MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue and profit for the year attributable to equity holders of the Company amounted to approximately RMB557.67 million (2004: RMB379.59 million) and approximately RMB42.37 million (2004: RMB36.33 million) respectively, representing an increase of approximately 46.9% and approximately 16.6% respectively as compared with that of the previous year.

Revenue

Sales from machine tools products represented the majority of the Group's revenue. Revenue from machine tools products amounted to approximately RMB426.40 million (2004: RMB308.14 million), representing an increase of approximately 38.4%. Such revenue contributed approximately 76.5% of the Group's revenue (2004: 81.2%). The revenue growth was mainly attributable to the sustained growth of manufacturing sector in the PRC and the Group's effort in expanding its product range and distribution networks. As at 31 December 2005, two more liaison offices as compared with that of the previous year had been established to cover additional regions in the local PRC markets.

Revenues from parking garage structures and forklift trucks products had increased by approximately 42% and 199% respectively, which amounted to approximately RMB74.43 million and approximately RMB56.85 million respectively for the financial year ended 31 December 2005 (2004: RMB52.43 million and RMB19.03 million respectively). The share of revenues for parking garage structures and forklift trucks represented approximately 13.3% and 10.2% of the Group's revenue (2004: approximately 13.8% and 5.0%). The significant increases in the revenue of these two products were mainly driven by the higher growth rate of automobile ownership and the continuing demand of the manufacturing sector in the PRC. In addition, the Group was able to explore new customers of forklift trucks through its export sales agents and it is expected that sales to the overseas markets will increase in the future years.

Cost of sales and gross profit

For the year ended 31 December 2005, cost of sales of the Group increased to approximately RMB438.35 million (2004: RMB279.48 million). The Group's gross profit increased to approximately RMB119.33 million (2004: RMB100.11 million), representing an increase of approximately 19.2%. Such increase was due to the overall increase in the Group's turnover in all the business segments. The overall gross profit margin of the Group amounted to approximately 21.4% (2004: 26.4%). Such decrease was mainly caused by intense competition in the market, resulting in a reduction in the average selling prices of the Group's major products in particular the machine tools products and the increased price of parts and components as a result of supply shortage in the market.

Other income

The Group's other income accounted for approximately RMB6.84 million (2004: RMB4.76 million), representing an increase of approximately 43.8%. Exchange gain and repair income represented the major sources of the other income. The Group earned repair income when it provided repair services to its customers. The volume of the Group's repair services had been increased during 2005. Exchange gain was arisen from the year end translation of short-term bank borrowings, other assets and liabilities denominated in foreign currency into Renminbi. During the second half of the year, there was an appreciation of Renminbi currency and an increase in exchange gain was then recorded.

Operating expenses

Distribution costs of the Group comprised primarily (a) staff costs for sales representatives; (b) travelling and business development costs; (c) after-sales services expenses; and (d) general office expenses incurred by the liaison offices. The distribution costs increased to approximately RMB54.55 million (2004: RMB44.39 million), representing an increase of approximately 22.9% as compared with that of the previous year. Such increase was due to a combination of increased staff costs as a result of more sales representatives hired and increased expenses for providing after-sales services.

Administrative expenses mainly included (a) staff costs; (b) general office expenses incurred in the head offices in Hangzhou and Hong Kong; and (c) professional fees. The administrative expenses increased to approximately RMB18.05 million (2004: RMB14.16 million), representing an increase of approximately 27.4% as compared with that of the previous year. Such increase was mainly due to the increase in staff costs of additional head counts and professional fees for the listing of the Company's shares.

Other operating expenses comprised primarily construction tax and contributions for local bureau. The expenses decreased to approximately RMB1.23 million (2004: RMB3.13 million), representing a drop of approximately 60.7% as compared with that of the previous year.

Finance costs increased to approximately RMB5.21 million (2004: RMB3.59 million), representing an increase of approximately 45.0% as compared with that of the previous year. The Group had increased its average short term bank borrowings during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2005 was approximately RMB42.37 million (2004: RMB36.33 million), representing an increase of approximately 16.6%.

Net profit margin attributable to equity holders for the year was approximately 7.6% (2004: 9.6%). The decrease of net profit margin was due to the overall effect of decrease in gross profit margin and increase in operating expenses.

Liquidity and financial resources

As at 31 December 2005, the Group had net current assets of approximately RMB89.81 million (2004: RMB30.63 million), bank balances, deposits and cash (including pledged bank deposits) of approximately RMB23.66 million (2004: RMB8.70 million), shareholders' fund of RMB187.74 million (2004: RMB132.94 million) and the short-term bank borrowings of approximately RMB84.56 million (2004: RMB89.99 million). The Group's working capital is financed by its internal resources and short term bank borrowings.

Cash and cash equivalents as at 31 December 2005 amounted to approximately RMB22.00 million (2004: RMB5.65 million) representing an increase of approximately RMB16.35 million. The Group had mastered its cash position by increasing the net cash from its operating activities. The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 1.4 (2004: 1.2). The gearing ratio (a ratio of total debts to total assets) was approximately 20.8% (2004: 27.4%).

Capital structure

The share capital of the Company as at 31 December 2005 was HK$2 divided into 200 shares of HK$0.01 each and increased to HK$2,800,000 divided into 280,000,000 shares of HK$0.01 each by way of the share offer and the capitalization issue upon the completion of the placing and public offer in January 2006.

Significant investment

The Group had no significant investment held for the year ended 31 December 2005.

Material acquisitions and disposals of subsidiaries

Save for the undertaking of the reorganisation in preparation for the listing of the Company's shares on the Stock Exchange as more particularly described in the prospectus of the Company dated 30 December 2005 ("Prospectus"), the Group did not have any material acquisition of subsidiaries or disposal of subsidiaries or associates during the year ended 31 December 2005.

Segmental information

Details of segmental information for the year ended 31 December 2005 are set out in note 6 to the consolidated financial statements.

Staff and remuneration policies

As at 31 December 2005, the Group employed a total of 945 (2004: 851) full-time employees. The Group's staff costs (excluding Directors' fee and emoluments) amounted to approximately RMB38.96 million (2004: RMB30.07 million).

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of the payroll of its staff to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group contributed RMB1.21 million (2004: RMB1.14 million) to the said scheme.

The executive Directors and certain members of the senior management of the Group, being non-PRC citizens, may elect not to participate in the state-managed social welfare scheme operated by the local government of the PRC. If there is a change in the PRC rules and regulations with respect to the retirement scheme upon which the Group is required to contribute to the social welfare scheme for non-PRC citizens, the Group shall comply with such new rules and regulations within the time limit prescribed by the relevant authorities.

The Company has also adopted a share option scheme, the primary purpose of which is to motivate the eligible persons referred to in the scheme, which include employees of the Group, to optimise their future contributions to the Group and/or reward them for their contributions.

The remuneration policies of the Group are determined based on the market trends, future plans and the performance of individuals.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB6.45 million (2004: Nil) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Charges on the Group's assets

As at 31 December 2005, pledged bank deposits with an amount of approximately RMB1.67 million (2004: RMB3.05 million) represented guarantee deposit in banks for the purpose of bidding contracts. In addition, bank borrowings of the Group of approximately RMB84.56 million were secured and guaranteed by:

a) certain land use rights and property, plant and equipment of the Group with an aggregate net book value of approximately RMB27.42 million as at 31 December 2005 (2004: RMB48.08 million); and

b) the holding companies and certain directors with an amount of approximately RMB68.19 million (2004: RMB47.26 million). The amount guaranteed by a fellow subsidiary was RMB2.66 million (2004: RMB18.5 million).

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

Future plans for material investments or capital assets

The Group is committed to become a leading CNC machine tool supplier in the PRC and intends to expand its production capacity in Zhejiang. The Group had applied approximately HK$6.3 million of its proceeds from the share offer to obtain a land use right of a plot of land of total gross floor area of approximately 35,000 square metres in Xiasha, Zhejiang in the PRC in order to construct a new production plant. It is expected that approximately HK$14.4 million and HK$22.83 million respectively of the net proceeds from the share offer will be used to construct the production plant and purchase new production equipment (as described in the section headed "Reasons for the share offer and use of proceeds" of the Prospectus.

Foreign exchange risk

The Group mainly operates in the PRC. During the year ended 31 December 2005, the Group collected substantially all 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.