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 2007

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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

YIP Sai Keung, Esmond, *FCPA, FCCA*

AUTHORISED REPRESENTATIVES

CHEN Hsiang-Jung
LEUNG Pui Ki

COMPLIANCE ADVISER

Polaris Capital (Asia) Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Woo Kwan Lee & Lo

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
Bank of China
Hang Seng Bank Limited

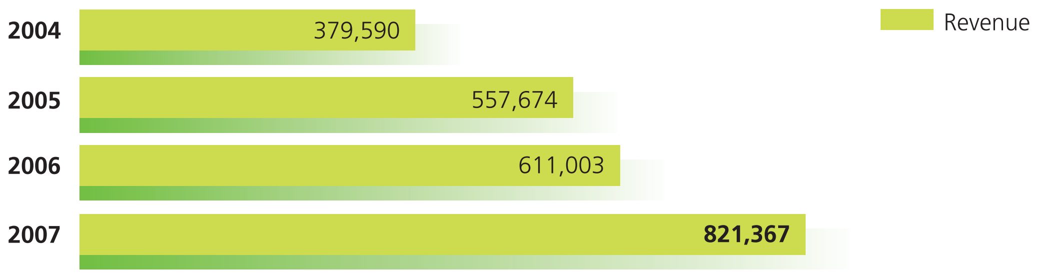
STOCK CODE

2398

WEBSITE

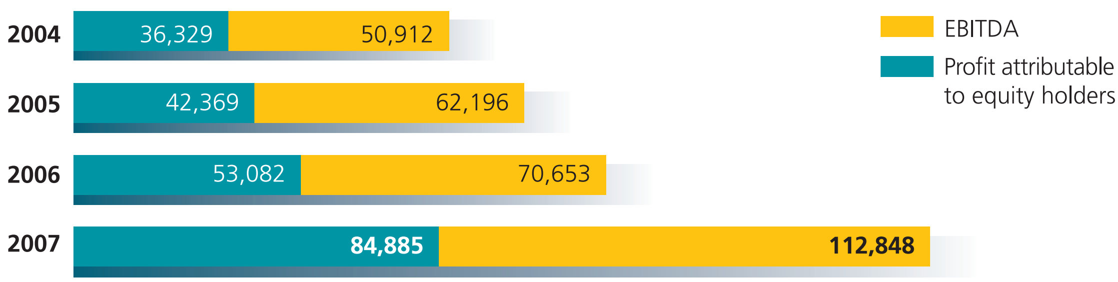
http://www.goodfriend.hk

STEADY REVENUE GROWTH (RMB'000)



For the year ended 31 December

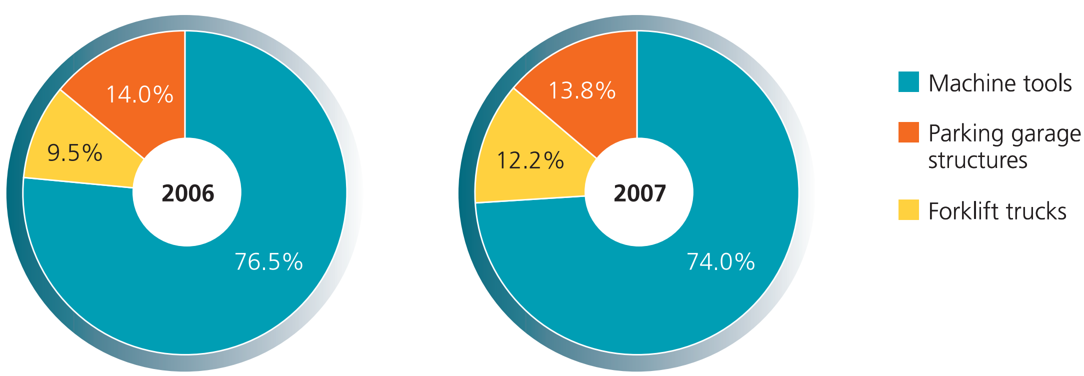
REMARKABLE PROFIT GROWTH (RMB'000)



For the year ended 31 December

BUSINESS SEGMENTS

(in terms of revenue)



TWO-YEAR COMPARISON OF FINANCIAL FIGURES

For the year ended 31 December

	2007	2006	Change
	RMB'000	RMB'000	(%)
Revenue	**821,367**	611,003	34.4%
Gross profit	**214,351**	153,158	40.0%
EBITDA	**112,848**	70,653	59.7%
Profit attributable to equity holders	**84,885**	53,082	59.9%
Shareholders' equity	**347,577**	296,852	17.1%
Total assets	**607,951**	496,788	22.4%
Earnings per share – basic (RMB)	**0.25**	0.16	56.3%

SUMMARY OF KEY FINANCIAL RATIOS

For the year ended 31 December

	2007	2006	Change (%)
Gross profit margin *Note 1*	**26.1%**	25.1%	4.0%
Net profit margin *Note 2*	**10.3%**	8.7%	18.4%
Inventory turnover days *Note 3*	**79.0**	87.1	(9.3%)
Debtors' turnover days *Note 4*	**76.1**	70.0	8.7%
Creditors' turnover days *Note 5*	**53.3**	42.3	26.0%
Current ratio (Times) *Note 6*	**1.7**	1.8	(5.6%)
Quick ratio (Times) *Note 7*	**1.2**	1.2	(–%)
Gearing ratio (%) *Note 8*	**10.6%**	9.4%	12.8%
EBITDA/Finance costs (Times) *Note 9*	**40.2**	28.8	39.6%
Return on equity (%) *Note 10*	**24.4%**	17.9%	36.3%

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.

In Pursuit of Excellence

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 2007 ("the year").

FINANCIAL PERFORMANCE

For the year ended 31 December 2007, the Group recorded encouraging growth in its results performance. During the year, the Group recorded a revenue of approximately RMB821.37 million, representing an increase of approximately 34.4% compared to the previous year; profit attributable to equity holders amounted to approximately RMB84.89 million, representing an increase of approximately 59.9% compared to 2006.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.06 (equivalent to approximately HK$0.067) per ordinary share for the year ended 31 December 2007 (2006: RMB0.05, equivalent to approximately HK$0.05 per ordinary share).

BUSINESS REVIEW

The Group recorded satisfactory growth in both sales and net profit for the year. For the year ended 31 December 2007, sales volume of all the three business segments of the Group, namely CNC machine tools, parking garage structures and forklift trucks achieved remarkable growth as compared to the previous year. Annual sales volume amounted

to 1,491 units, 6,997 units and 1,537 units respectively. The Group's production plant in Xiasha (owned by Hangzhou Global Friend Precision Machinery Co., Ltd., "Hangzhou Global Friend") commenced production of forklift trucks in early 2007, whereas the plant in Xiaoshan focused on production of CNC machine tools and parking garage structures. This new arrangement enhanced the Group's manufacturing capacity and production efficiency. Coupled with the booming development of China's manufacturing industry, the Group's CNC machine tools, parking garage structures and forklift trucks business therefore all recorded growth in their sales volume for the year. During the year, the Group had also launched new models of electric forklift trucks and further increased the overseas sales of the forklift trucks. As a result, the forklift trucks attained a higher growth rate for the year. Moreover, the Group had successfully implemented effective cost control policy during the year to improve its gross profit. In respect of its sales network, the number of the Group's liaison offices in China has increased from 26 in 2006 to 29 this year, covering various major cities in China. The Group has 380 professional sales staff which are able to maintain close relationship with the customers for providing comprehensive pre-sales and after-sales services to those customers. Apart from that, the Group has also strengthen the cooperation with the overseas agents for expanding the sales network and actively exploring more overseas markets.

PROSPECTS

The Group believes that the implementation of Eleventh Five-Year Plan by China will enable the continued increase in the demand of machine tools in the PRC market, especially high-end CNC machine tools. China is the largest machine tools consumption country. In order to meet the great demand from the PRC market, the Group will continue to expand its production capacity and enhance its research and development capabilities for producing higher quality and high-end CNC machine tools, such as horizontal machining center and double column machining center. Moreover, the Group's production base in Xiasha, Zhejiang province (owned by Hangzhou Ever Friend Precision Machinery Co., Ltd. ("Hangzhou Ever Friend"), previously known as Hangzhou Every Friend Precision Machinery Co., Ltd) has commenced the first phase construction work at the end of 2007 and is expected to be completed in the second half of 2008. On the other hand, the Group acquired a land use right in the Hangzhou Jiangdong Industrial Park, Zhejiang province during the year. The total floor area is about 67,000 sq.m. with a cost of approximately RMB19.2 million. The production plant is owned by Hangzhou Glory Friend Machinery Technology Co., Ltd ("Hangzhou Glory Friend"). The relevant construction work is expected to start in the second half of 2008. These two new production plants will be utilized for the production of CNC machine tools as well as parts and components of machine tools, and will therefore further enhance the production capacity of the Group.

In the long run, the Group will continue to participate worldwide and local leading machine tools fairs to expand its market share in an active manner, including the overseas market. Moreover, the Group will endeavor to strengthen the cooperation with those overseas agents in order to expand its sales network and explore more overseas markets. The Board believes that with its extensive sales network, advanced technology and know-how, as well as advanced manufacturing facilities, the Group is capable of meeting customers' different needs. The Group is committed to becoming an international CNC machine tools manufacturer to bringing favorable returns to the shareholders of the Company.

Last but not least, I, on behalf of the Board, would like to thank the Company's shareholders, the Group's customers and suppliers for their continued support. I would also like to thank all the management and staff for their efforts and contributions to the Group over the last year.

By order of the Board,
Chu Chih-Yaung
Chairman

Hong Kong, 17 April 2008

FINANCIAL REVIEW

For the year ended 31 December 2007, the financial performance of the Group was maintaining its growing trend. The Group's revenue and profit attributable to equity holders of the Company for the year amounted to approximately RMB821.37 million (2006: RMB611.00 million) and approximately RMB84.89 million (2006: RMB53.08 million) respectively, representing an increase of approximately 34.4% and approximately 59.9% respectively as compared with that in 2006.

Revenue

During the year, CNC machine tools remained the major source of the Group's revenue. The number of CNC machine tools sold increased from 1,151 units in 2006 to 1,491 units this year. Sales of the product rose from approximately RMB467.35 million in 2006 to approximately RMB607.76 million this year, an increase of approximately 30% and represented approximately 74% of the Group's total revenue. The major customers of the CNC machine tools business are automobile and mechanical manufacturers. The continued booming development of China's manufacturing sector created increasing demand from customers for high-grade CNC machine tools. Moreover, the automobile market in China has been developing rapidly. The automobile manufacturers have to increase their production output in order to cope with the intense competition in the market, which therefore bring about increasing orders for CNC machine tools. As a result, the Group achieved a remarkable growth in sales of CNC machine tools. On the other hand, raw material costs remained fairly stable in 2007. The Group was also able to lower the costs through sourcing of raw materials from local suppliers. During the year, the operating gross profit margin for CNC machine tools increased to approximately 31.5%.

Sales and sales volume of parking garage structures for the year were approximately RMB113.64 million and 6,997 units respectively, representing an increase of approximately 33.1% and approximately 44.9% respectively from that in 2006 and remained at approximately 13.8% of the Group's total revenue. For forklift trucks, sales volume increased substantially from 957 units in last year to 1,537 units. Sales of the product also increased from approximately RMB58.31 million in 2006 to approximately RMB99.97 million for the year, representing a significant growth of approximately 71.4%. During the year, the Group had introduced new models of electric forklift trucks and successfully increased the market share of the forklift trucks in the overseas market. As a result, the forklift trucks business achieved remarkable growth during the year. Compared with last year, revenue generated from the forklift trucks business increased to approximately 12.2% of the Group's total revenue. The operating gross profit margin for forklift trucks during the year was approximately 13.3%.

Cost of sales and gross profit

For the year ended 31 December 2007, the cost of sales of the Group increased to approximately RMB607.02 million (2006: RMB457.85 million) whilst the Group's gross profit increased from approximately RMB153.16 million in 2006 to approximately RMB214.35 million for the year. Overall gross profit margin of the Group was approximately 26.1% (2006: 25.1%). The increase of the gross profit margin was due to the increase of the gross profit margin of the Group's major products, CNC machine tools, during the year when compared with last year.

Operating expenses

Distribution and selling costs increased by approximately 21.0% from approximately RMB68.96 million in 2006 to approximately RMB83.47 million for the year. Such increase was mainly due to the increase of the numbers of the Group's liaison offices in China and the increase of the relevant sales activities of CNC machine tools products. Distribution and selling costs as a percentage of the Group's revenue was approximately 10.2% for the year (2006: 11.3%). On the other hand, administrative expenses increased by approximately 32.6% from approximately RMB29.65 million in 2006 to approximately RMB39.34 million for the year. The increase was due to the upward revision of the staff costs and increase in the allowance for bad and doubtful debts. In addition, the Group's production plant in Xiasha (owned by Hangzhou Global Friend) commenced production in early 2007 also caused the increase of the relevant fixed overhead costs. Administrative expenses as a percentage of the Group's revenue was approximately 4.8% for the year (2006: 4.9%).

Other expenses decreased to approximately RMB1.36 million for the year from approximately RMB3.66 million in 2006, which was mainly due to the one-off listing expenses of approximately RMB2.95 million being included in last year amount. On the other hand, finance costs increased by approximately 14.4% to approximately RMB2.81 million (2006: RMB2.46 million) which was mainly due to the increase of the Group's average bank borrowings during the year.

Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2007 was approximately RMB84.89 million, an increase of approximately RMB31.81 million or approximately 59.9% over the previous year. Net profit margin attributable to equity holders increased from approximately 8.7% in 2006 to approximately 10.3% for the year.

Liquidity and financial resources

As at 31 December 2007, the Group had net current assets of approximately RMB170.51 million (2006: RMB151.78 million), shareholders' fund of approximately RMB347.58 million (2006: RMB296.85 million) and short-term bank borrowings of approximately RMB64.66 million (2006: RMB46.51 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 2007 amounted to approximately RMB52.01 million (2006: RMB74.20 million). The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 1.7 times (2006: 1.8 times). The gearing ratio (a ratio of total debts to total assets) was approximately 10.6% (2006: 9.4%), indicating that the Group continued to maintain good financial position.

Capital structure and treasury policies

The share capital of the Company as at 31 December 2007 increased to HK$3.36 million divided into 336,000,000 shares of HK$0.01 each (at 31 December 2006: HK$2.80 million divided into 280,000,000 shares of HK$0.01 each). Bonus shares in the proportion of one bonus share for every five shares were issued on 28 May 2007. The bonus shares ranked pari passu in all respects to the existing issued shares.

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks in the PRC. As at 31 December 2007, the total outstanding short-term borrowings stood at approximately RMB64.66 million (2006: RMB46.51 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 2007.

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 2007.

Segmental information

Details of segmental information for the year ended 31 December 2007 are set out in note 7 to the consolidated financial statements.

Staff and remuneration policies

At 31 December 2007, the Group employed a total of 1,270 (2006: 1,051) full-time employees in Hong Kong and the PRC. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB70.53 million (2006: RMB50.65 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 holds 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 RMB3.82 million (2006: RMB2.01 million) to the said schemes.

Capital commitments and contingencies
The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB22.93 million (2006: RMB4.21 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2007. (2006: Nil).

Charges on the Group's assets
As at 31 December 2007, pledged bank deposits with an amount of approximately RMB2.44 million (2006: RMB2.75 million) represented guarantee deposit in banks for the purpose of bidding contracts.

Future plans for material investments or capital assets
The Group has commenced the first phase construction work of the production base of Hangzhou Ever Friend at the end of 2007 and is expected to be completed in the second half of 2008. The production plant will be utilized for the production of CNC machine tools and the construction cost is estimated to be approximately RMB32.50 million which will be financed by internal resources and banking facilities. Furthermore, the Group acquired a land use right in the Hangzhou Jiangdong Industrial Park, Zhejiang province during the year with a consideration of approximately RMB19.2 million. The total floor area is about 67,000 sq.m. with the production plant being owned by Hangzhou Glory Friend. The construction of such production plant is expected to commence in the second half of 2008.

Foreign exchange risk
The Group mainly operates in the PRC. During the year ended 31 December 2007, 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 61, 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 Ever Friend, both are wholly-owned subsidiaries of the Company.

Mr. Chen Hsiang-Jung (陳向榮先生), aged 62, 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 Precision Machinery Co., Ltd ("Hangzhou Good Friend"), Hangzhou Global Friend, Hangzhou Ever Friend and Hangzhou Glory Friend. Mr. Chen joined the Group in 1993.

Mr. Chen Min-Ho (陳明河先生), aged 57, 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, Rich Friend (Shanghai) Precision Machinery Co., Ltd. and Hangzhou Glory Friend. He joined the Group in 1993.

Mr. Wen Chi-Tang (溫吉堂先生), aged 43, 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, Hangzhou Global Friend, Hangzhou Ever Friend and Hangzhou Glory Friend. He joined the Group in 2003.

Mr. Chiu Rung-Hsien (邱榮賢先生), aged 50, 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 51, 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. Mr. Koo currently acts as an independent non-executive director of Weichai Power Co., Ltd., Li Ning Company Limited, Midland Holdings Limited, China Communications Construction Company Limited and Xingda International Holdings Limited, which are companies listed on the Main Board, and Midland IC&I Limited (formerly named as EVI Education Asia Limited) and Richfield Group Holdings Limited (formerly named as Maxitech International Holdings Limited), both are listed on the Growth Enterprise Market of the Stock Exchange. He is a certified public accountant.

Mr. Chiang Chun-Te (江俊德先生) aged 47, was appointed as an independent non-executive Director in December 2005. Mr. Chiang is the 15th 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) 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 of 德鎂實業股份有限公司 (Istra Corp.).

Mr. Yu Yu-Tang (余玉堂先生), aged 71, was appointed as an independent non-executive Director in December 2005. He was appointed as a consultant of the provincial government and 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 54, was appointed as the vice general manager of Hangzhou Global Friend and is responsible for the operation and management of the factory. 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 49, 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 46, 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 40, was appointed as the vice general manager of Hangzhou Good Friend and is responsible for the general administrative and management functions. 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. Yip Sai Keung, Esmond (葉世強先生), aged 42, was appointed as the financial controller of the Company and is responsible for the finance and accounting functions of the Group. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yip joined the Group in November 2007 and has over 18 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 2007.

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 2007 is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 31 to 71.

The Directors have declared an interim dividend of RMB0.06 (equivalent to approximately HK$0.062) per share to those shareholders whose names appear on the register of members on 17 October 2007, amounted to approximately RMB20.16 million (equivalent to approximately HK$20.83 million) which was paid on 25 October 2007.

The Directors proposed a final dividend of RMB0.06 (equivalent to approximately HK$0.067) per ordinary share for the year ended 31 December 2007, amounting to approximately RMB20.16 million (equivalent to approximately HK$22.51 million). The dividend warrants will be despatched on Tuesday, 8 July 2008 to those shareholders whose names appear on the register of members of the Company at the close of business on Monday, 23 June 2008, subject to the approval of the shareholders at the forthcoming annual general meeting (the "2008 AGM").

RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 33.

ANNUAL GENERAL MEETING

The 2008 AGM will be held on Monday, 23 June 2008. Shareholders should refer to details regarding the 2008 AGM in the circular of the Company of 29 April 2008 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, attend and vote at the 2008 AGM, the register of members of the Company will be closed from Wednesday, 18 June 2008 to Monday, 23 June 2008, 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, 17 June 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2007 are set out in note 27 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 December 2007 are set out in note 26 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. Chu Chih-Yaung, Mr. Chen Hsiang-Jung and Mr. Koo Fook Sun, Louis 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 and will continue thereafter 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 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. A new service agreement has been entered into between each of the independent non-executive Directors and the Company for a fixed term of 2 years commencing from 11 January 2008, and will continue thereafter 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 33 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

Reference is made to the relevant disclosures on pages 94 to 106 and details on the deed of non-competition on page 105 of the prospectus of the Company dated 30 December 2005. As at 31 December 2007, 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 28 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 2007, 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	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited) ("Taiwan FF")	Beneficial owner	24,452,401 shares	15.53%
Mr. Chu Chih-Yaung *(Note 1)*	Taiwan FF	Spouse interest	4,771,925 shares	3.03%
Mr. Chu Chih-Yaung *(Note 2)*	Taiwan FF	Family interest	514,283 shares	0.33%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	4,815,841 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 4)*	Beneficial owner	21,988 shares	0.22%
Mr. Chu Chih-Yaung *(Note 3)*	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) *(Note 4)*	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 4)*	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 4)*	Beneficial owner	1,000 shares	0.01%
Mr. Chu Chih-Yaung *(Note 5)*	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) *(Note 4)*	Spouse interest	1,000 shares	0.01%
Mr. Chu Chih-Yaung *(Note 6)*	友嘉國際股份有限公司 (Decaview Asia Corporation) *(Note 4)*	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 4)*	Beneficial owner	10,000 shares	0.12%
Mr. Chu Chih-Yaung	Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 4)*	Beneficial owner	750 shares	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. *(Note 4)*	Beneficial owner	750 shares	0.03%

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) ("Ms. Wang"), the spouse of Mr. Chu Chih-Yaung ("Mr. Chu"), holds 3.03% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.

2. Mr. Chu Yi-Chia, the son of Mr. Chu under the age of 18, holds 0.33% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Mr. Chu Yi-Chia in Taiwan FF under the SFO.

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

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

5. 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.

6. 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 2007, 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 2007, 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 2007, 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	Approximate percentage of the Company's issued share capital
Good Friend (H.K.) Corporation Limited ("Hong Kong GF")	Beneficial owner	252,000,000 shares *(Note)*	75%
Taiwan FF	Interest of controlled corporation	252,000,000 shares *(Note)*	75%
Morgan Stanley	Beneficial owner	24,000,000 shares	7.14%

Note: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF, Taiwan FF is deemed to be interested in 252,000,000 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

Name of shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Hong Kong GF	Beneficial owner	24,000,000 shares *(Note)*	7.14%
Taiwan FF	Interest of controlled corporation	24,000,000 shares *(Note)*	7.14%

Note: Hong Kong GF is owned as to approximately 99.99% by Taiwan FF, Taiwan FF is deemed to be interested in 24,000,000 shares of the Company held by Hong Kong GF under the SFO.

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 2007.

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 28 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 11 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 33 to the consolidated financial statements.

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

Exempt continuing connected transactions

Hangzhou Feeler Takamatsu Machinery Co., Ltd. ("Hangzhou Feeler Takamatsu") is owned as to 40% by Taiwan FF, 40% by Takamatsu Machinery., Co. Ltd. (高松機械工業株式會社) and 20% by Toyota Tsusho Corporation (日商豐田通商株式會社), the latter being independent third parties 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 during the year.

The Group had entered into sales transactions with Giantful Corporation Limited ("Giantful") during the year for the sale of materials on an arm's length basis and normal commercial terms. Giantful 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, together with Mr. Chu are considered as the controlling shareholders of the Company as disclosed on pages 64 and 65 of the prospectus of the Company dated 30 December 2005 (the "Prospectus"). Therefore, Giantful 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 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.

Discontinued 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 between 1 January 2007 and 3 April 2007 (the "Relevant Continuing Periods"), from Richest Way. The purchases of parts and components from Richest Way constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such purchases by the Group 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 were 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 into sales of machine tools to Profit Group for the purpose of export sales and in the course of its ordinary sales during the Relevant Periods. The sales of machine tools to Profit Group also constituted continuing 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 were 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.

The respective amounts of the transactions were as follows:

Transaction	**From 1 January 2007 to 3 April 2007** Audited *RMB (million)*
1. Purchases of parts and components from Richest Way by Hangzhou Good Friend	40.2
2. Sales of machine tools from Hangzhou Good Friend to Profit Group	7.4

The circular containing, among others, further details of the Richest Way and Profit Group transactions, the delay in disclosing the details thereof and omission to seek independent shareholders' approval (as the case may be), 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 was despatched to the shareholders of the Company on 9 May 2007.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions were: -

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on normal commercial terms;

(iii) entered into in accordance with the terms of the respective agreements governing the transactions and was fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) in respect of the Richest Way and the Profit Group transactions, the respective aggregate annual amount of the transactions in 2007 was within the relevant maximum amount as disclosed in the circular of the Company of 9 May 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 2007.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 7.7% of the Group's total turnover for the year and the largest customer accounted for approximately 1.9% of the Group's total turnover. The five largest suppliers accounted for approximately 31.3% of the Group's total purchases for the year and the largest supplier accounted for approximately 13.2% of the Group's total purchases.

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 24 April 2008 (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).

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 (as Chairman), 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 2007.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 25 to 29 of the 2007 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 72.

AUDITORS

The financial statements for the year ended 31 December 2007 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 2008 AGM).

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

Hong Kong, 17 April 2008

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. During the year under review, the Company had been in compliance with the code provisions set out in the CG Code.

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 throughout the year.

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 12 to 13 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 2007, 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	4/4
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 unaudited financial statements of the Company for the six months period ended 30 June 2007. The audited financial statements of the Company for the year ended 31 December 2007 has also been reviewed by the Audit Committee.

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 2007, 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	1/2
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. CHU Chih-Yaung, Mr. CHEN Hsiang-Jung and Mr. KOO Fook Sun, Louis 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 2007 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	0/1
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 2007 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	0/1
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 11 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 28 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	1,350
Non-audit services (Interim financial review)	266

INTERNAL CONTROL SYSTEM

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. During the year, the Board engaged SHINEWING Risk Services Limited, an external professional adviser, to conduct a review of the effectiveness of the internal control system of the Group. The review covered all material controls, including financial, operational and compliance controls, etc. The review did not find any material deficiencies in the internal control system of the Group.

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 2007, 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 2007.

17 April 2008

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 31 to 71, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and 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, in accordance with our agreed terms of engagement, 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 2007 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 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue		**821,367**	611,003
Cost of sales and construction contract costs		**(607,016)**	(457,845)
Gross profit		**214,351**	153,158
Other income	*8*	**8,571**	8,948
Distribution and selling costs		**(83,465)**	(68,962)
Administrative expenses		**(39,335)**	(29,654)
Other expenses		**(1,358)**	(3,663)
Finance costs	*9*	**(2,810)**	(2,457)
Profit before taxation	*10*	**95,954**	57,370
Taxation	*12*	**(11,069)**	(4,288)
Profit for the year attributable to equity holders of the Company		**84,885**	53,082
Dividend	*13*	**34,160**	14,000
Earnings per share – basic, in RMB	*14*	**0.25**	0.16

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	*15*	**122,040**	99,961
Prepaid lease payments	*16*	**43,196**	9,855
Deposit for purchase of plant and equipment		**5,228**	15,866
Deposit for acquisition of land use right		**–**	14,073
Intangible assets	*17*	**2,506**	2,313
Long term prepayments		**245**	419
Deferred tax assets	*18*	**3,849**	2,590
		177,064	145,077
Current assets			
Inventories	*19*	**131,414**	109,287
Debtors, deposits and prepayments	*20*	**220,950**	146,688
Prepaid lease payments	*16*	**943**	232
Amounts due from customers for contract work	*21*	**18,929**	18,550
Tax recoverable		**4,205**	–
Pledged bank deposits	*22*	**2,436**	2,753
Bank deposits with maturity period more than three months	*23*	**–**	4,983
Bank balances and cash	*23*	**52,010**	69,218
		430,887	351,711
Current liabilities			
Creditors and accrued charges	*24*	**186,061**	142,169
Amounts due to customers for contract work	*21*	**5,273**	5,698
Tax payable		**–**	1,110
Warranty provision	*25*	**4,379**	4,449
Bank borrowings	*26*	**64,661**	46,510
		260,374	199,936
Net current assets		**170,513**	151,775
		347,577	296,852
Capital and reserves			
Share capital	27	**3,431**	2,882
Reserves		**344,146**	293,970
		347,577	296,852

The financial statements on pages 31 to 71 were approved and authorised for issue by the Board of Directors on 17 April 2008 and are signed on its behalf by:

CHU CHIH-YAUNG
Director

CHEN HSIANG-JUNG
Director

For the year ended 31 December 2007

	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 2006	–	–	77,338	12,100	6,050	92,255	187,743
Dividend paid during the year	–	–	–	–	–	(14,000)	(14,000)
Profit and total recognised income for the year	–	–	–	–	–	53,082	53,082
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
Dividend paid during the year	–	–	–	–	–	(34,160)	(34,160)
Profit and total recognised income for the year	–	–	–	–	–	84,885	84,885
Capitalisation issue of shares	549	(549)	–	–	–	–	–
Appropriation of reserves	–	–	–	6,078	3,039	(9,117)	–
At 31 December 2007	3,431	66,596	77,338	18,178	9,089	172,945	347,577

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.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	**95,954**	57,370
Adjustments for:		
Finance costs	**2,810**	2,457
Interest income	**(1,251)**	(1,754)
Depreciation of property, plant and equipment	**12,507**	10,014
Amortisation of intangible asset	**769**	580
Amortisation of prepaid lease payments	**808**	232
Amortisation of long term prepayments	**174**	173
Allowance for bad and doubtful debts, net	**8,528**	7,348
Provision for warranty	**3,783**	4,639
Reversal of allowance for inventories, net	**(230)**	(16)
Loss (gain) on disposal of property, plant and equipment	**131**	(14)
Operating cash flows before movements in working capital	**123,983**	81,029
(Increase) decrease in inventories	**(21,897)**	11,925
Increase in debtors, deposits and prepayments	**(82,790)**	(4,337)
Increase in amounts due from customers for contract work	**(379)**	(13,289)
Decrease in amount due from immediate holding company	**–**	417
Decrease in amount due from ultimate holding company	**–**	1,833
Decrease in amount due from a fellow subsidiary	**–**	185
Increase in creditors and accrued charges	**43,892**	14,409
(Decrease) increase in amounts due to customers for contract work	**(425)**	5,640
Decrease in amount due to immediate holding company	**–**	(1,656)
Decrease in warranty provision	**(3,853)**	(3,693)
Cash generated from operations	**58,531**	92,463
PRC income tax paid	**(17,643)**	(5,258)
Net cash from operating activities	**40,888**	87,205
Investing activities		
Decrease (increase) in bank deposits with maturity period more than three months	**4,983**	(4,983)
Interest received	**1,251**	1,754
Decrease (increase) in pledged bank deposits	**317**	(1,088)
Proceeds on disposal of property, plant and equipment	**113**	545
Increase in prepaid lease payments	**(20,787)**	(6,446)
Purchase of property, plant and equipment	**(19,486)**	(19,055)
Deposits paid for purchase of plant and equipment	**(4,706)**	(15,866)
Acquisition of intangible assets	**(962)**	(1,886)
Increase in deposit for acquisition of land use right	**–**	(14,073)
Net cash used in investing activities	**(39,277)**	(61,098)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Financing activities		
Proceeds from new bank borrowings	**197,847**	155,760
Repayment of bank borrowings	**(179,696)**	(193,806)
Dividends paid	**(34,160)**	(14,000)
Interest paid	**(2,810)**	(2,457)
Proceeds from issue of new shares	**–**	81,419
Expenses paid relating to issue of new shares	**–**	(5,557)
Repayment to ultimate holding company	**–**	(247)
Net cash (used in) from financing activities	**(18,819)**	21,112
Net (decrease) increase in cash and cash equivalents	**(17,208)**	47,219
Cash and cash equivalents at beginning of the year	**69,218**	21,999
Cash and cash equivalents at end of the year, represented by bank balances and cash	**52,010**	69,218

1. GENERAL

The Company is a public 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 34.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
Hong Kong (International Financial Reporting Interpretations Committee) – Interpretations ("HK(IFRIC) – Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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 and revised standards, or amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or amendment or interpretations will have no material impact on the results and the financial position of the Group.

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 issued by the HKICPA. 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 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 construction of parking garage structures for contract customers 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 estimated 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.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes 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.

Leasehold land under leases

Payments for obtaining land use rights are classified as prepaid lease payments and are charged to the consolidated income statement on a straight line basis over the lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Parking garage structures contracts

Where the outcome of a parking garage structures construction 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 construction 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.

Leasing

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.

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.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research expenditures

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 when there is reasonable assurance that the conditions attached to such grants are complied with and the right to receive such grants have been established. 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".

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.

Financial assets

The Group's financial assets are mainly 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 trade debtors, other debtors, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date and are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade debtors and assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in consolidated income statement 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including creditors, other creditors 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.

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.

Impairment losses on tangible and intangible assets

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

Revenue from construction of parking garage structures

When the outcome of a parking garage structures construction 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 25, the Group estimates the provision based on past experience. 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 than the estimation, a future credit to consolidated income statement will result.

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

Estimated impairment of trade receivable

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 asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's 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. As at 31 December 2007, the carrying amount of trade receivable is RMB166,909,000 (net of allowance for doubtful debts of RMB19,063,050).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 26, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising paid-in capital, share premium and reserves.

The directors of the Company review the capital structure periodically. As a part of this review, the directors of the Company assess the annual budget prepared by various departments taking into account of the future expansion and the provision of funding. Based on the proposed annual budget, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables at amortised cost (including cash and cash equivalents)	**232,252**	199,916
Financial liabilities		
Liabilities at amortised cost	**180,713**	118,433

b. Financial risk management objectives and policies

The Group's major financial instruments include debtors, pledged bank deposits, bank balances, creditors and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risk

Currency risk

The Group has foreign currency borrowings of approximately RMB36,161,000 (2006: RMB44,510,000) and bank deposits of approximately RMB300,000 (2006: RMB340,000), which exposes the Group to foreign currency risk. The directors monitor foreign exchange exposure from time to time and consider that the Group does not have significant foreign exchange exposures for the years ended 31 December 2007 and 2006. However, the Group will consider using forward exchange contracts to hedge against foreign currency exposures, if necessary.

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuation of Hong Kong dollars and United States dollars against RMB.

The following table details the Group's sensitivity to a 5% increase in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% increase in foreign currency rates. The sensitivity analysis includes bank borrowings and bank balances denominated at foreign currency at the year end. A positive number indicates an increase in profit for the year. If there is a 5% increase in RMB against the relevant foreign currencies, the impact to the Group's profit for the year and equity is shown as below:

	2007	2006
	RMB'000	RMB'000
Hong Kong dollars		
Profit for the year	**975**	–
United States dollars		
Profit for the year	**832**	2,209
Euros		
Loss for the year	**(15)**	–

Interest rate risk

The management considers the interest rate risk exposed to the Group is insignificant as the Group's bank borrowings are at fixed rate with maturity due within one year (see note 26 for details of these borrowings) and the Group did not have significant variable-rate bank deposits for both years.

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

In order to minimise the credit risk, 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007 and 2006, the Group has total available unutilised overdraft and short-term bank loan facilities of approximately RMB354,643,000 and RMB313,997,000 respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at 31 December 2007
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007						
Non-derivative financial liabilities						
Trade creditors	**–**	**46,999**	**35,511**	**6,162**	**88,672**	**88,672**
Other creditors	**–**	**20,981**	**6,045**	**354**	**27,380**	**27,380**
Bank borrowings	**6**	**10,050**	**36,523**	**19,055**	**65,628**	**64,661**
		78,030	**78,079**	**25,571**	**181,680**	**180,713**
2006						
Non-derivative financial liabilities						
Trade creditors	–	31,737	18,855	2,437	53,029	53,029
Other creditors	–	14,200	4,432	262	18,894	18,894
Bank borrowings	6	–	44,955	2,060	47,015	46,510
		45,937	68,242	4,759	118,938	118,433

c. Fair value

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

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.

7. SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold, less returns and allowances, and net of value-added tax and construction contract revenue received and receivable 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.

Principal activities are as follows:

Machine tools – manufacture and distribution of machine tools.

Parking garage structures – construction of parking garage structures.

Forklift trucks – manufacture and distribution of forklift trucks.

Segment information about these businesses is presented below:

For the year ended 31 December 2007

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Revenue – external sales	607,763	–	99,965	707,728
– external contract revenue	–	113,639	–	113,639
	607,763	113,639	99,965	821,367
Segment results	132,156	(4,248)	450	128,358
Unallocated corporate income				2,390
Unallocated corporate expenses				(31,984)
Finance costs				(2,810)
Profit before taxation				95,954
Taxation				(11,069)
Profit for the year attributable to equity holders of the Company				84,885

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31 December 2007

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Total RMB'000
Balance sheet				
Assets				
Segment assets	**333,419**	**94,440**	**13,232**	**441,091**
Unallocated corporate assets				**166,860**
Consolidated total assets				**607,951**
Liabilities				
Segment liabilities	**129,685**	**34,380**	**1,565**	**165,630**
Unallocated corporate liabilities				**94,744**
Consolidated total liabilities				**260,374**

	Machine tools RMB'000	Parking garage structures RMB'000	Forklift trucks RMB'000	Corporate RMB'000	Total RMB'000
Other information					
Capital expenditure	**21,623**	**2,298**	**9,419**	**2,452**	**35,792**
Depreciation and amortisation	**8,203**	**1,190**	**1,306**	**3,385**	**14,084**
Allowance for bad and doubtful debts, net	**6,254**	**2,059**	**215**	**–**	**8,528**
Provision (reversal of provision) for warranty	**2,207**	**1,945**	**(369)**	**–**	**3,783**

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

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	–	58,308	525,654
– external contract revenue	–	85,349	–	85,349
	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

As 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

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31 December 2006 *(Continued)*

	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	7,151	967	498	2,210	10,826
Allowance for bad and doubtful debts, net	4,743	653	1,952	–	7,348
Provision for warranty	1,319	2,457	863	–	4,639

Geographical segments

All of the Group's operations and assets 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.

8. OTHER INCOME

	2007 RMB'000	2006 RMB'000
Sales of materials	**3,720**	1,814
Government subsidies *(Note 31)*	**1,520**	4,489
Bank interest income	**1,251**	1,754
Repair income	**570**	438
Net exchange gain	**411**	–
Others	**1,099**	439
Gain on disposal of property, plant and equipment	**–**	14
	8,571	8,948

9. FINANCE COSTS

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

10. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration *(Note 11)*	**1,181**	1,172
Other staff costs	**65,531**	47,459
Retirement benefit scheme contributions	**3,815**	2,014
Total staff costs	**70,527**	50,645
Allowance for bad and doubtful debts, net	**8,528**	7,348
Amortisation of intangible asset included in administrative expenses	**769**	580
Amortisation of prepaid lease payments	**808**	232
Depreciation of property, plant and equipment	**12,507**	10,014
Total depreciation and amortisation	**14,084**	10,826
Auditor's remuneration	**1,671**	1,603
Cost of inventories recognised as expenses	**503,101**	389,728
Contract costs recognised as expenses	**104,145**	68,133
Loss on disposal of property, plant and equipment	**131**	–
Net exchange loss	**–**	289
Operating lease rentals in respect of rented premises	**3,371**	2,677
Research expenses included in administrative expenses	**181**	642
Reversal of allowance for inventories	**(230)**	(16)

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2006: eight) directors were as follows:

Year ended 31 December 2007

	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	180	180	144	144	144	195	97	97	1,181
Other emoluments									
Salaries and other benefits	–	–	–	–	–	–	–	–	–
Performance related incentive bonus (Note)	–	–	–	–	–	–	–	–	–
Retirement benefit scheme contributions	–	–	–	–	–	–	–	–	–
Total emoluments	180	180	144	144	144	195	97	97	1,181

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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, none (2006: one) was a director of the Company whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining five (2006: four) individuals were as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries and allowances	**3,071**	1,527
Performance related incentive bonus *(Note)*	**126**	598
Retirement benefit scheme contributions	**58**	75
	3,255	2,200

The emolument of each individual was less than HK$1,000,000.

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

12. TAXATION

	2007	2006
	RMB'000	RMB'000
PRC enterprise income tax		
Current tax	**12,873**	6,371
Overprovision in respect of prior year	**(545)**	(429)
	12,328	5,942
Deferred tax *(Note 18)*	**(1,259)**	(1,654)
	11,069	4,288

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.

Hangzhou Good Friend Precision Machinery Co., Ltd ("Hangzhou Good Friend") was recognised as a technologically advanced enterprise. Pursuant to the approvals obtained from the relevant PRC tax authorities, Hangzhou Good Friend is entitled to a preferential income tax rate of 16.5% comprising national income tax rate 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. The tax concession period expired in 2006.

12. TAXATION *(Continued)*

In 2006, pursuant to certain policies issued by the State Tax Bureau, it is entitled to a three-year extension of tax concession period over which it is subject to a minimum tax rate of 10% for the PRC national income tax for a three years period commencing from 2007. In addition, Hangzhou Good Friend is also entitled to a 50% reduction in the local income tax with expiry date not specified, representing 0.75% of local income tax rate. Accordingly, the applicable tax rate for Hangzhou Good Friend is 10.75% (2006: 8.25%) for the year.

On 16 March 2007, the PRC promulgated the new PRC Enterprise Income Tax Law (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the applicable tax rate for Hangzhou Good Friend from the preferential rate at 15% to 18%, 20%, 22%, 24% and 25% for the years ending 31 December 2008, 2009, 2010, 2011 and 2012 respectively. There was no significant effect on deferred taxation for such change in tax rates.

Other group companies 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:

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**95,954**	57,370
Tax at the domestic tax rate at 16.5% (2006: 16.5%)	**15,832**	9,466
Tax effect of expenses not deductible for tax purpose	**2,732**	2,480
Tax effect of income not taxable for tax purpose	**(600)**	(569)
Overprovision in respect of prior year	**(545)**	(429)
Tax effect of tax concession period	**(6,855)**	(6,660)
Tax effect on tax loss not recognised	**505**	–
Tax charge for the year	**11,069**	4,288

13. DIVIDEND

	2007	2006
	RMB'000	RMB'000
Dividend recognised as distribution during the year:		
Interim – RMB6 cents per share (2006: RMB5 cents per share)	**20,160**	14,000
Final – RMB5 cents per share (2006: Nil)	**14,000**	–
	34,160	14,000

The final dividend of RMB6 cents (2006: RMB5 cents) per share has been proposed by the directors for the year ended 31 December 2007 and is subject to approval by the shareholders at the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB84,885,000 (2006: RMB53,082,000) and the weighted average number of 336,000,000 (2006: 334,082,192) ordinary shares in issue after adjustment for the effects of the 56,000,000 bonus shares issued on 28 May 2007.

	2006
	RMB
Basic earnings per share – as reported	0.19
Effect on bonus issue during 2007 *(Note 27)*	(0.03)
Adjusted basic earnings per share	0.16

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

15. 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 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 and 1 January 2007	57,318	52,873	12,693	5,345	12,930	141,159
Additions *(Note)*	2,363	21,793	2,796	3,857	4,021	34,830
Transfer	13,252	180	(61)	–	(13,371)	–
Disposals	–	(59)	(137)	(547)	–	(743)
At 31 December 2007	72,933	74,787	15,291	8,655	3,580	175,246
DEPRECIATION						
At 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 and 1 January 2007	11,707	21,568	5,598	2,325	–	41,198
Provided for the year	3,181	6,010	2,231	1,085	–	12,507
Eliminated on disposals	–	(39)	(96)	(364)	–	(499)
At 31 December 2007	14,888	27,539	7,733	3,046	–	53,206
NET CARRYING VALUES						
At 31 December 2007	58,045	47,248	7,558	5,609	3,580	122,040
At 31 December 2006	45,611	31,305	7,095	3,020	12,930	99,961

Note: Additions of machinery and equipment for the year ended 31 December 2007 included an amount of approximately RMB15,344,000 transferred from deposits paid for plant and equipment.

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

16. PREPAID LEASE PAYMENTS

The amounts represent costs paid for land use rights in the PRC for a period of 49 to 50 years, and are analysed for reporting purposes as follows:

	2007 RMB'000	2006 RMB'000
Current asset	**943**	232
Non-current asset	**43,196**	9,855
	44,139	10,087

17. INTANGIBLE ASSETS

	Software RMB'000
COST	
At 1 January 2006	1,345
Additions	1,886
At 31 December 2006 and 1 January 2007	3,231
Additions	962
At 31 December 2007	4,193
AMORTISATION	
At 1 January 2006	338
Amortised for the year	580
At 31 December 2006 and 1 January 2007	918
Amortised for the year	769
At 31 December 2007	1,687
NET CARRYING VALUES	
At 31 December 2007	2,506
At 31 December 2006	2,313

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

18. 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 2006	550	97	289	936
(Charge) credit to consolidated income statement for the year *(note 12)*	1,212	(3)	445	1,654
At 31 December 2006 and 1 January 2007	1,762	94	734	2,590
Credit (charge) to consolidated income statement for the year *(note 12)*	1,360	(38)	(63)	1,259
At 31 December 2007	3,122	56	671	3,849

At the balance sheet date, the Group has unused tax losses of approximately RMB3,060,000 (2006: Nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

19. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**61,786**	48,936
Work in progress	**29,241**	16,968
Finished goods	**40,387**	43,383
	131,414	109,287

20. DEBTORS, DEPOSITS AND PREPAYMENTS

	2007 RMB'000	2006 RMB'000
Trade debtors	**190,203**	128,193
Less: Allowance for bad and doubtful debts	**(19,063)**	(11,034)
	171,140	117,159
Advance deposits to suppliers	**26,785**	17,064
Other debtors	**6,666**	5,803
Deposits and prepayments	**16,359**	6,662
Total debtors, deposits and prepayments	**220,950**	146,688

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

The aged analysis of trade debtors net of allowance of doubtful debts is as follows:

	2007 RMB'000	2006 RMB'000
0 – 30 days	**148,795**	84,933
31 – 60 days	**5,535**	3,204
61 – 90 days	**2,742**	5,683
91 – 180 days	**6,760**	11,339
Over 180 days	**7,308**	12,000
	171,140	117,159

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately RMB33,472,000 (2006: RMB38,610,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the directors, after considered past repayment history of the individual trade debtors assessed that the balances will be recovered. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables which are past due but not impaired:

	2007 RMB'000	2006 RMB'000
0 – 30 days	**11,127**	6,384
31 – 60 days	**5,535**	3,204
61 – 90 days	**2,742**	5,683
91 – 180 days	**6,760**	11,339
Over 180 days	**7,308**	12,000
	33,472	38,610

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

Movement in the allowance for doubtful debts

	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	**11,034**	3,686
Impairment losses recognised on debtors	**8,528**	7,348
Amounts written off as uncollectible	**(499)**	–
Balance at end of the year	**19,063**	11,034

All of the allowance for doubtful debts are made in respect of individually impaired trade receivables of which the Group has chased for settlements from the customers for months but the amounts were remained unsettled and overdue over the normal credit terms and therefore are considered uncollectible for both years.

The Group does not hold any collateral over the balances of other debtors. The average age of other debtors at 31 December 2007 is 30 days (2006: 30 days).

Included in other debtors, deposits and prepayments for the year ended 31 December 2006 of RMB4,569,000 are prepayments for inventories to Richest Way Limited, a related company.

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

	2007	2006
	RMB'000	RMB'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits		
less recognised losses	**93,233**	74,223
Less: Progress billings	**(79,577)**	(61,371)
	13,656	12,852
Analysed for reporting purposes as:		
Amounts due from contract customers	**18,929**	18,550
Amounts due to contract customers	**(5,273)**	(5,698)
	13,656	12,852

At 31 December 2007, retentions held by customers for contract work which have been included in debtors amounted to RMB3,139,000 (2006: RMB8,488,000). Advances received from customers for contract work which have been included in creditors amounted to RMB5,068,000 (2006: RMB12,347,000).

22. 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% (2006: 0.72%) per annum.

23. OTHER FINANCIAL ASSETS

Bank deposits with maturity period more than three months

As at 31 December 2006, the amount included bank deposits with an original maturity of six months, with fixed market rate of 3.96% per annum.

Bank balances and cash

Bank balances and cash comprise short-term bank deposits with an original maturity of three months or less and at market interest rate ranging from 1.72% to 2.43% (2006: 3.35% to 3.47%) per annum and cash held by the Group.

24. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	2007	2006
	RMB'000	RMB'000
1 – 30 days	**46,999**	31,737
31 – 60 days	**30,747**	18,455
61 – 90 days	**4,764**	400
91 – 180 days	**2,733**	234
Over 180 days	**3,429**	2,203
Trade creditors	**88,672**	53,029
Advance deposits from customers	**55,075**	56,337
Other creditors	**28,642**	20,094
Accrued charges	**13,672**	12,709
	186,061	142,169

The average credit period on purchase of goods is 30-60 days. The Group has financial risk management policies in place to ensure that all creditors are within the credit time frame.

25. WARRANTY PROVISION

	RMB'000
At 1 January 2006	3,503
Provision for the year	4,639
Utilisation of provision	(3,693)
At 31 December 2006 and 1 January 2007	4,449
Provision for the year	3,783
Utilisation of provision	(3,853)
At 31 December 2007	**4,379**

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

26. BANK BORROWINGS

	2007 **RMB'000**	2006 RMB'000
Unsecured bank loans, due within one year at fixed-rate	**64,661**	46,510

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

	2007	2006
Effective interest rates:		
Fixed-rate borrowings	**4.60% to 6.85% per annum**	5.22% to 6.66% per annum

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

	RMB'000
As at 31 December 2007	
– Hong Kong dollars	**19,507**
– United States dollars	**16,654**
As at 31 December 2006	
– United States dollars	44,510

During the year, the Group obtained new bank loans in the amount of approximately RMB197,847,000 (2006: RMB155,760,000) and repaid bank loans in the amount of approximately RMB179,696,000 (2006: RMB193,806,000). The loans carry interest at market rates and are repayable in 2008. The proceeds were used to finance the acquisition of property, plant and equipment and daily operations.

27. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
Balance at 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	1,000,000,000	10,000
Issued and fully paid:		
Balance at 1 January 2006	200	–
Capitalisation issue of shares	209,999,800	2,100
Shares issued during the year	70,000,000	700
Balance at 31 December 2006 and 1 January 2007	280,000,000	2,800
Capitalisation issue of shares	56,000,000	560
Balance at 31 December 2007	336,000,000	3,360

	2007	2006
	RMB'000	RMB'000
Issued and fully paid share capital shown in the consolidated financial statements as	**3,431**	2,882

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.

On 28 May 2007, a total of 56,000,000 ordinary shares of HK$0.01 each were issued on the basis of one bonus share for every five existing shares held, as fully paid bonus shares to the shareholders whose names appeared on the register of members of the Company of 21 May 2007 by capitalisation of HK$560,000 (equivalent to RMB549,000) transferred from the Company's share premium account pursuant to written resolutions of the shareholder of the Company passed on 17 April 2007.

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

28. SHARE OPTION SCHEME

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

The principal terms of the Scheme are summarised as follows:

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

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

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

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

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

28. SHARE OPTION SCHEME *(Continued)*

(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.

29. 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:

	2007 **RMB'000**	2006 RMB'000
Within one year	**1,347**	938
In the second to fifth years inclusive	**3,511**	333
Over five years	**1,226**	–
	6,084	1,271

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

30. CAPITAL COMMITMENTS

	2007 **RMB'000**	2006 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**22,926**	4,211

31. GOVERNMENT GRANTS

In 2007, the Group received government subsidies of RMB1,520,000 (2006: RMB4,489,000 awarded for the development of technology and investment incentive of the Group) which was awarded to one of its subsidiaries for being the 7th highest taxpaying entity in Hangzhou. These amounts have been included in other income for both years.

32. 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 the relevant payroll costs or HK$1,000 (whichever is 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 RMB3,815,000 (2006: RMB2,014,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

33. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, during the year, the Group also had the following transactions with its related parties:

Transactions

Name of company	Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
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	**40,248**	84,507
		Repair and maintenance expenses	**150**	58
杭州友嘉高松機械有限公司 Hangzhou Feeler Takamatsu Machinery Co., Ltd.	Associate of ultimate holding company	Other income	**628**	909
		Purchases of goods	**297**	40
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	**7,390**	8,581
友嘉實業股份有限公司 Fair Friend Enterprise Company Limited	Ultimate holding company	Sales of goods	**–**	2,503
友佳實業(香港)有限公司 Good Friend (H.K.) Corporation Limited	Immediate holding company	Purchases of goods	**–**	8,945
		Sales of goods	**–**	931

33. RELATED PARTY TRANSACTIONS *(Continued)*

Transactions *(Continued)*

Name of company	Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
巨利多(香港)有限公司 Giantful Corporation Limited ("Giantful")	Director is a relative of a director of the Company	Sales of goods	**733**	627
杭州友維機電有限公司 Hangzhou Fair Fine Electric & Machinery Co., Ltd.	Fellow subsidiary	Sales of goods	**–**	774

Balances

Name of company	Relationship	Nature of balances	2007 RMB'000	2006 RMB'000
Richest Way	Director is a relative of a director of the Company	Prepayments for purchase 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 allowed a normal credit period of 90 days for sales to these related companies.

Compensation of key management personnel

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

	2007 RMB'000	2006 RMB'000
Short-term benefits	**2,918**	2,548
Post-employment benefits	**–**	25
	2,918	2,573

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

34. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2007 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
Direct subsidiaries				
Winning Steps Limited	British Virgin Islands ("BVI")	Ordinary shares US$110	100%	Investment holding
Yu Hwa Holdings Limited	BVI	Ordinary shares US$1,500,000	100%	Investment holding
Hai Sheng International Holdings Inc.	BVI	Ordinary shares US$200,000	100%	Investment holding
Sky Thrive Investment Ltd.	BVI	Ordinary shares US$5,000,000	100%	Investment holding
Kai Win Group Limited *(Note (b))*	BVI	Ordinary shares US$1	100%	Investment holding
Indirect subsidiaries				
Hangzhou Good Friend *(Note (a))*	PRC	Registered capital US$10,000,000	100%	Design and production of computer numerical control machine tools, design and construction of three dimensional car parking garage structures
Hangzhou Global Friend Precision Machinery Co., Ltd. ("Hangzhou Global Friend") *(Note (a))*	PRC	Registered capital US$10,000,000	100%	Design and assembling of forklift trucks
Hangzhou Ever Friend Precision Machinery Co., Ltd. ("Hangzhou Ever Friend") *(Note (a))*	PRC	Registered capital US$5,000,000	100%	Inactive

34. SUBSIDIARIES *(Continued)*

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
Indirect subsidiaries *(Continued)*				
Hangzhou Glory Friend Precision Machinery Co., Ltd. ("Hangzhou Glory Friend") *(Note (a) and (b))*	PRC	Registered capital US$15,000,000	100%	Inactive
Shanghai Rich Friend Precision Machinery Co., Ltd. ("Shanghai Rich Friend") *(Note (a))*	PRC	Registered capital US$200,000	100%	Inactive
Winning Steps Hong Kong Development Limited *(Note (b))*	HK	Ordinary shares HK$1,000	100%	Inactive
Yu Hwa Hong Kong Enterprise Limited *(Note (b))*	HK	Ordinary shares HK$1,000	100%	Inactive
Hai Sheng International Hong Kong Limited *(Note (b))*	HK	Ordinary shares HK$1,000	100%	Inactive
Sky Thrive Hong Kong Enterprise Limited *(Note (b))*	HK	Ordinary shares HK$1,000	100%	Inactive
Full Moral Industrial Limited *(Note (b))*	HK	Ordinary shares HK$1	100%	Inactive

Notes:

a. Hangzhou Good Friend, Hangzhou Global Friend, Hangzhou Ever Friend, Shanghai Rich Friend and Hangzhou Glory Friend are wholly foreign owned enterprises.

b. These subsidiaries were newly set up during 2007.

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

OPERATING RESULTS

For the year ended 31 December

	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007** **RMB'000**
Revenue	256,187	379,590	557,674	611,003	**821,367**
Gross profit	74,581	100,114	119,325	153,158	**214,351**
Profit before taxation	30,484	39,594	47,125	57,370	**95,954**
Profit for the year attributable to equity holders of the Company	31,257	36,329	42,369	53,082	**84,885**
Earnings per share – basic (RMB)	0.15	0.17	0.20	0.16	**0.25**

ASSETS AND LIABILITIES

As at 31 December

	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007** **RMB'000**
Non-current assets	82,240	102,315	97,931	145,077	**177,064**
Net current (liabilities) assets	5,711	30,626	89,812	151,775	**170,513**
Total assets less current liabilities	87,951	132,941	187,743	296,852	**347,577**
Share capital	56,244	64,905	–	2,882	**3,431**
Reserves	31,707	68,036	187,743	293,970	**344,146**
Shareholders' equity	87,951	132,941	187,743	296,852	**347,577**

Note: The summary of the operating results, assets and liabilities of the Group as at and for the financial years ended 31 December 2007, 2006, 2005, 2004 and 2003 was prepared as if the current group structure had been in existence throughout these financial years.