

SupplyScope China Company Report

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Prepared for:

13 August 2007

Client Name Withheld

Full Report Sample

Corporate Details

| Company Address | Legal Details | Import / Export License |
|---|---|---|
| Company Name Registered Address Street Address City Province Postal Code Trading Address Street Address City Province Postal Code Phone +86 Telephone Number Fax +86 Fax Number Email Email address Web site Web address/URL | Company Type Private Limited Company Country Registered CHINA Place of Registration The Industrial and Commercial Administration of Longkou City Registration Number 3706811801933 Date of Incorporation 23/01/1995 Operational from 23 January 1995 until 22 January 2015 | Date Issued 12 January 1996 License Number The company is licensed for export import trading Issued By Longkou Municipal Economic and Trade Commission |

Corporate Details content as of **16 September 2006**

Ownership and Banking

| Share Capital | Registered Alterations |
|--|------------------------|
| Share Capital Authorized : 101,143,500 Shares with a value ofRMB101,143,500 Share Capital Issued : 101,143,500 Shares with a value ofRMB101143500 | |

| Individual Shareholders | | |
|-------------------------|------------------------|-----------------------|
| Li Jinju | 5,506,600 Shares 5.44% | Since 23 January 1995 |
| Yang Luyie | 5,506,600 Shares 5.44% | Since 23 January 1995 |
| Liu Shurong | 5,506,900 Shares 5.44% | Since 23 January 1995 |
| Wang Qiwen | 5,506,900 Shares 5.44% | Since 23 January 1995 |
| Zhang Chao | 5,506,900 Shares 5.44% | Since 23 January 1995 |



| | | |
|---------------|------------------------|-----------------------|
| Zhao Yandong | 5,506,900 Shares 5.44% | Since 23 January 1995 |
| Zhu Shaohua | 5,506,900 Shares 5.44% | Since 23 January 1995 |
| Liu Yuanzan | 5,507,500 Shares 5.45% | Since 23 January 1995 |
| Zhang Qiaomin | 51,582,500 Shares 51% | Since 23 January 1995 |

Banking

Bank of China Longkou Branch, CHINA

Acc Number 1

Acc Number 2

Industrial and Commercial Bank of China Longkou Branch, CHINA

Acc Number 1

Acc Number 2

Ownership & Banking content as of **16/09/2006 15:35:16**

Officers & Staff

Zhang Changliang **Director** Appointed **23/01/1995**
 Position
Sales and Marketing Director Responsibilities
 Responsible for sales and marketing

Zhang Qiaomin **Director** Appointed **23/01/1995**
 Position
Chairman and General Manager. Also Legal Representative. Responsibilities
 Overall responsibility.

Officers & Staff content as of **16 September 2006**

Officers & Staff Detail

Zhang Changliang **Male** Appointed **23/01/1995**
 Position
Sales and Marketing Director Brief CV
 We have no details for Mr Zhang. It is possible that he is related to the Chairman, but Chinese surnames are common and there may be no relationship. We believe he has been involved in the business since it was established.
 DOB: **1976**

Zhang Qiaomin **Male** Appointed **23/01/1995**
 Position
Chairman and General Manager. Also Legal Representative. Brief CV
 Mr Zhang has been Chairman of THE COMPANY since it was founded. He is also a member of appropriate trade organisations in Shandong and a respected figure in the local business community. His background is in local government: from 1956 to 1961 he was accountant for the Hongguang Village committee, and from 1961 to 1971 vice party secretary of Longkou Hongguang Village. These positions will have given him both political skills and connections. Since the 1970s he has been involved in the automotive industry.
 DOB: **1939**

Officers & Staff Details as of **16 September 2006**

Number of Employees Information

| Date | Total Employees | Managers | Skilled | unskilled | Part Time |
|------------|-----------------|----------|-------------|-----------|-----------|
| 16/09/2006 | 3,450 | 20 (1%) | 2,500 (72%) | 930 (27%) | 0 (0%) |

Number of Employees Information as of **16 September 2006**

Associated Companies

Subsidiaries

THE COMPANY Autoparts Co., Ltd
 THE COMPANY Brake Drum Co., Ltd
 THE COMPANY Three Pumps Co. Ltd
 THE COMPANY Industry and Trade Co., Ltd
 THE COMPANY Machinery Co., Ltd

Associated Companies as of **16 September 2006**

Business Summary

THE COMPANY Co Ltd (referred to hereafter as THE COMPANY) is a large, privately owned company incorporated in its present form in China in 1995. The company is controlled by its Chairman Zhang Qiaomin, whose previous career was very much in local and village politics. The remaining shares are held by a number of individuals, each with 5.44% share.

THE COMPANY heads a group that is a major manufacturer of automobile parts and a significant player in that market in China. The company succeeds to the business of a previous state owned operation dating back to 1971.

Business Summary as of **16 September 2006**

Business Activity

THE COMPANY is based in Longkou City in Shandong Province, one of the more developed Eastern provinces of China. Longkou is close to the two major Chinese ports of Qingdao and Yantai. The business is based in a development zone.

THE COMPANY itself is a holding company for a number of subsidiaries, which manufacture a range of products. THE COMPANY is 100% shareholder in these subsidiaries. It is not only the holding company for the group, but directly runs the marketing and distribution of group products.

THE COMPANY directly controls five subsidiaries (THE COMPANY Machinery Co Ltd, THE COMPANY Pumps Co Ltd, THE COMPANY Autoparts Co Ltd, THE COMPANY Brake Drum Co Ltd, THE COMPANY Industry and Trade Co Ltd). Four of these the manufacturing entities in the group, the fifth, THE COMPANY Industry and Trade Co Ltd trades auto parts and is the exporting vehicle for the groups foreign sales.

The group produces brakes and related parts and a range of pumps. Brake parts include disks, pads and shoes for cars and trucks. The pumps are for water, fuel, air and oil. The group also produces parts for its various products.

THE COMPANY controls four factories, at which it employs a total of 3,450 people. The total production facility covers an area of 490,000 square meters. The factories are well equipped, with plant imported variously from Germany, Italy and Taiwan, and software developed in Israel. The group buys in raw materials from domestic producers – friction materials, copper, steel etc.

The group has been making OEM air pumps for state car producers China First Automobile Group Corporation and Second Automobile Group Corp and China for around 30 years. Other products are exported widely and the group has all necessary quality assurance accreditations to export auto parts to Europe and the USA, including ISO9002, USA QS9000, Germany VDA6.1, and ISO/TS16949.

THE COMPANY exports to North America, South America, West European, Australia and Southeast Asia. It exports to around 30 countries around the world. Within China, apart from the two customers already mentioned, THE COMPANY supplies Wuxi Diesel Engine Works, Changyang Diesel Engine Works, Yulin Diesel Engine Works, China National Duty Heavy Trucks Group, Weifang Diesel Engine Works and other well known engine and car works in China.

The group has its own export import license, which allows it to handle all export related systems and processes in house. Most of its products are sold directly to end users, but some are distributed through domestic auto parts traders and foreign traders.

Normally the company offers 30-90 day credit payment terms for domestic customers, and requires Letter of Credit from overseas customers. However, these terms are negotiable. In China the products are branded 'The CO', but most of its exports are sold OEM and carry the customer's own brand.

THE COMPANY is one of the biggest auto parts manufacturers in Shandong Province, and supplies many major Chinese vehicle and diesel engine manufacturers.

Business Activity as of **16 September 2006**

Legal Business Scope of the Business (equivalent to Memorandum of Association of a Western company). The translation has not been edited:

Production and sale of gas pump, water pump, oil pump and auto parts; export of self manufactured machinery products, import of raw materials, machinery and equipment, instruments and parts needed in the production; sale of hardware, chemical products, daily products, construction materials, furniture, decoration materials; garden design; arts and crafts production; sale of food, garments, tour products, aquatic products, wine and tobacco.

Production & Volumes

The company produces sufficient brake disks to fill around 2,000 containers per year, and about 400 containers of brake drums. We do not have actual production numbers of these products. It produced 5 million brake pad sets, and 1.5 million pump assemblies (including water, air and oil pumps).

Facilities

The company owns four factories around Longkou, occupying a total area of 490,000 square meters, of which 250,000 square meters is built on.

Facilities Information as of 16 September 2006

Strategic/Political

THE COMPANY is a private company with individuals as its shareholders. Though in the past it was a state enterprise, its private status will have removed its former direct access to state assistance in the form of tax relief or preferential access to attractive contracts. However, beneath the surface, the company will retain strong links with local government, particularly through the political connections of the chairman. It is a major employer in its region and also, incidentally, a major payer of tax. It will be politically expedient at the level of the local authorities, for it to retain a lot of implicit support.

Strategic/Political Information as of 16 September 2006

International Connections

The group has been developing international connections for some years. It attained most of its quality assurance accreditations in the late 1990s and early 2000s. These will have allowed it to sell to foreign buyers – who cannot buy from uncertified suppliers. This will in turn have opened up the international OEM market for the group, and it seems to have taken full advantage of this, with sales reportedly to at least 30 countries now. Some of its products are produced only for the overseas markets. THE COMPANY has good relationships with end users and traders in most countries where it sells its products.

International Connections as of 16 September 2006

Main Competitors

The automotive parts sector has become highly competitive, with a large number of new entrants (including many small ones) attracted by the prospects of growth in a vibrant sector. This is a common development process in Chinese industry and causes problems in several sectors (like steel production, for instance), where it has dampened the prospects of all players. THE COMPANY has a major advantage in both its many connections deriving from its long experience, but mainly from its capacity to produce goods at a certified qualified level acceptable to the Western markets.

We have listed a few major competitors, but there are too many to list in full in this context.

Main Competitors as of 16 September 2006

Competitors' detail

Anchi Auto Erake (Shenzhen) Co Ltd

Fujian Guanlean Automotive Parts Industry Co Ltd

HeBei XingYue Braking Element Co Ltd

Laizhou Luda Brake Pad Co Ltd

Lucky Industry Development Co Ltd

Ningbo BRAKETCH Auto Brake Systems Co Ltd

Shandong Gold Phoenix Group Corporation

Shanghai Leca Brake Products Co Ltd

Wuhu Zhongya Car Brake Parts Co. Ltd

Competitors Detail as of 16 September 2006

History

THE COMPANY was established in its present structure and form in 1995. It was originally incorporates in 1971 as a state owned enterprise. While in many cases this kind of legacy has been more of a hindrance than a help for the massive SOE's trying to pull themselves into the new market economy (many of them falling by the wayside in the process), THE COMPANY seems to have built on its past and brought itself into the modern market place with a positive reference to its state owned past.

History as of 16 September 2006

Assets

CNC Processing Equipment

| Comment | Qty | Value |
|---|-----|-------|
| Imported from Taiwan. Quantity and value not known. | 0 | N/A |

Production/assembly line

| Comment | Qty | Value |
|--|-----|-------|
| Processing centres imported from Taiwan. | 358 | N/A |

Testing instruments

| Comment | Qty | Value |
|--|-----|-------|
| Imported from Germany and Italy. Quantity and value not known. | 0 | N/A |

Assets as of 26 September 2006

Financial Figures

| Year | 2005 | 2004 | 2003 |
|----------------------------|------------------------------|----------------------------|---------------------------|
| Currency | RMB ,000 \$,000 | RMB ,000 \$,000 | RMB ,000 \$,000 |
| Balance Sheet | | | |
| Current Assets | 359,300.00 \$46,852.72 | 276,840.00 \$36,099.94 | 277,078.00 \$36,130.97 |
| Cash | | | |
| Accounts Receivable | 268,690.00 \$35,037.18 | 211,920.00 \$27,634.37 | 147,734.00 \$19,264.51 |
| Stock | 43,020.00 \$5,609.81 | 48,320.00 \$6,300.93 | 37,829.00 \$4,932.90 |
| Other Current Assets | 47,590.00 \$6,205.74 | 16,600.00 \$2,164.64 | 91,515.00 \$11,933.56 |
| Total Fixed Assets | 269,590.00 \$35,154.54 | 224,410.00 \$29,263.06 | 148,504.00 \$19,364.92 |
| Tangible Assets | 269,590.00 \$35,154.54 | 224,410.00 \$29,263.06 | 148,504.00 \$19,364.92 |
| Ongoing Projects | | | |
| Intangible Assets | | | |
| Long Term Assets | | | |
| Long Term Investments | | | |
| Deferred Assets | | | |
| Other Assets | 126,060.00 \$16,438.22 | 101,520.00 \$13,238.21 | 67,196.00 \$8,762.36 |
| Total Assets | 754,950.00 \$98,445.48 | 602,770.00 \$78,601.21 | 492,778.00 \$64,258.25 |
| Current Liabilities | | | |
| Short Term Loans | | | |
| Accounts Payable | | | |
| Other Current Liabilities | | | |
| Long Term Liabilities | | | |
| Debt Payable | | | |
| Long Term Loans | | | |
| Other Liabilities | | | |
| Total Liabilities | 654,430.00 \$85,337.67 | 348,470.00 \$45,440.49 | 282,950.00 \$36,896.68 |
| Minority Interests | | | |
| Total Share Holders Equity | 100,520.00 \$13,107.81 | 254,300.00 \$33,160.72 | 209,828.00 \$27,361.57 |
| Profit & Loss | | | |
| Operating Revenue | 1,494,360.00 \$194,864.54 | 814,100.00 \$106,158.64 | 652,000.00 \$85,020.80 |
| Operating Costs | 1,374,860.00 \$179,281.74 | 737,250.00 \$96,137.40 | 580,149.00 \$75,651.43 |
| Cost of Materials | 1,374,810.00 \$179,275.22 | 737,040.00 \$96,110.02 | 579,434.00 \$75,558.19 |
| Sales Tax & other Costs | 50.00 \$6.52 | 210.00 \$27.38 | 715.00 \$93.24 |
| Principal Operating Profit | 119,500.00 \$15,582.80 | 76,850.00 \$10,021.24 | 71,851.00 \$9,369.37 |
| Extraordinary Revenues | | | |
| Extraordinary Costs | 55,280.00 \$7,208.51 | 41,310.00 \$5,386.82 | 38,126.00 \$4,971.63 |
| Cost of Sales | 7,470.00 | 3,440.00 | 3,969.00 |

Financial Status

All Chinese companies have their year end on 31st December. We have accounts for THE COMPANY for the three years 2003, 2004 and 2005. Despite the normal unreliable nature of Chinese accounts (which are rarely audited and routinely `adjusted` to show poor results for tax avoidance purposes), THE COMPANY seems to be in this respect a model company, proud of its record as a major tax payer. We believe that its accounts probably present a truer picture of its financial condition than is the case with many Chinese companies.

Despite a fall back in demand for cars in China after 2003, THE COMPANY seems to have maintained healthy growth in both revenue and profit over the three years, with revenue rising from RMB 652 million in 2003, to RMB 814.1 million in 2004 and to RMB 1.5 billion in 2005. Profit was similar growth – RMB 35 million in 2003, RMB 44.5 million in 2004 and RMB 75.3 million in 2005.

Looking at the balance sheet, we do not have breakdown into long and short term liabilities so it is not possible to calculate working capital adequacy. Total assets exceeded total liabilities at the year end of all three years, but the current portion of assets was just over half the total in each year. If long term debt was significant (which is possible as the group has large investments in land and plant), then current assets will have exceeded current liabilities to give positive working capital. However, it must be said that we have some concern over the adequacy of the group`s solvency. It is possible that cash management is not tight, and in any case credit control is not strong in China.

Net margin over the three years hovered around 5%, which is respectable for a large Chinese operation of this nature and scope. Return on assets increased over the three years, to 10% in 2005. Overall, for a major Chinese business, THE COMPANY appears to be in acceptable financial health, though we note the point made above concerning the question of solvency.

Financial Status as of **16 September 2006**

Reputation

Payments

According to our sources in China, THE COMPANY pays reasonably for terms. Reports suggest that it pays overseas suppliers at around 95% to terms, while performance with domestic suppliers is not so good, with some 70% of invoices settled on time.

Foreign suppliers are mostly German, Italian, Israeli and Taiwanese. Domestic suppliers of raw materials are mostly from Shandong and surrounding provinces - Hebei, Henan, Zhejiang and others.

In the Market

This is a very large auto parts manufacturer in Shandong with over 10 years of history even in its present form, and twenty more before that. It supplies many Chinese auto manufacturers and as such is well reputed in the industry. We have certainly heard nonnegative reports of it either in the market or in the media.

Of The Management

The principals have a good grounding both in the industry and in local politics – a very useful combination in China. In addition to his background in local government, the chairman is a member of the Yantai Industrial and Commerce United Association, he is the director of THE COMPANY Municipal Development Zone. In 1995, he was presented by the Shandong Provincial Government with an award for his entrepreneurial achievements.

Of The Group

Reputation as of **16 September 2006**

Market Overview

Since the reform and opening up of China at the end of the 1970s, the auto industry in China has developed very fast. Car production has risen from less than 150,000 in 1978 to 6.15 million in 2005. The domestic market has been driven by increasing affluence, especially in the cities of the East, where car ownership has come within the reach of increasing numbers of people. The highest period of growth was between 2001 and 2003. Since then the year on year growth in sales revenues in the sector has declined from an astonishing 45.7% to a still respectable, but paling in

comparison 8% growth in 2005. Profit has also fallen commensurately. Various macro and micro economic factors have contributed to the decline in the Chinese market. Massive new investment both domestic and foreign, has led to overcapacity and thus driven down prices. At the same time, raw materials prices (especially steel) have gone up in price, so that profit margins have been squeezed from both sides. Also increasing fuel prices, increases in car related tax and other central government policies have reduced the desirability of car ownership and dampened demand somewhat. This has not prevented China's major cities from being clogged by traffic with daily extended gridlocks in many places. As a specialist parts producer, THE COMPANY benefited from the rapid growth of the industry. As growth has slowed right down, the group have exploited the price advantage it enjoys in the international markets due to its lower labour costs – added to its assiduous pursuit of the quality accreditations without which it would have been unable to sell to the western markets. Meanwhile its own domestic market remains the fastest growing in the world.

Market Overview as of 16 September 2006

Credit Rating

| | |
|--------------------------|--|
| Annual Sales | RMB 1,494,360 for the year 2005 |
| Financial Status | B : Profitable with positive balance sheet |
| Payment Record | C : Mostly good some late payments |
| General Trend | A : Positive |
| Credit Guidelines | B : Good liquidity/support, good at most credit levels |
| Future Prospects | B : Good |

Credit Rating as of 16 September 2006

Overall Rating

B : Strong

Overall Rating as of 16 September 2006

Overall Assessment

THE COMPANY is a major auto parts manufacturer in Shandong province, where it is a significant employer. The auto parts industry depends for its health, obviously, on the health of the vehicle manufacturing sector. In China this has been, apart from a recent dampening, a massively expansive sector. Despite its recent curbs, the central government has made a strong overall commitment to the sector. In many cities including Shanghai, Beijing, Tianjin, Chongqing, Changchun, Wuhan, Guangzhou, the automobile industry has become the local pillar industry.

In addition to benefiting from the domestic market, where it has been a major supplier to the biggest local manufacturers, THE COMPANY has been creating a good niche for itself in the export, and particularly OEM markets, gaining the necessary quality assurance accreditations. With production costs rising and western manufacturers (for example Ford) closing plants, the demand for cheap but high quality parts is rising, creating an ideal opportunity for companies like THE COMPANY. This trend is visible in the rising revenues of the company over recent years.

There are some stains on this otherwise rosy picture. Though it is moving still within a fairly narrow margin, the RMB is strengthening against the dollar and making Chinese products just that little bit less attractive in the world markets. Also, the massive growth of the auto industry has attracted (as is typical in China) a large number of newcomers to the market, who, though they cannot compete at the same level of quality as companies like THE COMPANY, still dilute the market and reduce prices.

Overall, the group is well entrenched in Shandong province, where it has a long and respectable history. It supplies a quality conscious industry with appropriate goods, and in the foreign markets at attractive prices. It will have the support of at least the local government. We would expect THE COMPANY to make a good business partner.

Overall Assessment as of 16 September 2006



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