MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group achieved a modest increase in revenue. For the six months ended 30 June 2006, the Group recorded revenue of approximately RMB271.30 million, representing an increase of about 4.3% as compared to the corresponding period in 2005. The gross profit margin increased to approximately 22.4% from 21.5% as compared to the corresponding period last year. Since May 2006, the Group had adjusted its pricing strategy and managed to raise its selling prices of machine tools which had effectively offset the negative impact of increase in raw materials price for the first half of 2006.

Profit for the period attributable to equity holders amounted to approximately RMB15.68 million, representing a decrease of approximately 24.6% as compared to the corresponding period last year. The Group had devoted significant efforts to participate in trade fairs and expanded its local sales and distribution network. As such, distribution costs increased by approximately 16.4% to approximately RMB31.50 million. Administrative expenses increased significantly by approximately 92.0% to approximately RMB11.49 million. The Group increased its number of staff to satisfy the growing production scale and established an office in Hong Kong to further develop the overseas market. Other operating expenses inflated sharply by approximately 288.2% which included approximately RMB2.98 million of listing expenses in the first half of 2006 upon listing of the Company in January 2006.

Business review

For the first half of 2006, sales from machine tools remained the major source of revenue for the Group, amounted to approximately RMB206.52 million representing approximately 76.1% of total revenue. On the other hand, revenue of parking garage structures and forklift trucks were approximately RMB40.45 million and RMB24.33 million respectively.

The Group's major customers of machine tools are automobile and mechanical manufacturers. In the first half of 2006, the development of the automobile industry in the PRC slowed down as a result of the PRC's macroeconomic policy. Selling prices of the products of competitors dropped while costs of crude oil and raw materials remained high. Notwithstanding the foregoing, the Group's machine tools business was able to achieve a growth in revenue of approximately 2.4% as compared to the corresponding period last year. Since May 2006, the Group had adjusted its pricing strategy and managed to raise its selling prices of machine tools in a successful attempt to counter the negative impact of raw material price fluctuation. As a result, the Group was able to maintain its gross profit margin at approximately 22.4% for the period under review.

For the six months ended 30 June 2006, sales from parking garage structures and forklift trucks accounted for approximately 14.9% and 9.0% respectively of the total revenue of the Group. The sales volume of parking garage structures and revenue increased by approximately 22.6% and 18.2% respectively as compared to the corresponding period in 2005. The average selling price had reduced slightly during the period under review. For forklift trucks, the Group explored the electric forklift trucks market and developed overseas markets through OEM production. The increase in sales to such markets helps to improve the Group's overall gross profit margin in the long run.