Prospects

According to the "2006 World Machine Tool Output & Consumption Survey" issued by Gardner Publications, Inc., the PRC was the largest machine tool import and consumption country in the world in 2005. The value of machine tools imported by the PRC increased from approximately US$1,890 million in 2000 to approximately US$6,700 million in 2005, representing a compound annual growth rate of approximately 29%. In terms of the total value of machine tool imported by the top 28 countries, PRC's imports accounted for approximately 9.4% in 2000. The percentage was further increased to approximately 22% in 2005, reflecting that the PRC is an increasingly important market of machine tools over the world.

The Directors believe that many PRC enterprises are using imported machine tools for their production. While the price difference between imported and domestic machine tools stands at approximately 30% to 50%, the quality of domestic machine tools has become more comparable to that of imported machine tools. It is therefore envisaged that domestic machine tools will be able to gain increasing market share in the near future. In order to meet the growing demand for high-end precision machine tools from the automobile industry for their manufacture of vehicles components, the Group will expand its production and research and development capability to produce more higher-quality and higher-end precision machine tools.

The Group has started the first phase construction of the production plant at Xiasha, Zhejiang Province, which is expected to start its trial production in the second half of 2006. The second phase construction is expected to start at the end of 2006 and trial production will commence in the second half of 2007. The construction of the Xiasha production plant is funded by the proceeds from the initial public offerings of the Company. The Group had reallocated its resources and planned to relocate all its forklift trucks production lines to the first phase of the new production plant at Xiasha. The second phase of the new production plant will predominately be used to produce parking garage structures. The existing production plant at Xiaoshan, Zhejiang Province will be retained as a commodious expansion for the production of machine tools products. The Group plans to use the production base at Xiaoshan for the research and development of higher-end precision computer numerical control machine tools. The Directors consider that the new arrangement will (1) enable the Group to achieve a better allocation and sharing of resources and avoid duplication of resources; (2) enable the elimination of transportation costs which could increase production efficiency and lower machine tools manufacturing cost; and (3) improve utility of production machinery and equipment. As a result, the Group will be able to reduce manufacturing costs, boost production efficiency, expand production capacity and achieve a higher level of economy of scale. The Directors expect that after the completion of the Xiasha production plant, the annual production capacity of the three types of products namely, machines tools, parking garage structures and forklift trucks will increase to 1,000 units, 2,000 units and 5,000 units respectively.

Liquidity and financial resources

The working capital of the Group was generally financed by internal cash flows generated from its operation and existing banking facilities. As at 30 June 2006, the Group's cash and cash equivalents amounted to approximately RMB59.56 million (31 December 2005: RMB22.00 million). Such an increase was mainly due to the net proceeds raised from the initial public offering of the Company's shares in January 2006. As at 30 June 2006, the Group had net current assets of approximately RMB162.30 million (31 December 2005: RMB89.81 million). The Group had monitored its cash position and reduced the bank borrowings substantially by approximately 81.1% from approximately RMB84.56 million as at 31 December 2005 to approximately RMB15.99 million as at 30 June 2006. The current ratio (a ratio of total current assets to total current liabilities) of the Group as at 30 June 2006 was approximately 1.9 (31 December 2005: 1.4). The gearing ratio (a ratio of total interest bearing liabilities to total assets) was approximately 3.6% (31 December 2005: 20.8%), reflecting the Group's improved financial position.

Capital structure

The share capital of the Company as at 30 June 2006 was HK$2,800,000 divided into 280,000,000 shares of HK$0.01 each.

Staff and remuneration policies

As at 30 June 2006, the Group employed approximately 1,050 full time staff (31 December 2005: 945). The remuneration policies of the Group are determined based on market trends, future plans, and the performance of individuals. In addition, the Group also provides other staff benefit such as mandatory provident fund, state-managed social welfare scheme and a share option scheme.

Capital commitments and contingent liabilities

As at 30 June 2006, the Group had made capital expenditure commitments of approximately RMB4.15 million (31 December 2005: RMB6.45 million) mainly for property, plant and equipment, which were contracted for but not provided in the condensed consolidated financial statements.

As at 30 June 2006, the Group did not have any material contingent liabilities.

Charges on the Group's assets

As at 30 June 2006, the Group had pledged bank deposits with an amount of approximately RMB2.48 million (31 December 2005: RMB1.67 million) which was guarantee deposit in banks for the purpose of bidding contracts.

The Group had repaid all the bank borrowings that were secured by the Group's assets as at 30 June 2006.