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 RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total 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 RMB'000	Allowance for inventories RMB'000	Warranty provision RMB'000	Total 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 RMB'000	2005 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 RMB'000	2005 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	2005
	RMB'000	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 RMB'000	2005 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.