Management Discussion and Analysis

INDUSTRY OVERVIEW

During the financial year under review, Minth and its subsidiaries (hereinafter collectively referred to as the "Group") continued to focus on the design, manufacture and sales of trim, decorative parts and body structural parts for the auto-parts industry in the PRC. The Chinese passenger car market recovered and grew rapidly in 2005, with approximately 19% increase in production and approximately 21% increase in sales over last year.

With the rapid industry growth, increased competition and the fluctuation in steel supply, the capabilities of technology, quality and cost control have become all the more important in the auto-parts industry.

During the financial year under review, the Group was able to consolidate its strong position in the market by strengthening its customer selection, research and development, centralized procurement, interactive approach with its suppliers, stringent production management and system standards.

RESULTS

For the financial year ended 31 December 2005, the Group achieved a total turnover of RMB678,606,000, representing a growth of approximately 46.2% as compared to RMB464,178,000 in 2004. The turnover for trims, decorative parts and body structural parts were RMB158,464,000, RMB157,691,000 and RMB286,271,000 respectively, representing approximately 23.3%, 23.2% and 42.2% of the total turnover. There was a significant growth in the body structural part and decorative product categories. The profit attributable to equity holders of the Company was RMB195,067,000, a surge of approximately 58.5% from 2004. The gross margin was approximately 40.1%, similar to the one in 2004. The negative effects of falling prices were offset by the localization of raw materials purchases and the launching of new products.

PRODUCT SALES

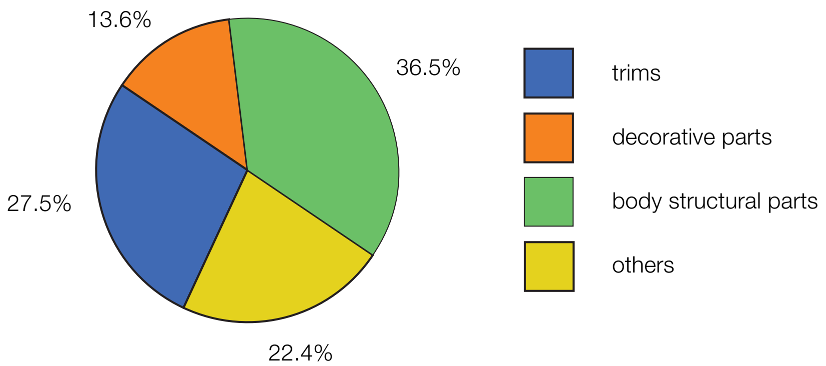
In 2005, the Group continued to focus on its three main product categories and supply to the top 6+3 global auto makers. Most of the Group's sales were generated in the PRC. The Group's export ratio increased from 5.0% in 2004 to 8.9% in 2005.

Turnover analysis by product category

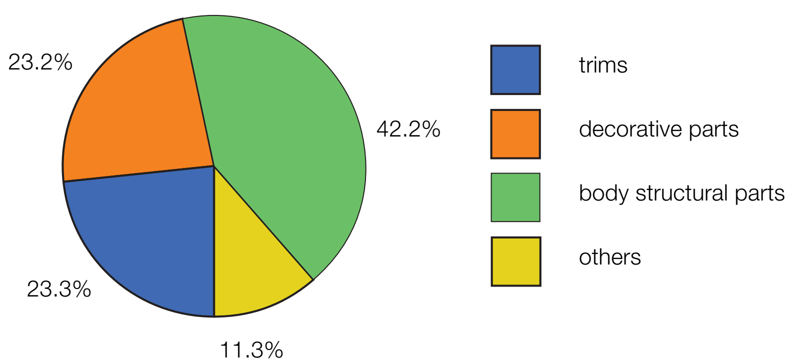
	2003		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Product category						
Trims	82,069	27.5	127,500	27.5	158,464	23.3
Decorative parts	49,266	16.5	63,119	13.6	157,691	23.2
Body structural parts	57,056	19.1	169,529	36.5	286,271	42.2
Others (NB)	110,442	36.9	104,199	22.4	76,411	11.3
Total	298,833	100	464,347	100	678,837	100
Less: Sales tax	(57)		(169)		(231)	
Total Turnover	298,776		464,178		678,606	

Note: Includes PVC, moulds, headliner and others.

2004



2005

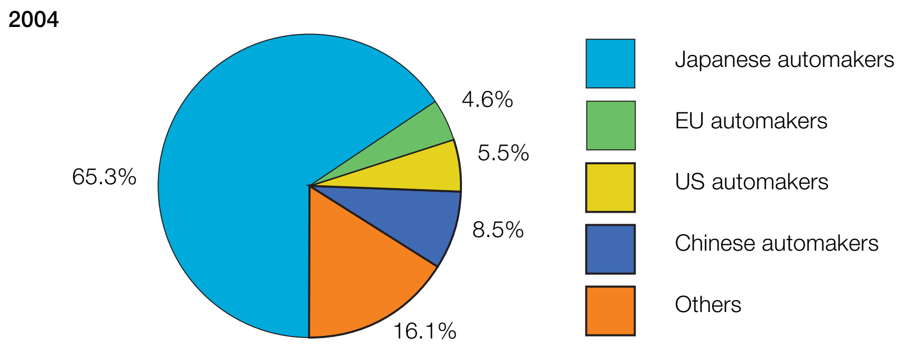


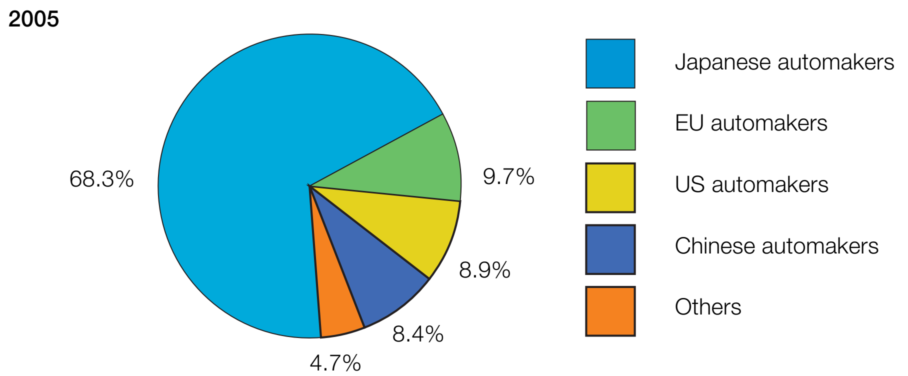
Turnover by customer group

	2003		2004		2005	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Customer group						
Japanese automakers	125,989	42.2	303,100	65.3	463,782	68.3
EU automakers	12,181	4.1	21,479	4.6	66,152	9.7
US automakers	14,792	4.9	25,722	5.5	60,546	8.9
Chinese automakers	41,117	13.8	39,477	8.5	56,892	8.4
Others *(Note 1)*	104,754	35	74,569	16.1	31,465	4.7
Total	298,833	100	464,347	100	678,837	100
Less: Sales tax	(57)		(169)		(231)	
Total turnover *(Note 2)*	298,776		464,178		678,606	

Note 1: Apart from automakers, the Group also serves other auto-parts producers and trading companies. These may include joint ventures set up by multinational automakers in China.

Note 2: The total turnover includes export of RMB10,148,000, RMB23,134,000 and RMB60,750,000 in 2003, 2004 and 2005 respectively.





The Group has continued to expand the production of its key product categories. In 2005, the three main product categories achieved a turnover of RMB602,426,000, or approximately 88.7% of the total turnover, representing a growth of approximately 11.1% over 77.6% in 2004.

In 2005, Japanese automakers accounted for a turnover of RMB463,782,000 or approximately 68.3% of the total turnover, representing a growth of approximately 3.0% as compared to the figure in 2004. European automakers accounted for a turnover of RMB66,152,000 or approximately 9.7% of the total turnover with a growth of approximately 5.1% as compared to the figure in 2004. US automakers accounted for a turnover of RMB60,546,000 or approximately 8.9% of the total turnover and representing a growth of approximately 3.4% as compared to the figure in 2004.

COST OF GOODS SOLD

Cost of goods sold in 2005 totaled RMB406,641,000 (2004: RMB277,640,000). Direct materials, direct labor and overhead accounted for approximately 68.2% (2004: 70.2%), 4.5% (2004: 5.3%) and 27.3% (2004: 24.5%), respectively, of the total cost of goods sold in 2005.

GROSS PROFIT

The gross profit for the financial year ended 31 December 2005 amounted to RMB271,965,000, representing a growth of approximately 45.8% as compared to the gross profit of RMB186,538,000 in 2004. The gross margin remained stable, dropping slightly from approximately 40.2% in 2004 to approximately 40.1% in 2005. The gross profit margin remained fairly stable because the negative effects of falling prices were offset by localizing raw materials purchases and the launching of new products.

OTHER INCOME

Other income amounted to RMB23,545,000 in 2005, up approximately 11.4% from RMB21,142,000 million in 2004.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses amounted to RMB15,402,000 in 2005, an increase of approximately 98.2% from RMB7,771,000 in 2004. This was attributed to increases in export sales which required correspondingly more logistics expenses and efforts in developing new markets, especially those in the overseas, as well as the increase in the number of staff, wages and travel expenditure.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to RMB72,455,000 in 2005, an increase of RMB25,622,000 from RMB46,793,000 in 2004. This was attributed to the expanded scale of the Group's operations, the increase in the number of administrative staff, improvement on welfare and benefits and listing expenses.

INTEREST ON BANK BORROWINGS

The Group's interest on bank borrowings for 2005 was approximately RMB9,088,000, an increase of RMB6,981,000 from RMB2,107,000 in 2004. This was mainly due to an increase in the Group's bank loan balance.

TAXATION

For the financial year ended 31 December, 2005, the Group's taxation was approximately RMB12,179,000 (2004: RMB6,251,000), with an effective tax rate of approximately 5.8% (2004: 4.1%). This represented an increase of approximately 94.8%. The increase was mainly due to an increase in the Group's profits and expiry of tax-free period for Guangzhou Minhui.

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

Profit attributable to the shareholders of the Company for 2005 was about RMB195,067,000, an increase of approximately 58.5%, as compared to RMB123,091,000 in 2004. The net profit margin was approximately 28.7%, an increase of approximately 2.2% from 26.5% in 2004.

MINORITY INTERESTS

The Group's minority interests for 2005 amounted to about RMB3,041,000, a decrease of 86% from RMB21,667,000 in 2004. The main reason is that the Group reached an agreement with a subsidiary minority shareholder that the Group paid a fixed sum to the minority shareholder in exchange for all dividends it is entitled for four years ending 31 December 2008.

DIVIDENDS

Dividends declared by the Group was RMB164,903,000 for 2005 and RMB109,562,000 for 2004 respectively, representing an increase of 50.5%. A final dividend of HK$0.033 per ordinary share of the Company is recommended, amounting to HK$27,390,000.

FINANCIAL DATA

For the financial year ended 31 December 2005, cash and bank balance increased from RMB86,380,000 to RMB465,540,000. Such increase was mainly attributable to the proceeds from the Company's listing and operational results for 2005.

The Group's gearing ratio reduced to 16.4% in 2005 from 17.5% in 2004.

During the financial year under review, the current ratio also increased from 1.1 to 2.7.

Inventories turnover days reduced to 94 days in 2005 from 104 days in 2004, mainly due to the Group's improved inventory control.

Due to the Group's increased control on accounts receivable, receivables turnover days reduced from 93 days in 2004 to 80 days in 2005.

Payables turnover days reduced to 77 days in 2005 from 106 days in 2004, which mainly resulted from the Group's efforts on sourcing of new suppliers in order to reduce purchase cost. The new suppliers requested relatively shorter credit period because of the new relationships. On the other hand, many current suppliers requested for price increase due to the increase in raw material cost. The Group refused to increase its purchase costs but agreed to shorten the credit period in order to obtain better terms with its current suppliers.

On the whole, the Group closely supervised liquidity with a view to maintaining a well-balanced capital structure.

CAPITAL COMMITMENTS

As at 31 December 2005, the Group had the following commitments:

	(RMB'000)
Operating lease arrangements	1,997
Capital commitments	50,320

Operating lease arrangements refer to minimum rental payments on land lease commitments. Capital commitments refer to contracts signed on purchases of property plants and equipment which had not been recognized as the Company's assets as at the end of the financial year 31 December 2005.

INTEREST RATE AND FOREIGN EXCHANGE RISKS

Majority of the Group's sales and procurements are calculated in Renminbi ("RMB"). In order to mitigate the foreign currency risk, management will closely monitor such risks and consider hedging significant foreign currency exposure should the need arises.

As of 31 December 2005, the Group's bank loan balance was about RMB230,252,000, of which about RMB149,452,000 was denominated in U.S. dollars with floating interest rate. The exchange rate fluctuation of U.S. dollars relative to RMB represents a foreign exchange risk.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2005.

CAPITAL EXPENDITURE

During the year ended 31 December 2005, the Group's investment in property, plant and equipment, construction in progress and land use rights amounted to RMB152,218,000, an increase of 53.2% from RMB99,374,000 of 2004. These capital investments were attributed to the expansion of its production facilities in order to meet increasing demands from customers.

NET PROCEEDS FROM INITIAL PUBLIC OFFERING

Net proceeds from the Initial public offering were approximately RMB508,007,000. As the Company was listed on the Hong Kong Stock Exchange on 1 December 2005, the Group has not utilised much of the proceeds from the initial public offering. Substantially all of the proceeds have been placed in the Company's bank accounts in Hong Kong and mainland China; except for a small portion that has been used for working capital in expanding operations scale and capital expenditure.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2005, the Group had 1,841 employees, an increase of 577 from 2004. Total employee cost in 2005 accounted for 10% (8% in 2004) of the Group' total turnover.

The Group provides employees with such welfare as medical treatment insurance and pension according to the continuous and stable human resources administration policy.

SHARE OPTION SCHEME

The Group adopted a Share Option Scheme, the purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentive of rewards for their contributions to the Group. Please refer to page 26 for details

FUTURE DEVELOPMENT

Market

Although there was a slight decrease in the growth of the Chinese automotive industry in 2004, the industry recovered and had a rapid growth both in output and sales in 2005. It is anticipated that in the next ten years, the Chinese automotive industry will remain the world's fastest growing market. Although there might be short-term market fluctuations or fluctuations in certain sectors, the overall growth momentum is expected to remain strong. The Group will continue to identify clients with growth potentials. In order to meet the needs of clients, the Group will expand its production facilities and also invest in new facilities in line with the growth of clients. This will help to raise the Group's competitiveness, while minimizing risks as much as possible. As such, the Group will grow together with its clients. In addition, the Group will establish and maintain close contact with Chinese automakers that are not currently clients and conduct systematic and thorough business assessment for future businesses at an more opportune time.

In the coming years, the Group will expand its export operations by establishing offices, research and development centers and production facilities in key overseas markets. The Group also aims to establish its manufacturing bases for export. With the close relationships established with Sankei Giken Kogyo Co. Ltd. of Japan and Carl Kittel Autoteile GmbH of Germany in 2005, as well as other technological and business alliances that the Group has formed, the Group will strive to explore the markets in North America, Europe, Australia, Japan and Southeast Asia.

Suppliers

The Group will continue to pursue centralized procurement approach and work with key suppliers and process contractors . The assessment of supplier's management system and cost control will be strengthened, and the relationship with the suppliers will be consolidated to improve the quality and price stability of raw materials and semi-finished products.

Research and Development

The Group will expand its existing R&D and product design departments in 2006. In managing the allocation of internal resources of new product categories, new process technologies and new materials, the Group will continue to strengthen its capabilities and experiences of simultaneous engineering and also accumulate its technical know-how of new process technologies including anodizing and new materials. By building on its current technological base, the Group will be in a position to expand its product category, so as to consolidate its core competency.

Enterprise Resource Planning (ERP)

Based on its past experience, the Group will continue to proceed with its ERP implementation in all its subsidiaries. This will help to streamline the management and operations of the Group by implementing more precise financial management in day-to-day operations, and improve the centralized management system for more efficient resource allocation.