FINANCIAL REVIEW

The Group successfully maintained its growth momentum this year. Revenue increased by approximately RMB53.33 million to approximately RMB611.00 million in 2006, an increase of approximately 9.6% over approximately RMB557.67 million in 2005. Profit attributable to equity holders achieved a significant rise of approximately 25.3% from approximately RMB42.37 million in 2005 to approximately RMB53.08 million in 2006.

Machine tools

In recent years, the dramatic growth and development in China's manufacturing sectors has fuelled the market for machine tools. Consumption of CNC machine tools constituted more than 50% of the value of the total machine tools market. However, the number of the CNC machine tools in use account for less than 10%. As China modernizes, CNC machine tools will gradually replace existing ordinary machine tools. The Group's target customers include automobile, electronics and electrical products manufacturers, mould processing and mechanical related manufacturers, and these markets will create increasing demand as they shift from small and ordinary-type machines to large and high-grade CNC machine tools.

As a result, the Group achieved a remarkable growth in sales volume of CNC machine tools. The number of machine tools sold increased from 960 to 1,151 units this year. Sales from machine tools products rose from approximately RMB426.40 million in 2005 to approximately RMB467.35 million in 2006, with an increase of approximately 9.6% over the year and represented approximately 76.5% of the Group's total revenue. Due to the intense competition in the market, the Group thereby reduced its average selling prices of some products with low and medium gross profit margin to broaden its customer bases and attract new customers. Besides, raw material costs had declined and become fairly stable in 2006. Gross profit margins was improved by bringing costs down sharply through proactive sourcing of raw materials from the local suppliers with lower prices for major parts and components. Overall operating gross profit for machine tools therefore improved to approximately 27.3% in 2006.

Parking garage structures

Revenue from parking garage structures rose from approximately RMB74.43 million in 2005 to approximately RMB85.35 million in 2006, representing an increase of approximately 14.6% over the year and remained at approximately 14% of the Group's total revenue. Sales volume grew by approximately 6.2% to 4,828 units with average selling price grow by approximately 6.8% as compared with the previous year. Operating gross profit for parking garage structures improved to approximately 19.9%. Parking garage structures will effectively increase the number of car parking spaces on a plot of land and the increase of our revenue reflected an escalating demand for parking garage structure is expected as the ownership of motor vehicles has risen rapidly during the year.




Forklift trucks

In 2006, revenue from forklift trucks products increased from approximately RMB56.85 million in 2005 to approximately RMB58.31 million in 2006, with an increase of approximately 2.6% and representing approximately 9.5% of the Group's total revenue. The sales volume dropped by approximately 4.0% to 957 units as compared with the previous year due to the relocation of production lines to Hangzhou Global Friend in December 2006, which led to temporary suspension of operations. However, the Group launched new models and increased overseas sales this year and such contribution will offset the decrease of sales, part of which represented approximately 17.2% and approximately 26.5% of total sales volume and revenue respectively in 2006. Overseas sales of forklift trucks have higher selling prices and gross profit, which operating margin for forklift trucks products improved to approximately 15.9%.

Cost of sales and gross profit

The cost of sales increased from approximately RMB438.35 million in 2005 to approximately RMB457.85 million in 2006 while the Group's gross profit increased from approximately RMB119.33 million in 2005 to approximately RMB153.16 million in 2006. Overall gross profit margin of the Group improved from approximately 21.4% to approximately 25.1%. The increase was due to the improved sales mix of the Group with larger proportion of high margin products in the sector of machine tools being sold.

Other income

The Group's other income increased significantly to approximately RMB8.95 million in 2006 from approximately RMB6.84 million in the previous year. Such increase was primarily due to the government subsidies granted by the local government bureaus for rewarding the successful listing of the Company and the development of technology and reinvestment incentive of the Group during the year.

Operating expenses

Distribution and selling costs increased by approximately 26.4% from approximately RMB 54.55 million in 2005 to approximately RMB68.96 million in 2006. The Group had gained new customers by actively participating in a number of machine tools shows and exhibitions in the PRC markets and liaising with sales agents to expand its sales force and sales networks. Distribution and selling costs as a percentage of the Group's revenue increased from approximately 9.8% to approximately 11.3% over the year. Administrative expenses increased by approximately 64.3% from approximately RMB18.05 million in 2005 to approximately RMB29.65 million in 2006. The increase was due to the recruitment of additional staff, increase in the allowance for bad and doubtful debts and increase of professional fees. Administrative expenses as a percentage of the Group's revenue increased from approximately 3.2% to approximately 4.9% over the year.

Other expenses increased sharply to approximately RMB3.66 million in 2006 from approximately RMB1.23 million in 2005, which included approximately RMB2.95 million of one-off listing expenses. The fee was incurred when the Company was listed in January 2006. Finance costs decreased substantially by approximately 52.8% as compared to the previous year as the Group reduced its bank loans during the year.

Profit attributable to equity holders

The Group's profit attributable to equity holders for the year ended 31 December 2006 was approximately RMB53.08 million, an increase of approximately RMB10.71 million or approximately 25.3% over the previous year. Net profit margin attributable to equity holders increased from approximately 7.6% in 2005 to approximately 8.7% in 2006.

Liquidity and financial resources

As at 31 December 2006, the Group had net current assets of approximately RMB151.78 million (2005: RMB89.81 million), shareholders' fund of approximately RMB296.85 million (2005: RMB187.74 million) and short-term bank borrowings of approximately RMB46.51 million (2005: RMB84.56 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 2006 amounted to approximately RMB69.22 million (2005: RMB22.00 million) representing an increase of approximately RMB47.22 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 1.8 times (2005: 1.4 times). The gearing ratio (a ratio of total debts to total assets) was approximately 9.4% (2005: 20.8%), reflecting the Group's improved financial position.

Capital structure and treasury policies

The share capital of the Company was increased from HK$2 divided into 200 shares of HK$0.01 each 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. The share capital of the Company as at 31 December 2006 was HK$2,800,000 divided into 280,000,000 shares of HK$0.01 each.

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks in the PRC. As of 31 December 2006, the total outstanding short-term borrowings stood at approximately RMB46.51 million (2005: RMB84.56 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 2006.

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 2006.

Segmental information

Details of segmental information for the year ended 31 December 2006 are set out in note 6 to the consolidated financial statements.

Staff and remuneration policies

At 31 December 2006, the Group employed a total of 1,051 (2005: 945) full-time employees in Hong Kong and the PRC. The total staff costs (including Directors' fee and emoluments) amounted to approximately RMB50.65 million (2005: RMB42.03 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 hold 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 RMB2.01 million (2005: RMB1.91 million) to the said schemes.

Capital commitments and contingencies

The Group has made capital expenditure commitments mainly for property, plant and equipment of approximately RMB4.21 million (2005: 6.45 million) which are contracted but not provided in the financial statements. The Group had no material contingent liabilities as at 31 December 2006 (2005: Nil).

Charges on the Group's assets

As at 31 December 2006, pledged bank deposits with an amount of approximately RMB2.75 million (2005: RMB1.67 million) represented 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 31 December 2005 during the year.

Future plans for material investments or capital assets

The Group started the second phase of construction plan of production plant of Hangzhou Global Friend at the end of 2006 and trial production is expected to commence in the second half of 2007. It will predominately be used to produce parking garage structures. The construction cost is estimated to be approximately RMB25.00 million and will be financed by internal resources or banking facilities. The Group acquired the land use right in Xiasha, Zhejiang province with a total floor area of approximately 70,300 sq. m. at a cost of approximately RMB14.07 million in December 2006. The land belonged to new factory of Hangzhou Every Friend and the construction is expected to be divided into two phases. The first phase is expected to commence in the second quarter of 2007 with an estimated cost of construction of approximately RMB43.80 million.

Foreign exchange risk

The Group mainly operates in the PRC. During the year ended 31 December 2006, 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.