Management Discussion and Analysis

OVERVIEW

The Group's turnover during the year amounted to approximately RMB190,736,000, an increase of 7.6% from last year. The Group has diversified its automobile maintenance equipment product line marking for the exploration of new markets and increase its existing market share for the year. The overall gross profit margin decreased from 36.1% of 2005 to 31.9% of this year while the net profit margin improved to approximately 6.8%. Profit attributable to shareholders was approximately RMB15,317,000 (2005: loss of RMB25,703,000).

For the year ended 31 December 2006, the basic earnings per share of the Group was approximately RMB3.83 cents (2005: basic loss per share of approximately RMB6.43 cents).

OPERATING ENVIRONMENT

2006 was another challenging year for the automobile maintenance equipment manufacturing industry in the PRC. The price of steel and raw materials for manufacturing product recorded further increases while the downward adjustment in the selling prices of product continued, putting pressure on the gross profit margin of the sector.

Nevertheless, according to the statistics of China Association of Automobile Manufacturers, the production and sales volumes of vehicles in the PRC for the year 2006 were 7.3 and 7.2 million units, representing an increase of 27% and 25% respectively as compared with 2005. It would be beneficial to the automobile maintenance equipment manufacturing business.

AUTOMOBILE MAINTENANCE EQUIPMENT BUSINESS

In response to the market demand, the Group continued to invest in product research and development to maintain our competitiveness. The Group launched several new products such as wheel balancer and tyre changer for coaches during the year. Market response for these products has been encouraging. The Group has signed a contract with FAW Toyota as the sole supplier of car bench for their new sedan model which enhancing the overall sales of these products as a result.

During the year, the export sales of the Group were approximately RMB39,780,000, representing an increase of approximately 46.4% when compared with last year and approximately 20.9% of the total turnover. It mainly consists of automobile spray booth and car lifters. During the year, the Group sold its export products mainly through distributors. There are altogether three distributors located in the eastern, central and western parts of the United States. On the other hand, the Group further expanded its overseas markets to Middle East and Russia.

In previous years, the Group increased its market share and sales volume through the adoption of preferential sales policies for individual and scattered customers. As the market was very competitive in the past years, a number of small players with frail financial strength were eliminated from the market, and the Group has hence written off or made provision for the trade receivables from such customers. The Group has taken immediate measures by adjusting the relevant sales policies, tightening the credit control as well as reinforcing the collection of receivables.

AUTOMOBILE MANUFACTURING BUSINESS

In 2004, the Group established two joint ventures namely Nanjing Zhongda Jinling Double-Decker Bus Manufacture Company Limited ("Zhongda Jinling") with Jiangsu Jinling Transportation Group Limited and Sichuan Emei Coach Manufacturing Limited ("Sichuan Emei") respectively. The Group indirectly held 60% and 71% interest in Zhongda Jinling and Zhongda Emei respectively.

Zhongda Jinling is the only enterprise designated in the PRC for the development of double-decker city buses. It possesses the leading skills and technologies in manufacturing of double-decker buses. Currently, over 80% of the double-decker buses in the PRC are produced by Zhongda Jinling. The latest model has penetrated into the major cities in the PRC, like Beijing and Shanghai, in replacing the buses which modernized the city image and for tourist sight-seeing. Zhongda Jinling has completed all registration formalities for the sale of its products. We are pleased that its contribution to the Group will commence in 2007. During the year, the Group upgraded the technologies and production capacity of Zhongda Jinling to meet the increasing sales demand. With the expected completion of a new production plant by mid-2007, the annual production capacity of Zhongda Jinling will be substantially increased from 800 units to 3,000 units.

A settlement of the writ of summons sanctioned against Sichuan Emei was reached amongst its shareholder, details of which are disclosed in the press announcement of the Company dated 26 March 2007. Henceforth Sichuan Emei was no longer a subsidiary of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the net asset value of the Group amounted to approximately RMB173,114,000 (2005: RMB160,927,000), representing an increase of approximately 7.6% from last year. Net current liabilities amounted to approximately RMB7,286,000 (2005: RMB6,386,000), a increase of approximately 14.1% from last year.

As at 31 December 2006, cash and bank balances of the Group amounted to approximately RMB17,695,000 (2005: RMB4,566,000). Cash is mainly denominated in Renminbi. Long term and short term bank loans amounted to RMB nil and approximately RMB142,500,000 respectively (2005: RMB 27,070,000 and RMB77,430,000 respectively), representing a increase of approximately RMB38,000,000 from last year. As at 31 December 2006, the Group's bank borrowings as a percentage of net asset value was 82.3% (2005: 64.9%). The Group has been taking step to improve its leverage through equity financing.

The interest rates of bank borrowings ranged between 5.36% and 7.96% per annum (2005: between 4.65% and 7.49%). The collaterals provided for these bank borrowings mainly comprised certain land use rights and buildings of the subsidiaries of the Group. The revenue of the Group was mainly denominated in Renminbi and US Dollar, and the borrowings were mainly settled in Renminbi. The directors are of the view that since the exchange rate between Renminbi and US Dollar is relatively stable, there is no significant risk in relation to foreign exchange fluctuation.

As at 31 December 2006, the Group had contingent liabilities of approximately RMB12,122,500 (2005: RMB12,100,000).

Management Discussion and Analysis

PROSPECT

In 2006, the growth of the PRC automobile market regained its momentum, and it is expected that the increase in imported automobiles would give fresh impetus to the demand for automobile maintenance equipments. Beijing and Shanghai are going to host the Olympics Games and the World Expo. These large-scale international events will effectively increase the logistics which in turn increase the demand for vehicles. The growth in transportation presents the favourable business opportunities for the Group in the development of its automobile manufacturing, and automobile equipment and parts businesses as well as the consolidation of the local market share.

On the other hand, the PRC government is currently implementing a "San Tong" Project. The Project aims at covering rural area with television broadcast, highways and public transport. "Cun Cun Tong" Plan is dedicated to link the villages in rural area to urban area by public transport so as to improve the living standard of the inhabitants. It is estimated that the project would create a demand for more than 150,000 buses in next ten years.

With the enhanced production capacity of Zhongda Jinling by mid-2007, we are optimistic that the market share for double-decker bus in the PRC shall be further strengthened and benefited by the "Cun Cun Tong" Plan. The strong demand in the public transportation as a result of the accelerating nationwide economic development, we are confident with the rosy prospect of Zhongda Jinling and its contribution to the Group in the coming years shall be encouraging.

The Group shall continue to develop the automobile manufacturing business. By Zhongda Jinling in becoming a focal cosmopolitan double-decker bus manufacturer in the PRC, further expansions in the overseas market are the competitive advantages of the Group in the industry. The proposed establishment of a joint venture in Vietnam for chassis manufacturing and special purpose vehicles, as announced by the Company on 27 March 2007, is a milestone in the automobile manufacturing segment of the Group which will enhance future income stream.

The Group will continue to strengthen its leading position in the automobile maintenance equipment sector in the PRC. The automobile maintenance equipment business is expected to grow steadily. We would continue to invest in product research and development and the high-value specialized equipment will be piloting the future business growth of this business segment.

The market ecology of automobile maintenance equipment sector will shift from price to quality and service competition. The favourable government policy of "One Control Three Encourage" in the automobile sector would benefit the Group in a longer term. It explicitly advocates accelerating the development of commercial vehicle as well as automobile spare parts sector.