

Report of the Directors

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:

	<i>HK\$'million</i>
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
	<hr/> 34.55 <hr/>

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").

Report of the Directors

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.

Report of the Directors

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%

Report of the Directors

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%

Report of the Directors

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.

Report of the Directors

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, plumber 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 Rule 14A.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 Rule 14A.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 Giantful 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.

Report of the Directors

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	From 1 January 2007
	31 December 2006	to 3 April 2007
	Audited	Unaudited
	RMB (million)	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.

Report of the Directors

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