BUSINESS REVIEW 2005

In line with the country's economic growth, the Chinese tyre industry continued to show strong results. Total industry production reported an increase of 16.64% amounting to 148 million units. Although radial tyres will continue to be the major driving force, the Truck and Bus Bias (TBB) tyre sector still represents a substantial part of the total market. Total production last year reached 25 million units.

In view of the rapid radialisation process, the Company has developed certain business strategies to ensure sustainability and implemented various internal programs to remain competitive, which have shown encouraging results.

The Joint Venture had in 2005 successfully turned from a loss to become one of the most competitive bias tyre manufacturers in China. The Company reported a turnover of RMB833.5 million, representing an increase of 26.8%, with a net profit of RMB17.2 million as compared to a RMB6.6 million loss last year.

Management believes that with the ongoing efforts to control overall cost, improve plant efficiency and create the right mix of products, the Company will be on track to be the most successful bias tyre manufacturer in China.

SALES

The Joint Venture achieved record sales in 2005. The encouraging results were due largely to 3 different areas. Firstly, our earlier effort in promoting our product overseas has brought positive results. With export growing by 64 % last year.

Secondly, we have managed to pass on the increases in raw material prices to the marketplace. The average unit selling price was increased by 22% for export sales and 12% for domestic sales, while total sales units continued to grow.

Thirdly, a thorough understanding of road conditions, loading weights and service distances, has led us to develop specific products that are superior to those of our competitors. This has led to increased sales and lower product failure claims, further enhancing our brand image.

PRODUCTION

In 2005, the production department was completely revamped to promote accountability and inculcate modern manufacturing practices. Various international standard key performance parameters were put in place for weekly management review and all present performance figures are clearly marked for improvement over a specific timeframe.

By closely monitoring all areas of manufacturing costs and plant efficiency, the Company identified key area for improvement and implemented changes accordingly. Many positive measures have been implemented and are clearly reflected in the weekly management reports. As an example, the Company successfully commissioned the reverse osmosis water treatment system in September and was the first in the industry to introduce laser marking technology for all tyre serial numbers. Both measures have significantly brought down the cost of operation compared to the traditional method. The Company expects continued reduction in utilities cost, scrap level and higher production yields.

PROSPECT

Considering the overall business conditions, the Company is confident about its future prospects. The rapid radialization process will certainly takes up significant portion of the market share, but it will also provide an opportunity for the Company.

Most competitors are turning to radials with minimal attention to bias tyres. Other players in the industry are either unable to command a premium on their product or do not have the economies of scale to stay competitive. The Company has taken advantage of this trend by focusing on the bias market with a clear marketing strategy and offering a high quality product at an acceptable price.

The ever rising raw material cost is a concern to all. Natural rubber has hit historic record high price and with the looming oil crisis, the Company expects raw material costs to remain high for the year 2006. The Company will continue to strike for correct selling price in order to maintain an acceptable profit margin.

The Company will continue to find niche markets both locally and abroad. Given its versatility and experience in manufacturing, the Company is set to grow further.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the year under review, the Joint Venture has reduced its dependency on bank borrowings, all of which are in Renminbi ("RMB"). Borrowings of RMB107 million in the previous year are now down to RMB 100 million. As cash flow remains positive, the Joint Venture does not foresee any working capital difficulty and accordingly expects the level of bank borrowings to remain stable over the next few years.

As at 31 December 2005, the Group had cash and bank balances amounting to HK$35,461,000 (2004: HK$36,031,000) and short-term borrowings of HK$67,259,000 (2004: HK$70,341,000). The borrowings bear fixed interest at 6.42% - 7.01% (2004: 6.11% - 7.01%) per annum. As at 31 December 2005, the Group had total assets of HK$520,446,000 (2004: HK$494,597,000) which were financed by current liabilities of HK$142,347,000 (2004: HK$132,980,000) and shareholders' equity of HK$378,099,000 (2004 : HK$361,617,000).

Capital Structure

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only of ordinary shares.

Gearing and Liquidity ratio

The Company's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.178 (2004: 0.195). The liquidity ratio, representing the ratio between current assets over current liabilities, was 1.29 (2004: 1.15).

Charges on Group Assets

As at 31 December 2005, the Joint Venture pledged buildings, relevant rights of land use and production equipment with a carrying value of approximately RMB247 million for banking facilities.

Contingent Liability

The Group did not have any material contingent liabilities as at 31 December 2005.

Segmental Information

The segmental information of the Group products is set out in the financial statements on page 66.

Employees

The Joint Venture 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 Joint Venture 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 payments to suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally in US Dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Company's results. Management will continue to monitor closely the exchange risk and hedge using forward exchange contracts and applicable derivatives when necessary.