BUSINESS REVIEW

The tyre industry in 2006 was largely characterised by a steep increase in commodities prices and an upward movement of energy and utilities cost. The unexpected surge in natural rubber price to a historic high has caused manufacturers to suffer losses. According to the China Tyre Association 2006 report, the industry recorded an overall loss while total manufacturing output reduced by 5% to 61,942,910 units.

Compared to 2005, our raw material cost alone has increased by RMB80 million. While continuing to increase the efficiency of the plant, Management has also adjusted the selling price numerous times. Both export and domestic selling price has increased by 14% and 11% respectively.

The industry has moved further towards radialisation with total manufacturing units of truck radial tyres increasing by 33% to 33,485,196 units. Management acknowledges the impact on its bias tyre business. For normal load applications, the conversion trend of bias tyres to radial is inevitable in the long term. With better road conditions and newer vehicles, radial tyres are set to grow further.

The Joint Venture is putting up a clear two-pronged strategy for the next 5 years:

1. Existing facilities will be geared towards making tyres for niche markets such as mining and quarry applications. This sector will take a longer time for radialisation and provides better profitability.

2. Part of our plant will be converted for the production of OTR and radial tyres. Basic available facilities such as factory, land, utilities and certain major equipment enables us to diverse into other products without incurring major capital investments. However, a tremendous amount of work and technology know-how is required to achieve this objective.

SALES

The Joint Venture achieved record sales in 2006. Largely driven by export, we expect the momentum to continue into 2007. Our specially built tyres which cater to the export market are perceived amongst the best in China and are readily accepted by the most demanding applications worldwide.

Manufacturers worldwide have either closed down or limited the production of bias tyres. Some countries have even banned all export of bias tyres produced locally. This trend has offered us an opportunity to further increase our exports. Currently, the Joint Venture is contract manufacturing for several foreign brands and is in the process of signing up an additional two brands.

In addition to this, we have made inroads in the Original Equipment Manufacturer ("OEM") sector with a large truck manufacturer in India.

The domestic market for bias tyres are expected to shrink further. With a proper distributor network and superior product quality, we expect to maintain our domestic sales volume despite this shrinking market. We expect the new LTR and OTR tyres will expand our business turnover.

PRODUCTION

The Joint Venture has further improved its manufacturing capabilities. In line with the Company's objective to create a superior quality product, machinery is upgraded and stricter controls have been put in place.

Various machines have been upgraded for better efficiency and precision. Among the major efforts are building machines with tread servers, complete refurbishment of mixers and a newly acquired high speed bias cutter. These upgrades have brought direct positive results both in quality and efficiencies resulting in lower costs and a decrease in warranty claims.

As in 2005, Management has continued to monitor production parameters through KPI (Key Performance Indicators) systems to immediately address any problems in the production floor. Over the last two years, we have seen improvements in production stability, cost reduction and optimisation of scheduling.

PROSPECT

The year 2006 marked a new milestone for the Joint Venture. Having achieved its credibility in manufacturing bias tyres, it is now venturing into new frontiers namely OTR and radial tyres. This move will not only bring in better returns but provide more opportunities in the long term. The direction is clear and Management is committed to achieve a 3:3:4 target within the next 5 years (i.e. turnover will consist of 30% bias, 30% radial and 40% OTR).

The above product mix will put us in a much better footing to weather any fluctuation in commodities prices and market cycle risks.

The Joint Venture will further aligned itself towards becoming a export oriented company.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the financial year, the Joint Venture had bank borrowings of RMB117.7 million, all of which are in Renminbi ("RMB"). As cash flow remains positive, the Joint Venture does not foresee any working capital difficulties and accordingly expects the level of borrowings to remain stable over the next few years. As at 31 December 2006, the Group had cash and bank balances amounting to HK$51,447,000 (2005 – HK$35,461,000) and short-term borrowings of HK$81,874,000 (2005 – HK$67,259,000). The borrowings bear fixed interest rates from 6.42% to 7.04% (2005 – 6.42% to 7.01%) per annum. As at 31 December 2006, the Group had total assets of HK$530,704,000 (2005 – HK$520,446,000) which were financed by current liabilities of HK$173,036,000 (2005 – HK$142,347,000) and shareholders' equity of HK$357,668,000 (2005 – HK$378,099,000).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the financial year.

GEARING AND LIQUIDITY RATIO

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.229 (2005 – 0.178). The liquidity ratio of the Group represented by a ratio between current assets over current liabilities, was 1.24 (2005 – 1.29).

CHARGES ON GROUP ASSETS

As at 31 December 2006, the Joint Venture pledged buildings, relevant rights of land usage, production machinery and inventories of value of approximately RMB336 million by way of fixed charge and floating charge over the other assets of the Joint Venture for banking facilities granted.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 December 2006.

EMPLOYEES

The Group currently employs a total of approximately 2,000 employees. We expect this level of workforce to be stable for the foreseeable future despite an increase in production. Wages are maintained at competitive levels and bonuses are awarded on a performance related basis. Nevertheless, the Group continues to review plant efficiency to ensure optimum levels of productivity are achieved consistently.

FOREIGN CURRENCY RISK

The Group is subject to foreign currency risk as certain of its payables to raw materials suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally in US dollars. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's. Management will continue to monitor closely the exchange risk and hedge by forward exchange contracts and applicable derivatives when necessary.