Te	3/4
Mr. YU Yu-Tang	4/4

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

The Directors received details of agenda items for decision and minutes of Board meetings in advance of each Board meeting.

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

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

AUDIT COMMITTEE

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

The role of the Audit Committee is to monitor the establishment and maintenance of an adequate system of internal control and compliance with such system.

The chief responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of internal control system of the Group. The Audit Committee had during the year performed such functions and reviewed the audited financial statements of the Company for the year ended 31 December 2006.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, Certified Public Accountants, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

Frequency of Meetings and Attendance

During the year 2006, the Audit Committee met two times, during which the qualified accountant of the Company and the external auditors were also in attendance. Details of the attendance by audit committee members of such meetings are as follows:

Name of member	Number of attendance
Mr. KOO Fook Sun, Louis	2/2
Mr. CHIANG Chun-Te	2/2
Mr. YU Yu-Tang	2/2

NOMINATION OF DIRECTORS

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

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

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

During the year and prior to the date of this report, there were no changes of the Directors. The Committee considered the current Board size as adequate for the Company's present operations. In addition, the Committee has reviewed and satisfied the independency of all independent non-executive Directors.

In accordance with the Articles, one-third of the Directors will retire from office at the forthcoming annual general meeting. In accordance with Article 87(1) of the Articles, Mr. CHEN Min-Ho, Mr. WEN Chi-Tang and Mr. CHIU Rung-Hsien will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections.

Frequency of Meetings and Attendance

The Nomination Committee has convened one meeting during the year ended 31 December 2006 and details of the attendance of its meeting are as follows:

Directors	Number of attendance
Mr. KOO Fook Sun, Louis	1/1
Mr. CHIANG Chun-Te	1/1
Mr. CHEN Hsiang-Jung	1/1

REMUNERATION OF DIRECTORS

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

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

Frequency of Meetings and Attendance

The Remuneration Committee has convened one meeting during the year ended 31 December 2006 to review the existing remuneration packages of each of the Directors and senior management of the Company and details of the attendance of its meeting are as follows:

Directors	Number of attendance
Mr. KOO Fook Sun, Louis	1/1
Mr. CHIANG Chun-Te	1/1
Mr. CHEN Hsiang-Jung	1/1

Emolument policy

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. Each of the executive Directors is entitled to the respective basic salary which is reviewed annually. In addition, 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. Details of the Directors' remuneration are set out in note 10 to the consolidated financial statements.

The Company has adopted a share option scheme on 22 December 2005. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to selected eligible participants to motivate them and to optimize their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in note 31 to the consolidated financial statements.

AUDITORS' REMUNERATION

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

Services rendered to the Group	**Fee paid/payable**
	HK$'000
Audit services	1,200
Non-audit services (Interim financial review)	238

INTERNAL CONTROL SYSTEM

During the year, the Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions, with a view to providing a regular gauge for assurance and improvement.

Shareholders' attention is drawn to the disclosure in the "Connected Transactions" section of the "Report of Directors" contained in and page 22 of this annual report as regards the failure by the Company to report and announce the details of certain connected transactions and to seek independent shareholders' approval in accordance with the Listing Rules.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors acknowledges its responsibility to prepare the Company's account for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2006, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' STATEMENT

The auditors of the Company acknowledge their responsibilities in the auditors' report on the financial statements of the Group for the year ended 31 December 2006.

20 April 2007

Deloitte.
德勤

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

We have audited the consolidated financial statements of Good Friend International Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 67, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Revenue	6	**611,003**	557,674
Cost of sales		**(457,845)**	(438,349)
Gross profit		**153,158**	119,325
Other income	7	**8,948**	6,837
Distribution and selling costs		**(68,962)**	(54,548)
Administrative expenses		**(29,654)**	(18,049)
Other expenses		**(3,663)**	(1,229)
Finance costs	8	**(2,457)**	(5,211)
Profit before taxation	9	**57,370**	47,125
Taxation	11	**(4,288)**	(4,756)
Profit for the year attributable to equity holders of the Company		**53,082**	42,369
Dividend	12	**14,000**	–
Earnings per share – basic, in RMB	13	**0.19**	0.20

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	*14*	**99,961**	91,451
Deposits for purchase of plant and equipment		**15,866**	–
Deposit for acquisition of land use right		**14,073**	–
Prepaid lease payments	*15*	**9,855**	3,772
Intangible assets	*16*	**2,313**	1,007
Long term prepayments		**419**	765
Deferred tax assets	*17*	**2,590**	936
		145,077	97,931
Current assets			
Inventories	*18*	**109,287**	121,196
Debtors, deposits and prepayments	*19*	**146,920**	155,462
Amounts due from customers for contract work	*20*	**18,550**	5,261
Amount due from immediate holding company	*21*	**–**	417
Amount due from ultimate holding company	*22*	**–**	1,833
Amount due from a fellow subsidiary	*21*	**–**	185
Pledged bank deposits	*23*	**2,753**	1,665
Bank deposits with maturity period more than three months	*24*	**4,983**	–
Bank balances and cash	*24*	**69,218**	21,999
		351,711	308,018
Current liabilities			
Creditors and accrued charges	*25*	**142,169**	127,760
Amounts due to customers for contract work	*20*	**5,698**	58
Amount due to immediate holding company	*26*	**–**	1,656
Amount due to ultimate holding company	*27*	**–**	247
Tax payable		**1,110**	426
Warranty provision	*28*	**4,449**	3,503
Bank borrowings	*29*	**46,510**	84,556
		199,936	218,206
Net current assets		**151,775**	89,812
		296,852	187,743

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Capital and reserves			
Share capital	30	**2,882**	–
Reserves		**293,970**	187,743
		296,852	187,743

The financial statements on pages 33 to 67 were approved and authorised for issue by the Board of Directors on 17 April 2007 and are signed on its behalf by:

CHU CHIH-YAUNG
Director

CHEN HSIANG-JUNG
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 1)*	General reserve RMB'000 *(Note 2)*	Enterprise expansion reserve RMB'000 *(Note 2)*	Retained profits RMB'000	Total RMB'000
At 1 January 2005	64,905	–	–	7,166	3,583	57,287	132,941
Profit for the year and total income recognised for the year	–	–	–	–	–	42,369	42,369
Issue of shares *(Note 3)*	12,136	297	–	–	–	–	12,433
Eliminated on group reorganisation *(Note 4)*	(77,041)	(297)	77,338	–	–	–	–
Appropriations	–	–	–	4,934	2,467	(7,401)	–
At 31 December 2005	–	–	77,338	12,100	6,050	92,255	187,743
Profit for the year and total income recognised for the year	–	–	–	–	–	53,082	53,082
Dividend paid	–	–	–	–	–	(14,000)	(14,000)
Issue of shares	720	80,699	–	–	–	–	81,419
Capitalisation issue of shares	2,162	(2,162)	–	–	–	–	–
Expense relating to issue of new shares	–	(11,392)	–	–	–	–	(11,392)
At 31 December 2006	2,882	67,145	77,338	12,100	6,050	131,337	296,852

Notes:

1. Special reserve represents the difference between the paid-in capital/share capital and share premium of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

2. The Articles of Association of the respective subsidiaries in the People's Republic of China (the "PRC") require the appropriation of certain percentage of its profit after taxation prepared in accordance with the PRC accounting standards each year to the general reserve and enterprise expansion reserve as determined by its respective board of directors. The general reserve and enterprise expansion reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

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

4. The share capital and share premium of Winning Steps and Yu Hwa are eliminated as these companies became wholly-owned subsidiaries of the Company upon group reorganisation in December 2005.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit before taxation	**57,370**	47,125
Adjustments for:		
Finance costs	**2,457**	5,211
Interest income	**(1,754)**	(230)
Depreciation of property, plant and equipment	**10,014**	9,550
Amortisation of intangible asset	**580**	210
Amortisation of prepaid lease payments	**232**	100
Amortisation of long term prepayments	**173**	173
Allowance for bad and doubtful debts, net	**7,348**	92
Provision for warranty	**4,639**	4,482
Reversal of allowance for inventories, net	**(16)**	(103)
(Gain) loss on disposal of property, plant and equipment	**(14)**	29
Operating cash flows before movements in working capital	**81,029**	66,639
Decrease (increase) in inventories	**11,925**	(14,455)
Increase in debtors, deposits and prepayments	**(4,337)**	(51,606)
Increase in long term prepayments	**–**	(938)
Increase in amounts due from customers for contract work	**(13,289)**	(96)
Decrease (increase) in amount due from immediate holding company	**417**	(400)
Decrease (increase) in amount due from ultimate holding company	**1,833**	(535)
Decrease (increase) in amount due from a fellow subsidiary	**185**	(185)
Increase in creditors and accrued charges	**14,409**	38,151
Increase (decrease) in amounts due to customers for contract work	**5,640**	(6,673)
Decrease in amount due to immediate holding company	**(1,656)**	(4,420)
Decrease in warranty provision	**(3,693)**	(3,591)
Cash generated from operations	**92,463**	21,891
PRC income tax paid	**(5,258)**	(4,209)
Net cash from operating activities	**87,205**	17,682
Investing activities		
Purchase of property, plant and equipment	**(19,055)**	(4,641)
Deposits paid for purchase of plant and equipment	**(15,866)**	–
Deposit paid for acquisition of land use right	**(14,073)**	–
Increase in prepaid lease payments	**(6,446)**	–
Increase in fixed bank deposits	**(4,983)**	–
Acquisition of intangible assets	**(1,886)**	(357)
(Increase) decrease in pledged bank deposits	**(1,088)**	1,388
Interest received	**1,754**	230
Proceeds on disposal of property, plant and equipment	**545**	68
Net cash used in investing activities	**(61,098)**	(3,312)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Financing activities		
Proceeds from new bank borrowings	**155,760**	134,838
Proceeds from issue of new shares	**81,419**	–
Repayment of bank borrowings	**(193,806)**	(140,269)
Dividends paid	**(14,000)**	–
Expenses paid relating to issue of new shares	**(5,557)**	–
Interest paid	**(2,457)**	(5,211)
(Repayment to) advance from ultimate holding company	**(247)**	188
Capital injected from a shareholder	**–**	12,433
Net cash from financing activities	**21,112**	1,979
Net increase in cash and cash equivalents	**47,219**	16,349
Cash and cash equivalents at beginning of the year	**21,999**	5,650
Cash and cash equivalents at end of the year, representing bank balances and cash	**69,218**	21,999

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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.

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 also the Company's functional currency.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

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 entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Parking garage structures contracts

Where the outcome of a parking garage structures 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 parking garage structures 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 it is probable that total contract costs will exceed total 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

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.

When 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.

Intangible assets

Intangible assets represent software with finite 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 consolidated income statement when the asset is derecognised.

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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 the respective 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 re-translated at the rates prevailing on the balance sheet date. 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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme contribution

Payment to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as expenses when employees have rendered services entitling them to the contributions.

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. The accounting policy adopted in respect of the Group's financial assets is set out below:

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, amounts due to immediate holding company and ultimate holding company, and bank borrowings are subsequently measured at amortised cost, using the effective interest 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.

Financial liabilities are derecognised 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 and 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. KEY SOURCES OF ESTIMATION UNCERTAINTY

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 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 consolidated income statement in the period in which the facts that give rise to the revision became known. Accordingly, any changes in the Group's estimates would impact the Group's future operating results.

Warranty provision

The Group makes warranty provision based on information available prior to the issuance of the consolidated financial statements indicating 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 consolidated income statement will result. Likewise, if the costs are settled for an amount that is less that the estimation, a future credit to consolidated income statement will result.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance for bad and doubtful debts

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

5a. Financial risk management objectives and policies

The Group's major financial instruments include debtors, deposits, bank balances, pledged bank deposits, creditors 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 purchases and borrowings (as disclosed in notes 25 and 29) denominated in currencies other than the functional currencies of the relevant group entities. 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 2006 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 and bank balances and deposits. Bank borrowings and bank balances and deposits 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

5b. Fair value

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

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 2006

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Revenue – external sales	**467,346**	**85,349**	**58,308**	**611,003**
Segment results	**80,938**	**4,468**	**650**	**86,056**
Unallocated corporate income				**6,563**
Unallocated corporate expenses				**(32,792)**
Finance costs				**(2,457)**
Profit before taxation				**57,370**
Taxation				**(4,288)**
Profit for the year attributable to equity holders of the Company				**53,082**

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

At 31 December 2006

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Balance sheet				
Assets				
Segment assets	266,536	76,632	75,417	418,585
Unallocated corporate assets				78,203
Consolidated total assets				496,788
Liabilities				
Segment liabilities	81,995	29,283	20,706	131,984
Unallocated corporate liabilities				67,952
Consolidated total liabilities				199,936

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Corporate RMB'000	Total RMB'000
Other information					
Capital expenditure	3,647	244	13,470	3,580	20,941
Depreciation and amortisation	6,919	967	498	2,210	10,594
Allowance for bad and doubtful debts, net	4,743	653	1,952	–	7,348

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

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

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

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	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

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

	2006 RMB'000	2005 RMB'000
Government subsidies *(Note 34)*	**4,489**	373
Sales of materials	**1,814**	1,333
Bank interest income	**1,754**	230
Net exchange gain	**–**	1,985
Repair income	**438**	1,689
Gain on disposal of property, plant and equipment	**14**	–
Others	**439**	1,227
	8,948	6,837

8. FINANCE COSTS

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

9. PROFIT BEFORE TAXATION

	2006	2005
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration *(Note 10)*	**1,172**	345
Other staff costs	**47,459**	39,774
Retirement benefit scheme contributions	**2,014**	1,910
Total staff costs	**50,645**	42,029
Allowance for bad and doubtful debts, net	**7,348**	92
Amortisation of intangible asset included in administrative expenses	**580**	210
Amortisation of prepaid lease payments	**232**	100
Auditors' remuneration	**1,603**	1,212
Cost of inventories recognised as expenses	**457,845**	438,349
Depreciation of property, plant and equipment	**10,014**	9,550
Listing expenses	**2,950**	–
Loss on disposal of property, plant and equipment	**–**	29
Net exchange loss	**289**	–
Operating lease rentals in respect of rented premises	**2,677**	1,455
Research and development expenses	**642**	640
Reversal of allowance for inventories, net	**(16)**	(103)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2005: eight) directors were as follows:

Year ended 31 December 2006

	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	175	175	140	140	140	200	100	100	1,170
Other emoluments									
Salaries and other benefits	–	–	–	–	2	–	–	–	2
Performance related incentive bonus *(Note)*	–	–	–	–	–	–	–	–	–
Retirement benefit scheme contributions	–	–	–	–	–	–	–	–	–
Total emoluments	175	175	140	140	142	200	100	100	1,172

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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: three) was directors of the Company whose emoluments is included in the disclosures in note 10(a) above. The emoluments of the remaining four (2005: two) individuals were as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**1,527**	789
Performance related incentive bonus *(Note)*	**598**	1,211
Retirement benefit scheme contributions	**75**	54
	2,200	2,054

Their emoluments were within the following band:

	Number of employees	
	2006	2005
Up to HK$1,000,000	**4**	2

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

11. TAXATION

	2006	2005
	RMB'000	RMB'000
PRC enterprise income tax		
Current tax	**6,371**	4,574
Overprovision in respect of prior year	**(429)**	–
Deferred tax *(Note 17)*	**(1,654)**	182
	4,288	4,756

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.

11. TAXATION *(Continued)*

Pursuant to the approvals obtained from the relevant PRC tax authorities, the preferential income tax rate for Hangzhou Good Friend Precision Machinery Co., Ltd. ("Hangzhou Good Friend") 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 2005 local income tax of Hangzhou Good Friend was specifically and fully refunded by the relevant tax authorities in 2006. The applicable tax rate for Hangzhou Good Friend is 8.25% (2005: 8.25%) for the year.

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

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

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**57,370**	47,125
Tax at the domestic tax rate at 16.5% (2005: 16.5%)	**9,466**	7,776
Tax effect of expenses not deductible for tax purpose	**2,480**	1,422
Tax effect of income not taxable for tax purpose	**(569)**	–
Overprovision in respect of prior year	**(429)**	–
Tax effect of tax concession period	**(6,660)**	(4,442)
Tax charge for the year	**4,288**	4,756

12. DIVIDEND

Dividend recognised as distribution during the year:

	2006 **RMB'000**	2005 RMB'000
Ordinary shares:		
Interim – RMB5 cents per share (2005: Nil)	**14,000**	–

The final dividend of RMB5 cents (2005: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basis earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB53,082,000 (2005: RMB42,369,000) and the weighted average number of 278,082,192 (2005: 210,000,000) ordinary shares in issue on the assumption that the aggregate of the 200 ordinary shares in issue as at the date of the prospectus of the Company dated 31 December 2005 and 209,999,800 ordinary shares issued pursuant to the capitalisation issue as described more fully in note 30, have been issued on 1 January 2005.

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 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 and 1 January 2006	57,318	50,878	10,879	5,018	335	124,428
Additions	–	3,264	2,250	585	12,956	19,055
Transfer	–	361	–	–	(361)	–
Disposals	–	(1,630)	(436)	(258)	–	(2,324)
At 31 December 2006	57,318	52,873	12,693	5,345	12,930	141,159
DEPRECIATION						
At 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 and 1 January 2006	9,118	18,158	3,964	1,737	–	32,977
Provided for the year	2,589	4,665	1,940	820	–	10,014
Eliminated on disposals	–	(1,255)	(306)	(232)	–	(1,793)
At 31 December 2006	11,707	21,568	5,598	2,325	–	41,198
CARRYING VALUES						
At 31 December 2006	45,611	31,305	7,095	3,020	12,930	99,961
At 31 December 2005	48,200	32,720	6,915	3,281	335	91,451

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

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

15. PREPAID LEASE PAYMENTS

The amounts represent costs paid for land use rights in the PRC for a period of 50 years, and are analysed for reporting purposes as follows:

	2006	2005
	RMB'000	RMB'000
Current asset (included in debtors, deposits and prepayments)	**232**	101
Non-current asset	**9,855**	3,772
	10,087	3,873

16. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2005	988
Additions	357
At 31 December 2005	1,345
Additions	1,886
At 31 December 2006	3,231
AMORTISATION	
At 1 January 2005	128
Amortised for the year	210
At 31 December 2005	338
Amortised for the year	580
At 31 December 2006	918
CARRYING VALUES	
At 31 December 2006	2,313
At 31 December 2005	1,007

Software is amortised on a straight line basis over its estimated useful life 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	Allowance for inventories	Warranty provision	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	789	113	216	1,118
(Charge) credit to consolidated income statement for the year *(Note 11)*	(239)	(16)	73	(182)
At 31 December 2005	550	97	289	936
Credit (charge) to consolidated income statement for the year *(Note 11)*	1,212	(3)	445	1,654
At 31 December 2006	1,762	94	734	2,590

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

18. INVENTORIES

	2006	2005
	RMB'000	RMB'000
Raw materials	**48,936**	54,457
Work in progress	**16,968**	21,972
Finished goods	**43,383**	44,767
	109,287	121,196

19. DEBTORS, DEPOSITS AND PREPAYMENTS

	2006	2005
	RMB'000	RMB'000
Trade debtors	**128,193**	129,749
Less: Allowance for bad and doubtful debts	**(11,034)**	(3,686)
	117,159	126,063
Advance deposits to suppliers	**17,064**	10,864
Other debtors, deposits and prepayments	**12,697**	18,535
Total debtors, deposits and prepayments	**146,920**	155,462

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

19. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

The aging analysis of trade debtors is as follows:

	2006 RMB'000	2005 RMB'000
1 – 30 days	**84,933**	92,311
31 – 60 days	**3,204**	10,162
61 – 90 days	**5,683**	5,815
91 – 180 days	**11,339**	11,529
Over 180 days	**12,000**	6,246
	117,159	126,063

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

	2006 RMB'000	2005 RMB'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profit less recognised loss	**74,223**	28,880
Less: Progress billings	**(61,371)**	(23,677)
	12,852	5,203
Analysed for reporting purposes as:		
Amounts due from contract customers	**18,550**	5,261
Amounts due to contract customers	**(5,698)**	(58)
	12,852	5,203

At 31 December 2006, retentions held by customers for contract work which have been included in debtors amounted to RMB8,488,000 (2005: RMB7,820,000). Advances received from customers for contract work which have been included in creditors amounted to RMB12,347,000 (2005: RMB8,645,000).

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

The amounts were unsecured, interest free and were fully repaid during the year.

22. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount was of trading nature and the Group allows a normal credit period of 120 days for sales to its ultimate holding company. The amount was unsecured, interest free and was fully repaid during the year.

23. PLEDGED BANK DEPOSITS

The amounts represent guarantee deposits in banks for the purpose of bidding contracts with maturity date within one year and carry fixed interest rate of 0.72% (2005: 0.72%) per annum.

24. BANK DEPOSITS WITH MATURITY PERIOD MORE THAN THREE MONTHS AND BANK BALANCES AND CASH

Except for an amount of bank deposits of RMB4,983,000 (2005: Nil) with an original maturity of six months with fixed market interest rate of 3.96%, other bank balances and cash comprise short-term bank deposits with an original maturity of three months or less and fixed market interest rate ranging from 3.35% to 3.47% and cash held by the Group.

25. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

	2006	2005
	RMB'000	RMB'000
1 – 30 days	**31,737**	21,296
31 – 60 days	**18,455**	21,043
61 – 90 days	**400**	2,337
91 – 180 days	**234**	7,901
Over 180 days	**2,203**	5,018
Trade creditors	**53,029**	57,595
Advance deposits from customers	**56,337**	42,502
Other creditors and accrued charges	**32,803**	27,663
	142,169	127,760

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

	RMB'000
As at 31 December 2006	989
As at 31 December 2005	1,847

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount was of trading nature and was unsecured, interest free and was fully repaid during the year.

27. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured, interest free and was fully repaid during the year.

28. WARRANTY PROVISION

	RMB'000
At 1 January 2005	2,612
Provision for the year	4,482
Utilisation of provision	(3,591)
At 31 December 2005 and 1 January 2006	3,503
Provision for the year	4,639
Utilisation of provision	(3,693)
At 31 December 2006	**4,449**

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

	2006 **RMB'000**	2005 RMB'000
Secured bank loans *(Note a)*	–	9,500
Unsecured bank loans *(Note b)*	**46,510**	75,056
	46,510	84,556

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

(b) At 31 December 2005, the amount guaranteed by the holding companies and certain directors is RMB68,193,000. The amount guaranteed by a fellow subsidiary is RMB2,663,000. The guarantees given by those directors, holding companies, and a fellow subsidiary have been released during the year and replaced with 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:

	2006	2005
Effective interest rates:		
Fixed-rate borrowings	5.22% to 6.66%	5.22% to 5.79%

29. BANK BORROWINGS *(Continued)*

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

	RMB'000
As at 31 December 2006	44,510
As at 31 December 2005	70,856

During the year, the Group obtained new bank loans in the amount of approximately RMB155,760,000 (2005: RMB134,838,000). The loans bear interest at market rates and will be repayable in 2007. 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 on 6 September 2005	3,800,000	380
Subdivision of shares during the period	34,200,000	–
Increase during the period	962,000,000	9,620
Balance at 31 December 2005 and 31 December 2006	1,000,000,000	10,000
Issued and fully paid:		
Incorporation of the Company on 6 September 2005	1	–
Subdivision of shares during the period	9	–
Shares issued upon group reorganisation	190	–
Balance at 31 December 2005	200	–
Capitalisation issue of shares	209,999,800	2,100
Shares issued during the year	70,000,000	700
Balance at 31 December 2006	280,000,000	2,800

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

	2006	2005
	RMB'000	RMB'000
Issued and fully paid share capital shown in the consolidated financial statements as	**2,882**	–

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 sole shareholder whose name appeared on the register of members of the Company on 22 December 2005 by capitalisation of HK$2,099,998 transferred from 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.

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.

31. SHARE OPTION SCHEME *(Continued)*

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. OPERATING LEASE COMMITMENTS

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:

	2006	2005
	RMB'000	RMB'000
Within one year	**938**	572
In the second to fifth years inclusive	**333**	433
	1,271	1,005

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

33. CAPITAL COMMITMENTS

	2006	2005
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**4,211**	6,446

34. GOVERNMENT GRANTS

In 2006, the Group received government subsidies towards the successful listing on the Main Board of the Stock Exchange in January 2006 and for rewarding the development of technology and reinvestment incentive of the Group during the year. This policy has resulted in a credit to other income in the current year of RMB4,489,000 (2005: RMB373,000).

35. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs or HK$1,000 (whichever is the lower) to the Scheme, which contribution is matched by employees.

In addition, 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 RMB2,014,000 (2005: RMB1,910,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

36. RELATED PARTY TRANSACTIONS AND BALANCES

Save as disclosed, during the year and as at the balance sheet date, the Group also had the following transactions and balances with its related parties:

Transactions

Name of company	Relationship	Nature of transactions	2006 RMB'000	2005 RMB'000
友嘉實業股份有限公司 Fair Friend Enterprise Company Limited	Ultimate holding company	Sales of goods	**2,503**	3,212
友佳實業(香港)有限公司 Good Friend (H.K.) Corporation Limited	Immediate holding company	Purchase of goods	**8,945**	133,130
		Sales of goods	**931**	266
杭州友維機電有限公司 Hangzhou Fair Fine Electric & Machinery Co., Ltd.	Fellow subsidiary	Sales of goods	**774**	15
		Rental income	**–**	269
		Reimbursement of expenses	**–**	185
杭州友嘉高松機械有限公司 Hangzhou Feeler Takamatsu Machinery Co., Ltd.	Associate of the ultimate holding company	Purchase of goods	**40**	–
		Rental income	**–**	107
		Other expenses	**–**	328
		Subcontracting income	**909**	322
富裕佳有限公司 Richest Way Limited ("Richest Way")	Director is a relative of a director of the Company	Purchases of goods	**84,507**	–
		Repair and maintenance expenses	**58**	–
協利國際有限公司 Profit Group International Limited ("Profit Group")	Directors are relatives of a director of the Company	Sales of goods	**8,581**	–
巨利多(香港)有限公司 Giantful Corporation Limited ("Gaintful")	Director is a relative of a director of the Company	Sales of goods	**627**	–

36. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

Balances

Name of company	Relationship	Nature of balances	2006 RMB'000	2005 RMB'000
Richest Way	Director is a relative of a director of the Company	Prepayments for purchases of inventories	**4,569**	–
		Other payable	**41**	–
Profit Group	Directors are relatives of a director of the Company	Trade receivable *(Note)*	**2,318**	–
Giantful	Director is a relative of a director of the Company	Trade receivable *(Note)*	**879**	–

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

Details of other 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:

	2006 RMB'000	2005 RMB'000
Short-term benefits	**2,548**	2,497
Post-employment benefits	**25**	54
	2,573	2,551

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 2006 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 Limited ("Winning Steps")	British Virgin Islands ("BVI")	Ordinary shares US$110	100%	Investment holding
Yu Hwa Holdings Limited ("Yu Hwa")	BVI	Ordinary shares US$1,500,000	100%	Investment holding
Hai Sheng International Holdings Inc. ("Hai Sheng")	BVI	Ordinary shares US$200,000	100%	Investment holding
Sky Thrive Investment Ltd. ("Sky Thrive")	BVI	Ordinary shares US$5,000,000	100%	Investment holding
Hangzhou Good Friend *(Note)*	PRC	Registered capital US$11,000,000	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
Hangzhou Every Friend Precision Machinery Co., Ltd. *(Note)* ("Hangzhou Every Friend")	PRC	Registered capital US$5,000,000	100%	Not yet commenced business
Rich Friend (Shanghai) Precision Machinery Co., Ltd. *(Note)* ("Shanghai Rich Friend")	PRC	Registered capital US$200,000	100%	Not yet commenced business

Note: Hangzhou Good Friend, Hangzhou Global Friend, Hangzhou Every Friend and Shanghai Rich Friend are wholly foreign owned enterprises.

Winning Steps, Yu Hwa, Hai Sheng and Sky Thrive are held by the Company directly. Hangzhou Good Friend, Hangzhou Global Friend, Hangzhou Every Friend and Shanghai Rich 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.

38. POST BALANCE SHEET EVENT

A bonus issue of shares in the proportion of one bonus share for every five shares held (the "Bonus Issue") has been proposed by the directors to be made to shareholders whose names appear on the register of members on 21 May 2007 and is subject to approval by the shareholders in the annual general meeting. The bonus shares will be credited as fully paid and will rank pari passu in all respects with the existing issued shares with effect from the date of issue, except for the Bonus Issue or the final dividend for the year.

Five-Year Summary

OPERATING RESULTS

For the year ended 31 December

	FY2002 RMB'000	FY2003 RMB'000	FY2004 RMB'000	FY2005 RMB'000	**FY2006 RMB'000**
Revenue	127,437	256,187	379,590	557,674	**611,003**
Gross profit	33,666	74,581	100,114	119,325	**153,158**
Profit before taxation	9,310	30,484	39,594	47,125	**57,370**
Profit for the year attributable to equity holders of the Company	9,310	31,257	36,329	42,369	**53,082**
Earnings per share – basic (RMB)	0.04	0.15	0.17	0.20	**0.19**

ASSETS AND LIABILITIES

As at 31 December

	FY2002 RMB'000	FY2003 RMB'000	FY2004 RMB'000	FY2005 RMB'000	**FY2006 RMB'000**
Non-current assets	66,254	82,240	102,315	97,931	**145,077**
Net current (liabilities) assets	(13,455)	5,711	30,626	89,812	**151,775**
Total assets less current liabilities	52,799	87,951	132,941	187,743	**296,852**
Share capital	52,349	56,244	64,905	–	**2,882**
Reserves	450	31,707	68,036	187,743	**293,970**
Shareholders' equity	52,799	87,951	132,941	187,743	**296,852**

Note: The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2006, 2005, 2004, 2003 and 2002 was prepared as if the current group structure had been in existence throughout these financial years.