Management Discussion and Analysis

INDUSTRY OVERVIEW

During the financial year under review, the Group continued to focus on the design, manufacture and sales of trim, decorative parts and body structural parts for passenger cars both in the PRC and the overseas market. The PRC passenger car market grew rapidly in 2006, with approximately 5,233,100 units in production and 5,176,000 units in sales, representing an increase of 32.76% and 30.02% respectively over last year, whereas the overseas markets continued to maintain a stable growth.

For the year under review, the fluctuation in relevant raw materials supply has dampened whereas the passenger car market remained competitive and the requirements regarding the manufacturing technology of auto-parts manufacturers, quality and cost control capabilities became stringent.

During the financial year under review, the Group continued to implement its client selection, research and development, centralized procurement, interactive approach with its suppliers, and stringent production management and system standards, and therefore was able to promote the sales and network in overseas markets and complete a fundamental network in the domestic market accompanying the development of the domestic market itself. By making these efforts, the Group was able to further consolidate its strong and leading position in the domestic market and benefited from the rapid growth of the market.

COMPANY OVERVIEW

Business and market network

During the year 2006, the Group further secured new tier 1 supplier licenses from the leading passenger car manufacturers in the PRC including Nanjing Ford, Guangzhou Toyota, FAW-Volkswagen, Chery Automobile, DPCA, and Beijing Hyundai, and so far has successfully leveraged on the development of structure of the PRC passenger car market, making itself tier 1 supplier for all the passenger car manufacturers within the PRC market. These achievements also demonstrated the Group's comprehensive capabilities in R&D, manufacturing and services in fulfilling the numerous and demanding requirements of diversified automakers including Japanese, European, American, South Korean, and Chinese automakers.

During the year 2006, the Group acquired the control of six subsidiaries by new set-ups and/or mergers and acquisitions, by using internal resources. The Group established four affiliates with its partners during the same period. Furthermore, the Group entered into arrangements of selling a part of equity interests in its subsidiary Tianjin Shintai Automobile Parts Co., Ltd. and acquiring the equity interests in its subsidiary Chongqing Changtai Automobile Spare Parts Co., Ltd. held by its partner, making Chongqing Changtai Automobile Spare Parts Co. Ltd. a wholly-owned subsidiary.

In the coming financial year, the Group expects to set up several more joint-ventures or wholly-owned subsidiaries in areas such as Changchun and Jiaxing.

Management Discussion and Analysis

The above-mentioned companies will be engaged in key business including the manufacture of core products, the design and manufacture of moulds, and extended business involving passenger car minor change design and accessory design; the Group will also start in the investment management and resource rationalization in the automobile parts industry. The Group believes such new set-ups, disposal and acquisitions will benefit the Group in promoting its comprehensive technology development capabilities, expanding and consolidating client resources, establishing the PRC domestic market network and enhancing the management efficiency.

During the year under review, the Group's business grew steadily in the overseas markets including North America, Europe, Australia, and Japan, and successfully secured contracts for certain passenger cars and/or concurrent design assignments in these areas with major automakers such as General Motors North America, CAMI in Canada, SAAB in Sweden, General Motors and Ford in Australia and Nissan in Japan. More importantly, the Group initiated the reorganization of internal resources based on overseas business experience and clients' requirements to build up an efficient marketing team, which would fulfill different requirements from diversified clients and implement various functions such as client response, project management, and information support. At the same time, by leveraging on the overseas mergers and investment opportunities overseas, the Group will invest more resources in managing the cooperation between the overseas business divisions with other relevant divisions within the Group.

The Group has also set up offices in Tokyo, Japan and Detroit, USA. The Group will leverage on the opportunities of concurrent design assignments brought by US clients in building up a concurrent design team. These offices will focus on quick response and after-sales services in our overseas markets and at the same time, the Group will pursue business opportunities along with some of its partners to establish a multi-channel sales network.

Research and development

The Group believes R&D capability contributed first and foremost to the Group's perpetual developments. It will also constitute the core competitiveness of the Group in sustaining leadership in future.

For the financial year ended 31 December, 2006, the Group continued to put great efforts in enhancing the comprehensive R&D capabilities by more investment and the R&D expenditures of the year 2006 increased by 25.2% compared with 2005. For the financial year ended 31 December, 2006, in terms of R&D, our major objectives were to professionalize the technique and expand the production in plastic injection moulds, stamping dies and surface treatment; in terms of products, the Group put more emphasis on improving the concurrent design capability in decorative parts and body structural parts as well as building up of relevant design teams. In addition, the Group's R&D was extended to interrelated businesses such as minor change design and accessory design, based on which the Group re-organized the internal resources and workload system of its design team. It also achieved progress in the R&D of its core products and other new product categories including the electric sliding door project which has entered into the testing phase and is expected to be taken into commercial operation should the timing be right.

For the financial year 2006, the Group submitted 39 patent applications in the PRC which were accepted by China Patent Bureau for examination and approval. Among these, 20 were approved and granted.

RESULTS

During the period under review, the Group achieved sound growth results in turnover and profit attributable to the shareholders.

In 2006, consolidated turnover of the Group was RMB956,232,000, representing an increase of approximately 40.9% compared to RMB678,606,000 in 2005. This was mainly due to the continuous expansion of the Group in new markets as well as the consolidation in existing markets.

Profit attributable to shareholders of the Company was RMB268,701,000, representing an increase of approximately 37.7% compared to RMB195,067,000 in 2005. This was mainly due to the Group's focus on costs and expenses control when there was continuous turnover growth, and this in turn resulted in the Group's stable profit margin.

PRODUCT SALES

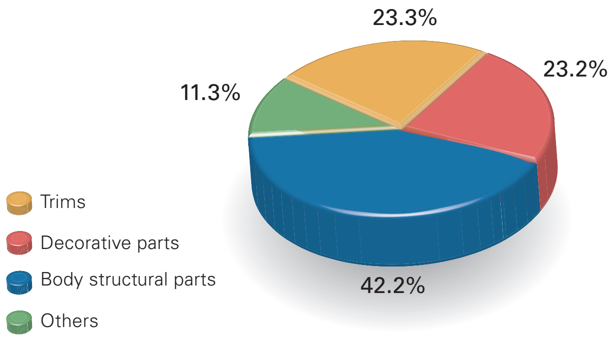
In 2006, the Group continued to focus on the production of its three core product categories and products were mainly sold to the factories of the world's leading automakers.

Turnover analysis by product category is as follows:

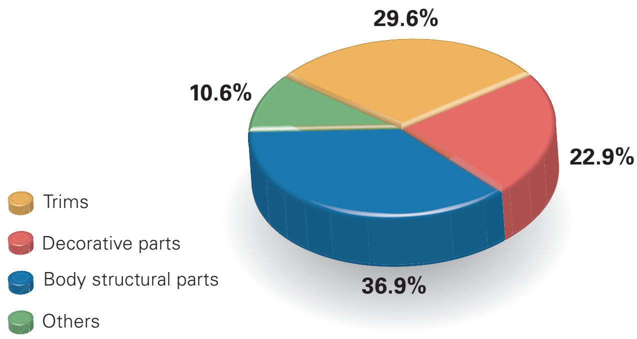
	2004		2005		**2006**	
Product category	RMB'000	%	RMB'000	%	**RMB'000**	**%**
Trims	127,500	27.5	158,464	23.3	**283,346**	**29.6**
Decorative parts	63,119	13.6	157,691	23.2	**219,190**	**22.9**
Body structural parts	169,529	36.5	286,271	42.2	**353,194**	**36.9**
Others *(Note)*	104,199	22.4	76,411	11.3	**101,252**	**10.6**
Total	464,347	100	678,837	100	**956,982**	**100**
Less: Sales tax	(169)		(231)		**(750)**	
Total Turnover	464,178		678,606		**956,232**	

Note: Includes PVC, moulds, headliner and others

2005



2006



Management Discussion and Analysis

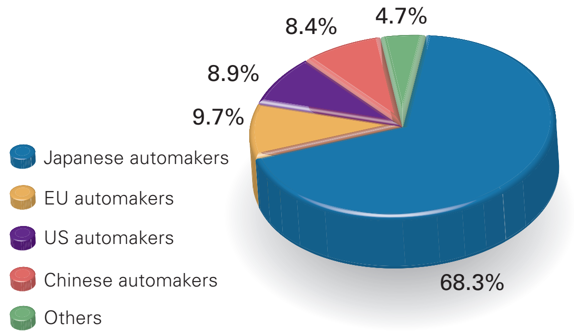
The Group has continued to expand the production of its core product categories. In 2006, the three core product categories achieved a turnover of RMB855,730,000, in which the turnover of trims, decorative parts, and body structural parts of passenger cars were RMB283,346,000, RMB219,190,000, and RMB353,194,000 respectively, or a proportion of 29.6%, 22.9% and 36.9% respectively. The proportion of core product categories to the total turnover was 89.4%, representing an increase of approximately 0.7% from 2005.

Turnover by regions based on client source/headquarters locations is as follows:

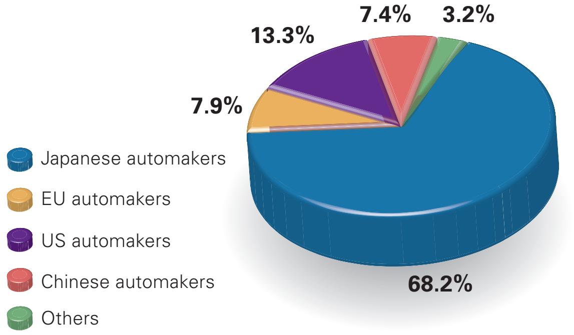
	2004		2005		**2006**	
Customer category	RMB'000	%	RMB'000	%	**RMB'000**	**%**
Japanese automakers	303,100	65.3	463,782	68.3	**653,056**	**68.2**
EU automakers	21,479	4.6	66,152	9.7	**75,751**	**7.9**
US automakers	25,722	5.5	60,546	8.9	**127,730**	**13.3**
Chinese automakers	39,477	8.5	56,892	8.4	**70,687**	**7.4**
Others *(Note)*	74,569	16.1	31,465	4.7	**29,758**	**3.2**
Total	464,347	100	678,837	100	**956,982**	**100**
Less: Sales tax	(169)		(231)		**(750)**	
Total turnover	464,178		678,606		**956,232**	

Note: Others denote clients using non-direct auto spare parts products of the Group.

2005



2006

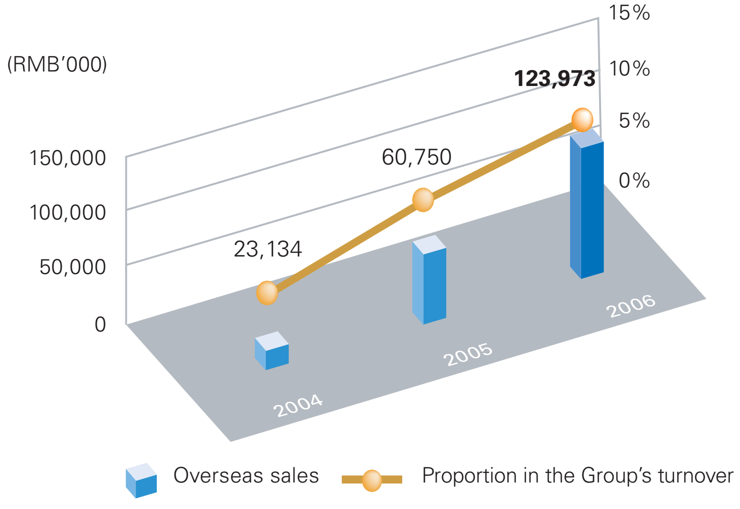


In 2006, Japanese automakers accounted for a turnover of RMB653,056,000 or 68.2% of the total turnover, representing a decrease of approximately 0.1% as compared to 2005. EU automakers accounted for a turnover of RMB75,751,000 or approximately 7.9% of the total turnover with a decrease of approximately 1.8% as compared to 2005. US automakers accounted for a turnover of RMB127,730,000 or approximately 13.3% of the total turnover and representing an increase of approximately 4.4% as compared to 2005. Chinese automakers accounted for a turnover of RMB70,687,000 or 7.4% of the total turnover, representing a decrease of approximately 1.0% as compared to 2005.

Overseas sales:

During the period under review, the Group's turnover from overseas markets was approximately RMB123,973,000, representing an increase of approximately 435.9% and 104.1% respectively as compared to 2004 and 2005, with the proportion in the Group's total turnover increasing to approximately 13% in 2006 from approximately 5% in 2004 and approximately 9% in 2005.

	2004		2005		**2006**	
	RMB'000	%	RMB'000	%	**RMB'000**	**%**
Overseas sales	23,134	5	60,750	9	**123,973**	**13**



Management Discussion and Analysis

COST OF GOODS SOLD

The cost of goods sold in 2006 was RMB579,835,000 with direct materials, direct labor and overheads accounting for approximately 68.1%, 5.7% and 26.2% respectively. The cost of goods sold in 2005 totaled RMB406,641,000 with direct materials, direct labor and overheads accounting for approximately 68.2%, 4.5% and 27.3% respectively.

GROSS PROFIT

The gross profit for the financial year ended 31 December, 2006 amounted to RMB376,397,000, representing an increase of approximately 38.4% as compared to approximately RMB271,965,000 in 2005. The gross margin decreased slightly by 0.7% from approximately 40.1% in 2005 to approximately 39.4% in 2006. The gross profit margin remained fairly stable because the negative effects of falling prices were offset by sourcing local raw materials and the launching of new products.

OTHER INCOME

Other income amounted to RMB28,440,000 in 2006, increased by approximately 20.8% from RMB23,545,000 in 2005.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses amounted to RMB31,777,000 in 2006, an increase of approximately 106.3% from RMB15,402,000 in 2005. This was attributed to the increase in export sales which required correspondingly more logistics expenses and efforts in developing new markets, especially overseas markets as well as the increase in the number of staff, wages and travel expenditure.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to RMB99,163,000 in 2006, an increase of RMB26,708,000 from RMB72,455,000 in 2005. This was attributed to the expanded scale of the Group's operations, the increase in the number of administrative staff, and improvement of welfare and benefits.

INTEREST ON BANK BORROWINGS

The Group's interest on bank borrowings for 2006 was approximately RMB2,827,000, a decrease of RMB6,261,000 from RMB9,088,000 in 2005. This was attributed to the decrease of bank loans as the Group has sufficient overall funding since its listing.

TAXATION

The Group's taxation increased from approximately RMB12,179,000 in 2005 to approximately RMB14,483,000 in 2006, representing an increase of 18.9%. The effective tax rate decreased from 5.8% for 2005 to approximately 5.0% for 2006, which was due to the rapid growth of the two subsidiaries of the Group in 2006 which were still enjoying the tax-free period and the share of the Group's profit in these two companies increased from approximately 24.5% in 2005 to approximately 38.3% in 2006.

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE GROUP

Profit attributable to the shareholders for 2006 was about RMB268,701,000, an increase of approximately 37.7%, as compared to RMB195,067,000 in 2005. The net profit margin in 2006 was approximately 28.1%, a slight decrease of approximately 0.6% from 28.7% in 2005.

MINORITY INTERESTS

The Group's minority interests for 2006 amounted to about RMB6,405,000, an increase of 110.6% from RMB3,041,000 in 2005. The principal reason was that a minority shareholder of a subsidiary (Guangzhou Minhui Automobile Parts Co. Ltd) had accepted the payment by the Group and given up all the dividends distribution in 2005 whereas in 2006 it took dividend in the form of fixed distribution in profit.

DIVIDENDS

Dividends declared by the Group were RMB27,519,000 for 2006. A final dividend of HKD0.097 per ordinary share of the Company is proposed, amounting to approximately HKD80,510,000.

FINANCIAL DATA

Cash and bank balances decreased from RMB465,540,000 for the financial year ended 31 December, 2005 to RMB232,071,000 for the financial year ended 31 December, 2006. During the year under review, the cash outflow was mainly attributed to the expansion of operation scale, productivity enhancement, increasing production facilities of the Group and investments to consolidate and develop its strategic alliance.

Current ratio decreased from 2.7 in 2005 to 2.6 in 2006.

Inventories turnover days reduced to 86 days in 2006 from 94 days in 2005, mainly due to the Group's improved inventory control.

Due to the Group's increased control on accounts receivable, receivables turnover days reduced from 80 days in 2005 to 64 days in 2006.

The payables turnover days reduced to 62 days in 2006 from 77 days in 2005, which is mainly due to our refusal to the price increase in raw materials and acceptance to the shortening of the credit period to obtain better commercial terms with its current suppliers as the suppliers were requesting for price increase due to the increase of raw material costs.

Note: The computation methods of above indices are same as those set out in the prospectus of the company dated 22 November, 2005.

In general, the Group will closely monitor its liquidity to ensure a rational capital structure.

Management Discussion and Analysis

COMMITMENTS

As at 31 December, 2006, the Group had the following commitments:

	RMB'000
Operating lease arrangements	2,575
Capital commitments	55,638

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, and agreed investments in jointly controlled entities which had not been recognized as the Group's assets as at the end of the financial year ended 31 December, 2006.

INTEREST RATE AND FOREIGN EXCHANGE RISKS

Majority of the Group's sales and procurements are calculated in Renminbi ("RMB"). With the expansion of the overseas operation, the management is closely monitoring the foreign currency risk and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December, 2006, the Group's bank loan balance was about RMB38,154,000 all with fixed interest rate.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December, 2006.

CAPITAL EXPENDITURE

During the year 2006, the Group's investment in property, plant and equipment, construction in progress and land use rights amounted to RMB179,743,000. These capital expenditures were attributed to the expansion of its production facilities in order to meet increasing demands from clients.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2006, the Group had 2,607 employees, an increase of 766 from 2005. The total employee costs in 2006 accounted for 10.7% of the Group's total turnover, an increase of approximately 1.1% from 2005.

The Group provides employees with social benefits such as medical treatment insurance and pension according to our human resources administration policy.

A major subsidiary of the Group was OHSAS 18001 certified, which will help to improve the employees' occupational health and safety.

FUTURE DEVELOPMENT

Market

Following a recovery growth in 2005, the Chinese passenger car industry demonstrated a strong and rapid boost in 2006. As a result of the overall economic growth in China and the industry directions and policies that encourage product localization, industry rationalization and export expansion, the two main characteristics of Chinese automobile industry, fierce market competition and highest growth rate in the world, will remain unchanged in the years to come.

PRC policy environment

In the year to come, the Chinese automobile industry will continue to be directed by "Automobile Industry Development Policy" promulgated by China National Development and Reform Commission in 2004 and the "Notice on Accelerating Structural Adjustment on Industries with Excessive Production Capacity" promulgated by the State Council of China in March 2006 as guidelines. The Group believes that these policies will be the directions in encouraging product localization, local brand building, industry rationalization and export expansion which fit well with the developing strategy of the Group.

PRC has recently published on 16 March, 2007 the new Enterprise Income Tax Law ("New Tax Law"), which will take effect on 1 January, 2008. Subject to this Law, both the domestic and foreign-invested companies will enjoy the same tax rate of 25%. Meanwhile, the "Tax Holidays" currently enjoyed by foreign-invested companies will remain effective for a certain period ("Transitional Arrangement"). The State Council is authorized to make by-laws and regulations concerning the implementation of this Law and Transitional Arrangement. However, such by-laws and regulations have not been promulgated.

Most members of the on Group are PRC foreign-invested enterprises and therefore will enjoy the Transitional Arrangement after the Law takes effect on and after 1 January, 2008. As a result, it will affect slightly the Group's consolidated taxation in short term, however, the long-term consolidated tax rate may increase accordingly. The Group has planned and prepared in advance to reduce the negative impact as much as possible.

OUTLOOK

The Group believes that by leveraging on the domestic market network fundamentally completed in 2006 as well as the utilization of the resources of both domestic and foreign clients, it will benefit greatly from persevering in the strategies of client selection, R&D capability improvement, centralized procurement, interactive approach with its suppliers, and stringent production management and system standards, which are expected to attribute to the financial performance of the Group in the coming years.