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XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 1899)

2006
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LIU Jinlan (Chairman)
Mr. LIU Xiang
Mr. TAO Jinxiang
Mr. WU Xinghua
Mr. CAO Junyong
Mr. ZHANG Yuxiao

Non-executive Directors

Mr. LU Guangming George
Ms. WU Xiaohui
Mr. ZHOU Mingchen

Independent Non-executive Directors

Mr. KOO Fook Sun, Louis
Mr. William John SHARP
Ms. XU Chunhua

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. TSE Shiu Wah *FCCA, CPA*

AUTHORISED REPRESENTATIVES

Mr. ZHANG Yuxiao
Mr. TSE Shiu Wah

LEGAL ADVISORS

As to Hong Kong Law:
Deacons

As to PRC Law:
Jingtian & Gongcheng

AUDITORS

Deloitte Touche Tohmatsu

COMPLIANCE ADVISOR

DBS Asia Capital Limited

STOCK CODE

1899

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Room 03-08, 30th Floor, Shanghai Mart
2299 Yanan Road West
Shanghai 200336, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Standard Chartered Bank (Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal:
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch:
Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29th Floor, Admiralty Centre I
18 Harcourt Road
Hong Kong
Tel: (852) 2527 1628
Fax: (852) 2527 1271

Financial Highlights

	2006 RMB in million	2005 RMB in million	Change
OPERATING RESULTS			
Revenue	**2,516**	2,357	+6.7%
Gross profit	**732**	709	+3.2%
EBITDA (1)	**745**	712	+4.6%
Profit for the year	**345**	322	+7.1%
Profit attributable to equity holders of the Company	**194**	116	+67.2%
Earnings per share – basic and diluted (RMB fen) (2)	**21.31**	12.91	+65.1%

	2006 RMB in million	2005 RMB in million	Change
FINANCIAL POSITION			
Total assets	**5,171**	3,384	+52.8%
Total liabilities	**2,613**	2,232	+17.1%
Net assets	**2,558**	1,152	+122.0%
Equity attributable to equity holders of the Company	**1,906**	642	+196.9%

	2006	2005
KEY RATIOS		
Gross profit margin (3)	**29.1%**	30.1%
EBITDA margin (4)	**29.6%**	30.1%
Return on equity (5)	**10.2%**	18.1%
Current ratio (6)	**1.92**	0.98
Gearing ratio (7)	**40.8%**	50.0%
Net debts to equity ratio (8)	**38.8%**	217.6%

Notes:

(1) It is arrived at profit for the year before finance costs, income tax, depreciation, amortization, loss on dilution of interest in a subsidiary and loss on fair value adjustment on the convertible bonds.

(2) Profit attributable to the equity holders of the Company divided by the weight average number of shares in issue as at 31 December 2006 of 911,632,877 (2005: 900,000,000).

(3) Gross profit divided by revenue.

(4) EBITDA divided by revenue.

(5) Profit attributable to equity holders of the Company divided by equity attributable to equity holders of the Company.

(6) Current assets divided by current liabilities.

(7) Total debts (bank borrowings and convertible bonds) divided by total assets.

(8) Total debts (bank borrowings and convertible bonds) less cash and bank balances divided by equity attributable to equity holders of the Company.

Chairman's Statement

Mr. Liu Jinlan
Chairman

I am pleased to present the first annual results of Xingda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Xingda") after its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The year 2006 was a critical year for the Group. Xingda continued to be the largest manufacturer of radial tire cords in the People's Republic of China ("China" or the "PRC"), offering quality radial tire cords to more leading global and domestic tire manufacturers. Furthermore, the Group's successful listing on the Main Board of the Stock Exchange on 21 December 2006 has marked its boarding of the international financial platform. This achievement has not only enhanced corporate governance of the Group, but has also given us greater exposure in the international market, speeding up the Group's future development pace in the global market.

For the year ended 31 December 2006, the Group achieved outstanding performance. With sales volume grew steadily during the year. The Group's turnover recorded a year-on-year increase of 6.7% to approximately RMB 2,516 million; while gross profit increased 3.2% to approximately RMB732 million as compared with 2005. In addition, the increase of the Group's equity interests in Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Jiangsu Xingda") from 58.4% to 69.54% in November 2005 has boosted the profit for 2006. Together with the effective cost control, profit attributable to equity holders of the Company surged by 67.2% to approximately RMB194 million as compared with 2005. The board of directors of the Company (the "Board") proposed to distribute a final dividend of 4 HK cents (approximately RMB4.02 fen).

Xingda is very optimistic about the prospects of the industry. As radial tire is widely and commonly used in many developed countries, we expect to see enormous potentials for radial tire cord, the principal backbone materials of radial tires. Leveraging on the opportunities arising from rapid economic growth, infrastructure development and rising vehicle demand and living standard in the PRC, Xingda will continue to capture and expand its nationwide market shares. Riding on its leadership in the PRC, Xingda will further explore overseas market and provide first-class products to the world leading tire manufacturers.

Chairman's Statement

Xingda became an approved supplier of one of the largest tire manufacturers in the world in 2005 and has continuously gained support from more overseas customers. The Group secured three new overseas customers during the year and is looking forward to announcing more good news in the near future about partnership forged with overseas customers. In the next four to five years as the No.8 Factory gradually move towards full operation, the Group's production capacity for radial tire cord is expected to increase by approximately 30,000 to 40,000 tonnes yearly, allowing it to meet growing customer demand. Going forward, Xingda will actively upgrade production technology, develop more advanced products and strive for economies of scale to increase profit. In addition to consolidating our market leadership in the PRC, we also aim to become one of the largest radial tire cord manufacturers in the world.

It was the relentless efforts of our staff that saw us achieving record high results in 2006. On behalf of Xingda, I would like to express my gratitude to all employees for their diligence and contribution. At the same time, we are also thankful for the support we have from our customers, suppliers and shareholders. The Group will continue to work as a team to push for more brilliant results in 2007.

Liu Jinlan
Chairman

Shanghai, the PRC, 3 April 2007

Management Discussion and Analysis

INDUSTRY OVERVIEW

The PRC's automotive industry experienced a decade of continuous growth. According to the National Bureau of Statistics of China, the country's total automobile output in 2006 was 27.6% more than that in 2005, and output of the upstream tire industry was also on the up trend. A China Rubber Industry Association survey covering 44 member companies found the aggregate output of tires in 2006 standing at 189 million units, a surge of 11.4% when compared with 2005. Of the total output, 127 million units were radial tires, about 21.1% more than that of the previous year.

As more and more international tire manufacturers move their production bases to and continue to purchase high quality raw materials and parts from the PRC, the country's radial tire export has been climbing fast. In 2006, the PRC's top ten tire manufacturers together shipped 81.6 million tires overseas, 16.4% more than in 2005. Of all the tires exported, 62.9 million, or 77.6%, were radial tires.

The booming tire industry in the PRC is driving demand for radial tire cords, the principal backbone materials of radial tires. However, since the tire industry has a high technological entry barrier and a tire cord manufacturer may take up to three years to pass all tests and obtain the required certifications, it is still a highly concentrated industry.

BUSINESS REVIEW

The Group manufactures primarily radial tire cords and bead wires and offers to China and global renowned tire manufacturers.

In 2006, the Group's total sales volume registered double-digit growth to 194,000 tonnes, 15.2% more than that in 2005. Riding on the higher profit of radial tire cords than bead wires, the Group focused its sales of radial tire cords with sales volume increased 19.2% to 167,000 tonnes, accounting for 86.1% of the Group's total sales volume (2005: 83.2%). The sales volume of bead wires dropped relatively by 4.6% to 27,000 tonnes, accounting for 13.9% of the Group's total sales volume (2005: 16.8%).

During the year, of the 167,000 tonnes of radial tire cords sold by the Group, 80.2% were used in tires for truck and 19.8% were used in tires for passenger car (2005: 85.2% and 14.8% respectively). Export volume during the year has increased substantially, among which large proportion was radial tire cords for passenger car with its sales volume pushed up 59.9% to 33,100 tonnes. Growth in sales of radial tire cords for truck was relatively stable, 12.1% higher than in 2005, reaching 133,900 tonnes.

	2006 Tonnes	2005 Tonnes	Change
Radial Tire Cords	**167,000**	140,100	+19.2%
- For Truck	***133,900***	*119,400*	*+12.1%*
- For Passenger Car	***33,100***	*20,700*	*+59.9%*
Bead Wires	**27,000**	28,300	-4.6%
Total Sales Volume	**194,000**	168,400	+15.2%

Management Discussion and Analysis

BUSINESS REVIEW - continued

With increasing number of overseas customers and their respective orders, overseas sales volume of radial tire cords substantially increased 3.5 times to 8,300 tonnes during the year when compared with 2005. Domestic sales volume of radial tire cords grew 14.8% to 158,700 tonnes. The proportion of sales volume of radial tire cords to domestic and overseas markets was 95.0% and 5.0% in 2006 respectively (2005: 98.7% and 1.3% respectively).

During the year, the Group's raw materials accounted for 71.6% of the total cost of sales (2005:73.0%), in which 53.1% (2005: 62.1%) of the total cost of sales was steel wire rods. The drop of its proportion was the results of increasing consumption of domestic steel wire rods of which the unit cost was comparatively lower than imported steel wire rods, together with the decrease in unit costs of both domestic and imported steel wire rods.

To cater for increasing orders from its growing clientele, the Group actively enhanced and expanded production capacity during the year. In 2006, the Group's production capacity for radial tire cords and bead wires reached 194,100 tonnes and 39,000 tonnes respectively, representing an increase of 14.8% and 1.8% when compared with 2005. During the year, the Group maintained an 85% utilization rate of the production capacity for radial tire cords.

	2006 Production Capacity (Tonnes)	**2006 Utilization Rate**	2005 Production Capacity (Tonnes)	2005 Utilization Rate
Radial Tire Cords	**194,100**	**85%**	169,100	86%
Bead Wires	**39,000**	**70%**	38,300	74%

To enhance its reputation and competitiveness in the global market, the Group has been active in research and development. Its technical center and new product development center are forging ahead with researching the latest technologies, and developing and improving production equipment. In 2006, the Group successfully developed 5 new types of radial tire cords. As at the end of 2006, the Group had 46 types of radial tire cords and 18 types of bead wires on offer to meet customers' diverse needs.

FINANCIAL REVIEW

Revenue

The Group's revenue by product categories is as follows:

RMB in million	**2006**	**Proportion (%)**	2005	Proportion (%)	Change
Radial Tire Cords	**2,369**	**94**	2,200	93	+169
- For Truck	***1,971***	***78***	*1,949*	*83*	*+22*
- For Passenger Car	***398***	***16***	*251*	*10*	*+147*
Bead Wires	**147**	**6**	157	7	-10
Total	**2,516**	**100**	2,357	100	+159

Management Discussion and Analysis

FINANCIAL REVIEW - continued

Revenue increased by RMB158.8million, or 6.7% from 2,357.4 million in 2005 to RMB2,516.2 million in 2006 due to the strong domestic demand in radial tire cords in the PRC and the significant increase in overseas sales of radial tire cords for passenger car, partially offset by the decrease in revenue from sales of bead wires.

Gross profit and gross profit margin

Gross profit increased by RMB22.6 million, or 3.2%, from RMB709.3 million in 2005 to RMB731.9 million in 2006 due to the increase in export sales particular in radial tire cords for passenger car which offer a higher profit margin compared to domestic sales. However, the overall gross profit margin decreased slightly from 30.1% in 2005 to 29.1% in 2006 due to the increase in sales of radial tire cords for passenger car with a lower selling price in general than the radial tire cords for truck and the drop in average selling price of the products especially radial tire cords for truck.

Other income and government grant

Other income increased by RMB15.9 million, or 27.6%, from RMB57.7 million in 2005 to RMB73.6 million in 2006. The increase was due to the increase in interest income and net foreign exchange gain. Government grant decreased by RMB36.5 million, or 78.3%, from RMB46.6 million in 2005 to RMB10.1 million in 2006 was mainly due to a reduction in incentive subsidies received from the local government and no incentive fund for the promotion of technological transformation was received in 2006.

Operating expenses

Selling and distribution expenses increased by RMB5.7 million, or 6.8% from RMB84.3 million in 2005 to RMB90.0 million in 2006 due to the growth in sales volume. However, administrative expenses decreased by RMB10.6 million, or 7.4%, from RMB143.5 million in 2005 to RMB132.9 million in 2006 due to the effective cost control.

Finance costs

Finance costs increased by RMB3.8 million, or 4.5% from RMB84.8 million in 2005 to RMB88.6 million in 2006 because of the increase in interest on bank borrowings wholly repayable within five years, partially offset by the decrease in interest on discount on note receivable. The increase in interest on bank borrowings wholly repayable within five years reflected an increase in the balance of bank borrowings and increase in interest rate. The decrease in interest on discount on note receivable reflected an increasing portion of payments from our customers that were made in cash, as compared to bank notes during the year ended 31 December 2006.

FINANCIAL REVIEW - continued

Fair value adjustment on convertible bonds

The Company issued convertible bonds of USD30.4 million, USD19.7 million and USD3.9 million (the "Convertible Bonds") on 7 May 2005, 29 December 2005 and 18 January 2006 respectively with a coupon rate of 1% per annum and a maturity date of three years from the date of issue. Under International Accounting Standard 32 and 39, the Convertible Bonds have to be stated at fair value which is determined by an independent expert valuer as at each period end. The fair value of the Convertible Bonds is arrived at after using the Black-Scholes option pricing model with the input of various variables including the closing share price, the volatility of the market for the Company's shares and the time to maturity of the Convertible Bonds.

The loss on fair value adjustment on the Convertible Bonds was RMB158.6 million in 2006 which dropped by RMB21.0 million, or 11.7% compared to RMB179.6 million in 2005. The loss in 2006 was mainly contributed by the rise in price of the Company's share from the estimate of HK$2.65 as at 31 December 2005 to the closing price of HK$3.18 as at 29 December 2006 (the last trading day of 2006) whereas the loss in 2005 was mainly contributed by the effect on new issue of Convertible Bonds of approximately USD50.1 million.

Profit attributable to equity holders of the Company

The profit attributable to the equity holders of the Company increased by RMB78.0 million, or 67.2% from RMB116.2 million in 2005 to RMB194.2 million in 2006. This increase was mainly due to the additional 11.1% share of net profit from Jiangsu Xingda since 2 November 2005 and the drop in the loss on fair value adjustment on the Convertible Bonds in 2006.

LIQUIDITY AND CAPITAL RESOURCES

The principal sources of liquidity and capital resources have been cash flow from operations and proceeds from financing including bank borrowings. In addition, the Group obtained cash from issuance of Convertible Bonds and proceeds from initial public offering. The principal uses of cash were operational costs and expansion of production capacity.

As of 31 December 2006, the Group had net current assets of RMB1,516.6 million. As of that date, the current assets of the Group were mainly comprised of trade and other receivables of RMB1,573.9 million, bank balances and cash of RMB1,370.2 million and inventories of RMB226.0 million whereas the current liabilities of the Group were mainly comprised of bank borrowings due within one year of RMB1,160.0 million and trade and other payables of RMB454.1 million.

Bank balances and cash including bank deposits of the Group increased significantly by RMB1,075.9 million from RMB294.3 million as at 31 December 2005 to RMB1,370.2 million as at 31 December 2006. The increase was contributed by the net cash generated from operating activities of RMB241.1 million together with the net cash generated from financing activities of RMB1,230.5 million which was mainly attributable to the net proceeds from initial public offerings and the net increase in bank borrowings, partially offset by the net cash used in investing activities of RMB395.7 million for the expansion of production capacity.

LIQUIDITY AND CAPITAL RESOURCES - continued

Bank borrowings increased by RMB252.4 million, or 22.8% from RMB1,107.6 million as at 31 December 2005 to RMB1,360.0 million as at 31 December 2006. The increase was mainly contributed by the net increase in medium term bank borrowings of RMB170.0 million for financing the expansion of capacity and the net increase in short term borrowing of RMB82.4 million to meet the demand on working capital. All the bank borrowings were denominated in Renminbi. The Group does not expose to risks resulting from fluctuation in interest rate as the interest rates are fixed. However, the interest rates will be adjusted by the lenders in accordance to relevant People's Bank of China's adjustment on interest rates on bank borrowings upon renewal of existing short term borrowings.

The Group's current ratio which is defined as current assets over current liabilities improved significant from 0.98 time for 2005 to 1.92 times for 2006 which is mainly attributable to the net proceeds received by the Company from the initial public offering in December 2006. The gearing ratio which is measured by total debts (bank borrowings and Convertible Bonds) to total assets decreased from 50% in 2005 to 41% in 2006 due to the increase in cash and bank balances, partially offset by the increase in bank borrowings and Convertible Bonds.

CONVERTIBLE BONDS

In May 2005, the Company issued the first tranche of Convertible Bonds to Tetrad Ventures Pte Ltd ("Tetrad") and Henda Limited ("Henda") for an aggregate principal amount of US$30.4 million (approximately RMB237.4 million). Subject to adjustment clause, the Convertible Bonds are convertible at approximately HK$1.853 (approximately RMB1.862) per ordinary share of the Company ("Share"). Should the holders of the Convertible Bonds opt not to convert the Convertible Bonds, the Company will be required to redeem the Convertible Bonds in May 2008. Additionally, in December 2005 and January 2006, Tetrad and Henda subscribed for the second tranche of Convertible Bonds for an aggregate principal amount of US$23.6 million (approximately RMB184.3 million), which will be repayable in December 2008 and January 2009. Such second tranche of Convertible Bonds is also convertible at approximately HK$1.853 (approximately RMB1.862) per Share. On 13 September 2006, Tetrad transferred to Goldman Sachs Strategic Investments (Asia) L.L.C. ("GSSIA") Convertible Bonds in the aggregate principal amount of approximately US$5.3 million (approximately RMB41.4 million).

Under the terms of the Convertible Bonds, each of Henda, Tetrad and GSSIA has the right to require the early redemption of their respective Convertible Bonds under certain circumstances, including change in control of our Company other than as a result of Listing. For further details, please see note 26 to the financial statements.

During the year ended 31 December 2006, the Company paid the holders of the Convertible Bonds interest of US$500,667 (approximately RMB3.9 million) (2005: Nil). As at the date this report, none of the Convertible Bonds have been redeemed or converted into any Shares of the company.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements of approximately RMB85.5 million (2005: RMB152.3 million). The Group did not have any capital commitment in respect of acquisition of property, plant and equipment authorized but not contracted for as at 31 December 2006 (2005: RMB290.2 million).

CONTINGENT LIABILITIES

At as 31 December 2006, save for the contingent monetary liability of up to RMB6.0 million as disclosed below, the Group did not have any material contingent liabilities and guarantees. No provision has been recognized at 31 December 2006 as the Directors concur with the legal opinion that the chance of being liable for repaying RMB6.0 million is remote.

This contingent liability relates to the dividend of RMB6.0 million declared and paid by Jiangsu Xingda to Jiangsu Xing Hong Da Industrial Co., Ltd. ("Xing Hong Da") which is a minority shareholders of Jiangsu Xingda for the year ended 31 December 2004. Given that Xing Hong Da's shareholding in Jiangsu Xingda has been frozen by the PRC courts since 1 September 2004 and according to the 最高人民法院關於人民法院執行工作若干問題的規定 (Provisions of Supreme People's Court on Several Issues Concerning the Enforcement by People's Courts) ("Trial Implementation Provisions"), such dividend payment by Jiangsu Xingda to Xing Hong Da was prohibited. The Group was advised by the PRC legal advisors that the legal consequence on the Group in connection with this dividend payment is confined to a potential monetary liability of up to RMB6.0 million. Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder) have agreed to indemnify Jiangsu Xingda in respect of any losses and damages which it may incur in relation to such breach of the Trial Implementation Provisions.

PLEDGE OF ASSETS

As at 31 December 2006, the Group had pledged land use right and property, plant and equipment with an aggregate carrying value of approximately RMB808.5 million (2005: RMB576.9 million) to secure its bank borrowings.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2006, the Group had no new significant external investments.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2006, the Group had no significant acquisitions and disposals.

FOREIGN EXCHANGE RISK

The Group's sales were principally denominated in Renminbi and US dollars whereas purchases were also transacted mainly in Renminbi and US dollars. Although the Group experienced significant growth in export sales which were settled in US dollars, the amount received from export sales had been fully utilized for the payment in US dollars. The appreciation of Renminbi in 2006 brought positive effect to the Group's operation as certain costs of sales including purchases of imported steel rods are made in US dollars. As at 31 December 2006, most of the Group's assets and liabilities are denominated in Renminbi except for bank balances equivalent to approximately RMB1,235.5 million and convertible bonds in historical cost equivalent to approximately RMB421.7 million were denominated in US dollars and HK dollars. As HK dollar is pegged to US dollar, the net amount under currency exposure was approximately RMB813.8 million. About RMB508 million which is denominated in HK dollars will be invested in the subsidiaries in the PRC and be converted into Renminbi in the near future subject to the approval of relevant authority in the PRC. The Directors consider the exchange rates among US dollar, HK dollar and RMB will not fluctuate significantly, and thus no financial instruments have been used for hedging purposes.

HUMAN RESOURCES

As at 31 December 2006, the Group had approximately 5,800 (2005: approximately 5,000) full time employees and most of whom were based in the PRC. The remuneration packages which consist of salaries and bonuses are based on the employees' merit, qualifications and competence and are generally reviewed annually. The Group continues to provide training programs for staff to enhance technical and product knowledge as well as knowledge of industry quality standards.

In addition to salary payments, the Group also provides various kinds of welfare benefits to the employees through Xingda Labour Union. Each year, Jiangsu Xingda contributes 2% of the annual staff salary of Jiangsu Xingda to Xingda Labour Union to support its operation ("Union Fee"). The Union Fee, together with funding obtained by Xingda Labour Union from other sources are utilized by Xingda Labour Union to provide different welfare benefits and services to the employees, including provision of staff quarters which are available for sale to employees. For the year ended 31 December 2006, the amount of Union Fee contributed by Jiangsu Xingda to Xingda Labour Union amounted to RMB3.1 million (2005: RMB2.7 million).

On 14 January 1999, the State Council of PRC promulgated Provisional Regulations for Collection of Social Funds (the "Social Insurance Regulations"). Pursuant to the Social Insurance Regulations, the Group has made contributions to pension funds, medical insurance, work-related injury insurance and unemployment insurance (collectively, "Social Insurance Funds") for the employees who are entitled to such funds. The full-time employees in the PRC are covered by a state-managed defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a specific rate in the Xinghua Municipality, which are charged to operations as an expense when the contributions are due. Under the scheme, no forfeited contributions are available to reduce the existing level of contributions.

HUMAN RESOURCES - continued

The Group recognizes the importance of good relationships with the employees and has not experienced any significant problems with the employees or disruption to the operations due to labor disputes, nor has the Group experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with the employees.

TRADING RESULTS AND PUBLISHED FORECAST

The Group's consolidated profit attributable to the equity holders of the Company of RMB194.2 million represented a deficit of RMB68.2 million, or 26.0% over the profit forecast of RMB262.4 million (the "Forecast Profit") contained in the prospectus of the Company dated 8 December 2006 (the "Prospectus"). The deficit was mainly attributable to the change in fair value of convertible bonds for the six months ended 31 December 2006 which was greatly affected by the closing price of the Company's share price as at year end. The actual closing price of the Company's share as at 29 December 2006 (the last trading day of 2006) was HK$3.18 which was being approximately 16% higher than the assumed share price of HK$2.75, which as a result, reduced the Group's consolidated profit by RMB84.8 million. Please make reference to such information and analysis already disclosed in the Appendix III headed "Profit Forecast" of the Prospectus.

In the absence of the loss on fair value adjustment on the convertible bonds, the Group's consolidated profit attributable to the equity holders of the Company of RMB352.8 million represented an excess of RMB16.6 million, or 4.9% over the Forecast Profit before the loss on fair value adjustment on the convertible bonds of RMB336.2 million. The surplus was mainly contributed by the growth of the major customers of the Group in the PRC and North America.

PROSPECTS

The Group believes that, riding on the booming Chinese economy and supportive government policies, the automobile industry will continue to grow rapidly. According to the development plan of the country's road construction, vehicle and transportation, by 2010, the PRC will have highways stretching a total of 55,000 km and 62 million vehicles on the road. This, in turn, translating into a demand of tires to 300 million of which 210 million will be radial tires. For the global industry, the PRC's cost advantage will continue to be a major attraction. Apart from using raw materials from the country to make tires, manufacturers from around the world will continue to outsource production to the PRC. Taking into account the development pace of the radial tire cord industry, the Group expects strong domestic market to persist in the next few years favoring manufacturers who can quickly ramp up production.

Apart from the expansion plans, the Group will monitor the movement of steel wire rods price closely. Following the downtrend of steel wire rods price in 2006, the unit price dropped further in the first quarter of 2007. In view of the adequate supply of steel wire rods, the Group anticipates that the price of steel wire rods will remain fairly stable in 2007.

To maintain a more competitive cost structure, the Group will continue to source a higher portion of steel wire rods locally. Leveraging on the Group's bulk consumption volume, the Group is able to negotiate a better price on the steel wire rods with the suppliers. The Group will strive to strengthen the relationships with the suppliers and enter into long term contracts with the major suppliers to secure a stable price of steel wire rods.

Management Discussion and Analysis

PROSPECTS - continued

Boasting leadership in the rosy radial tire cord market, the Group firmly believes its business will prosper in the long run. The Group will implement the following strategies to realize two major goals, which are strengthening its leadership in the PRC and growing in the international market:

Boost production capacity and production technology

To cater for increasing orders, the Group will continue to expand production capacity. In 2006, the Group started to expand its No. 8 Factory targeting to boost production capacity by approximately 150,000 tonnes. The entire project will take four to five years to complete and will add between 30,000 to 40,000 tonnes yearly to the Group's capacity for producing high performance radial tire cords. At the same time, the Group will keep enhancing its own production expertise and bring in world-grade production facilities to enhance production efficiency.

Strive to become approved supplier of more overseas tire manufacturers

The Group has been active in applying as approved radial tire cord suppliers for international tire manufacturers. It expects to obtain at least three major overseas tire manufacturers in Japan and India this year. As it continues to gain worldwide recognition, the Group believes its name will be associated with more prominent tire manufacturers. It expects more Japanese and European tire enterprises to pick it as an approved radial tire cord supplier within the next three years.

Strengthen overseas sales and distribution

Developing overseas market is a key objective of the Group in the future. It has set up an international business development division in Shanghai to coordinate international sales. It also plans to enhance the technical service team, employ members with extensive experience in international sales and professional knowledge to raise the quality of after sales service to international customers. Furthermore, the Group will seek to fortify the relationships it has with existing international customers and at the same time step up exploring new overseas markets such as North America and Japan where many of its potential customers gather.

Enhance product quality and R&D capabilities

To meet the more and more sophisticated requirements of international tire manufacturers, the Group will strengthen its quality assurance system by adopting more stringent quality control measures and acquiring top-notch testing equipment from countries such as Germany and Japan that are well-versed in automobile production. Furthermore, it will continue to follow closely the changing needs of different customers and invest resources into developing new products and production craftsmanship. It plans to bring in new facilities such as high speed drawing machines and new models of stranding machines to give its products additional merits.

PROSPECTS - continued

Raise Operational efficiency

The Group plans to adopt an advanced manufacturing execution system (MES) and logistics management system to improve data collection and analysis, coordinate and adjust production and control inventory. The new systems are expected to enable all-round control and more effective management of the different functions along the supply chain, from taking orders to procurement, storage, production, logistics, sales and customer management by the Group. Success in hastening raw material supply, production and transportation will boost the Group's overall competitiveness.

In addition to pushing on with its business development strategy, the Group will follow closely industry trends and look for acquisition opportunities that can allow it to expand its business and seize market share quickly. As its operation continues to grow, the Group is confident of lowering operational cost and achieving greater economies of scale, and ultimately boosting its overall profitability. The Group is very optimistic about its outlook and believes it will continue to lead the industry and make strides into the global market, moving ever closer to its goal of becoming one of the largest radial tire cord suppliers in the world.

Directors and Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. LIU Jinlan (劉錦蘭), aged 57, has been a Director and the chairman of the Board since April 2005 and was in August 2005 designated as an executive Director. He is also a director of Faith Maple International Ltd. ("Faith Maple") since 16 June 2004 and 興達國際（上海）特種簾線有限公司 (Xingda International (Shanghai) Special Cord Co., Ltd.*) ("Xingda International (Shanghai)") since 18 September 2006. Both Faith Maple and Xingda International (Shanghai) are wholly-owned subsidiaries of the Company. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, since May 1994 and has been a director of Jiangsu Xingda since its establishment in 1998. Mr. Liu Jinlan was awarded 國家科學技術進步獎二等獎 (the State Science and Technology Improvement Award (Second Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by the State Council in 2005. He was recognized as 中國橡膠工業科學發展帶頭人 (Leader in Technology Development in China Rubber Industry*) by the CRIA in April 2005 and was awarded 科技進步獎一等獎 (the Technology Improvement Award (First Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by 中國石油和化學工業協會 (China Petroleum and Chemical Industry Association*) in December 2003 and 全國五一勞動節獎章 (the National 1 May Labor medal*) by 中華全國總工會 (All China Federation of Trade Unions*) in April 2003. He is a senior engineer. Mr. Liu Jinlan has more than 11 years of experience in the radial tire cord manufacturing industry. He is Mr. Liu Xiang's father.

Mr. LIU Xiang（劉祥）, aged 30, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006. He has been the general manager and a director of Jiangsu Xingda since January 2003 and is responsible for the overall operation of Jiangsu Xingda with a particular focus on production. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in late 1995 and served in the supply and marketing department. Mr. Liu Xiang obtained a bachelor degree in computer science and technology from 西安通信學院 (Xi'an Tongxin Xueyuan*) of 中國人民解放軍 (the People's Liberation Army*) in 2004. He is studying for a master's degree in business administration in Fudan University. Mr. Liu Xiang has approximately 11 years of experience in the radial tire cord manufacturing industry. He is Mr. Liu Jinlan's son.

Mr. TAO Jinxiang（陶進祥）, aged 44, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in May 1994, and since the establishment of Jiangsu Xingda in 1998, he has been a vice president and a director of Jiangsu Xingda with the overall responsibility of formulating sales and marketing plans. He attended senior sales and marketing executives training classes organized by 職業經理訓練中心 (Executives Training Centre*) of Tsinghua University and obtained a certificate in May 2004. Mr. Tao has more than 11 years of experience in the radial tire cord manufacturing industry.

Directors and Senior Management's Biographies

EXECUTIVE DIRECTORS - continued

Mr. WU Xinghua（吳興華）, aged 43, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006. He joined Jiangsu Xingda in July 2005 as a vice president and is responsible for investment and capital market activities. Between October 1997 and June 2005, he had served in various positions in China International Capital Corporation Limited in Beijing and was responsible for development of mutual fund and asset management business and execution of merger and acquisition transactions. Before that, Mr. Wu had worked for China Construction Bank ("CCB"). He obtained a license to practice in the general securities business in the PRC from 中國證券業協會 (The Securities Association of China*) in December 2001. Mr. Wu was awarded a British Chevening Scholarship to study for a master's in business administration at Imperial College of Science and Technology from 1995 to 1996. He graduated from Imperial College of Science, Technology and Medicine, University of London, with a master of business administration degree in November 1996. Mr. Wu graduated from 中國科學院地理研究所 (the Geography Institute of the Chinese Academy of Sciences*) with a master's degree in sciences in September 1987. Mr. Wu has more than 8 years of experience in investment banking and capital markets activities.

Mr. CAO Junyong（曹俊勇）, aged 44, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006. He joined Jiangsu Xingda in July 2005 as a vice president and is responsible for procurement. Mr. Cao joined CCB in July 1987 and had served in various positions in different branches. Mr. Cao was the branch manager of a branch of CCB in Nanjing between December 2004 and July 2005 and the deputy general manager of the Business Division of the Jiangsu branch of CCB between January 2001 and December 2004. He was also the deputy branch manager and then branch manager of the Taizhou branch of CCB from December 1997 to September 1998, and then from September 1998 to January 2001, respectively. Mr. Cao graduated from 中國人民大學 (Renmin University of China*) with a bachelor's degree in economics in 1987. He obtained a doctor's degree in management from 南京農業大學 (Nanjing Agricultural University*) in December 2006. Mr. Cao is a registered accountant (non-practicing member of The Chinese Institute of Certified Public Accountants). Mr. Cao has more than 18 years of experience in the banking industry.

Mr. ZHANG Yuxiao（張宇曉）, aged 37, has been an executive Director and Chief Financial Officer of the Company since August 2005. He is also a director of Jiangsu Xingda since 25 January 2003 and a director of Xingda International (Shanghai) since 18 September 2006. He joined Jiangsu Xingda in January 2000 and has been a vice president of Jiangsu Xingda since then. He is responsible for accounting and finance and international market development. From 1995 to 2000, he was the vice president of Clemente Capital (Asia) Limited and was responsible for investment management. Mr. Zhang obtained a bachelor's degree in sciences from Fudan University in July 1991. Mr. Zhang has more than 6 years of experience in the radial tire cord manufacturing industry.

NON-EXECUTIVE DIRECTORS

Mr. LU Guangming George（魯光明）, aged 42, is a non-executive Director and the non-executive Vice Chairman of the Board. He is also a director of Faith Maple since 16 June 2004 and a director of Jiangsu Xingda since 20 May 2005. Mr. Lu was first appointed as a Director and the non-executive Vice Chairman of the Company in April 2005 and was in August 2005 designated as a non-executive Director. He founded Surfmax Corporation, a private investment firm incorporated in the United States, in 1997 and has been principally involved in private equity investments in the United States and the PRC. Surfmax Corporation is the member manager of Surfmax-Estar Fund A, LLC, which is a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of the Company. Mr. Lu has more than 8 years of experience in private equity investments.

NON-EXECUTIVE DIRECTORS - continued

Ms. WU Xiaohui（鄔小蕙）, aged 46, has been a non-executive Director since August 2005. Ms. Wu has been the Chief Financial Officer of China National Cereals, Oils and Foodstuffs Import and Export Corporation ("COFCO") since February 2002 and has also been the general manager of the COFCO Financial Business Centre since October 2004. She joined COFCO in August 1986 and had served in various positions. She was the director of the Finance Department of COFCO from July 2000 to February 2002. She has been a director of 中信証券有限公司 (CITIC Securities Brokerage Limited*) (a company listed on the Shanghai Stock Exchange) since 29 December 1999. She graduated from 首都經貿大學 (the Capital University of Economics and Business*) with a master's degree in economics in July 2002 and from 中國人民大學一分校 (The First Branch Campus of Renmin University of China*) with a bachelor's degree in economics in July 1986. Ms. Wu has almost 20 years of experience in finance. She has been nominated to serve on the Board to represent Surfmax-Estar Fund A, LLC.

Mr. ZHOU Mingchen（周明臣）, aged 66, has been a non-executive Director since August 2005. Mr. Zhou was the chairman of COFCO Group and COFCO (Hong Kong) Limited, and the Chairman of COFCO International Limited (a company listed on the Main Board) and the Chairman of Top Glory International Holdings Limited (a company previously listed on the Main Board). Mr. Zhou graduated from the University of International Business and Economics in Beijing and has more than 30 years of experience in international trade and management. He was also a vice-president of China National Metals & Minerals Import & Export Corporation and president of China National Instruments Import & Export Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KOO Fook Sun, Louis（顧福身）, aged 50, has been an independent non-executive Director since August 2005. He is a founder and the managing director of Hercules Capital Limited, a corporate finance advisory firm. He has many years of experience in investment banking and professional accounting. Prior to founding Hercules Capital Limited, he was the managing director and head of the corporate finance department of a major international bank, and a director and chief executive officer of a company listed on the Main Board of the Stock Exchange of Hong Kong. Mr. Koo currently also serves as an independent non-executive director of Weichai Power Company Limited, Li Ning Company Limited, China Communications Construction Company Limited, Good Friend International Holdings Inc. and Midland Holdings Limited, which are companies listed on the Main Board of the Stock Exchange of Hong Kong, and EVI Education Asia Limited, which is listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong. He graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a certified public accountant.

Mr. William John SHARP, aged 65, has been an independent non-executive Director since August 2005. He is a director of Ferro Corporation, a manufacturer of performance materials listed on the New York Stock Exchange. He joined The Goodyear Tire & Rubber Company in 1964 and was the President of its North American Tire group between 1999 and 2000. Prior to that, he was the President of its Global Support Operations between 1996 and 1999, and the President of Goodyear Europe and head of Goodyear's World-wide operations. Mr. Sharp graduated with a bachelor's degree of science, majoring in industrial engineering, from The Ohio State University in 1963 and has more than 40 years of experience in the tire manufacturing industry.

Directors and Senior Management's Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS - continued

Ms. XU Chunhua（許春華）, aged 63, has been an independent non-executive Director since August 2005. She has served in various positions in Beijing Research and Design Institute of Rubber Industry since 1965. She was the deputy dean in charge of technology research and development between 1995 and 2003. She was also the person in charge of the "高速、低滾動阻力子午線輪胎系列產品生產技術開發" (Development of Production Techniques for Radial Tyre Products of High Speed and Low Rolling Resistance*) project, one of the "九五"國家重點科技攻關項目 (Key Technologies Research and Development Program for the Ninth "Five-Year Plan"*) in 1995. Ms. Xu has been the deputy chairman of the China Rubber Industry Association since 2004. She is a director of 青島高校軟控股份有限公司 (Qingdao Mesnac Co., Ltd.*), a company listed on the Small & Medium Enterprise Board of the Shenzhen Stock Exchange. She has been the head of 骨架材料專業委員會 (the skeleton materials committee*) and 橡膠助劑專業委員會 (the rubber chemicals committee*) since 2002 and 2001, respectively. She completed her studies in the macromolecular curriculum of the chemistry faculty of Fudan University in 1965 and has more than 40 years of experience in technology research relating to rubber chemicals.

CORPORATE MANAGEMENT TEAM

Mr. JIANG Riqin（蔣日勤）, aged 41, has been a vice president of Jiangsu Xingda since January 2006 and is responsible for technical development. Mr. Jiang was the head of the technical division of factory no. 1 of Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, since May 1994 until March 2000. Between March 2000 and August 2001, he was a factory manager of Jiangsu Xingda. He was the manager of the technical center of Jiangsu Xingda since August 2001 until January 2006. He was awarded 國家科學技術進步獎二等獎 (the State Science and Technology Improvement Award (Second Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by the State Council in 2005. Mr. Jiang had also participated in the revision of 國家標準 GB11181《子午線輪胎用鋼帘線》(the national standard for radial tire cords for radial tires GB11181*), which was implemented in August 2003. He graduated from 中國紡織大學 (China Textile University*) with a bachelor's degree in engineering in 1987. Mr. Jiang has more than 11 years of experience in the radial tire cord manufacturing industry.

Mr. HU Yuqian（胡玉乾）, aged 43, has been the deputy general manager of Jiangsu Xingda since 2004 and is responsible for the management of production in the factories. Mr. Hu joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in May 1994 and was a factory manager of Xingda Steel Tyre Cord Group. Since the establishment of Jiangsu Xingda in 1998 until 2004, Mr. Hu was a factory manager of Jiangsu Xingda. He studied electrical engineering in 安慶師範學院 (Anqing Teachers College*) and graduated in July 1987. Mr. Hu has more than 11 years of experience in the radial tire cord manufacturing industry.

Directors and Senior Management's Biographies

CORPORATE MANAGEMENT TEAM - continued

Mr. HU Ziming（胡自明）, aged 43, is the deputy chief engineer of Jiangsu Xingda and has been in that position since the establishment of Jiangsu Xingda in 1998. Mr. Hu joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in May 1994 and was the head of the engineering department. He studied in 湖南湘鋼職大 (Hunan Xianggang Vocational University*) between September 1986 and June 1989, majoring in metal goods. He was awarded 國家科學技術進步獎二等獎 (the State Science and Technology Improvement Award (Second Class*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by the State Council in 2005. Mr. Hu had also participated in the revision of 國家標準 GB11181《子午線輪胎用鋼帘線》 (the national standard for radial tire cords for radial tires GB11181*), which was implemented in August 2003. He has more than 11 years of experience in the radial tire cord manufacturing industry.

Mr. TSE Shiu Wah（謝紹華）, aged 31, is the qualified accountant and company secretary of the Company. Mr. Tse joined in September 2005 as a member of the senior management of the Company. He has more than 8 years of experience in finance, accounting and auditing, including experience as the qualified accountant of a company listed on the Main Board of the Stock Exchange of Hong Kong. Mr. Tse also worked with Deloitte Touche Tohmatsu, an international accounting firm, from April 2000 to April 2002 and in another local accounting firm in Hong Kong between July 1998 and March 2000, before joining the Company. He has been an associate of the Hong Kong Institute of Certified Public Accountants since 1 January 2004 and a fellow member of The Association of Chartered Certified Accountants since November 15, 2006. Mr. Tse graduated from The Hong Kong Polytechnic University with the degree of Bachelor of Arts in Accountancy in 1998.

* *denotes English translation of Chinese name*

Directors' Report

The directors of the Company ("Directors") present their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and distribution of radial tire cords and bead wires. The Company acts as an investment holding company. The principal activities of the principal subsidiaries of the Company are set out in note 39 to the financial statements.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 19 April 2005.

Pursuant to the reorganization arrangements to rationalize the corporate structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group (the "Reorganization").

Further details of the corporate structure of the Group and the Reorganization are set out in note 1 to the financial statements and the section headed "Corporate structure and reorganization" in the Prospectus.

The shares of the Company have been listed on the Main Board of the Stock Exchange with effect from 21 December 2006.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 45 of the annual report.

An interim dividend of US$232.96 per share amounting to US$2,329,600 (equivalent to approximately RMB18,627,000) was paid to the then shareholders of the Company prior to the listing of the Company on the Stock Exchange during the year.

The Board has recommended the payment of a final dividend of 4.00 HK cents (approximately RMB4.02 fen) per share for the financial year ended 31 December 2006 to the shareholders whose names appear on the register of members of the Company on Monday, 28 May 2007. The final dividend will be payable on Friday, 22 June 2007.

DONATION

During the year, the Group made charitable donations amounting to RMB1,739,000.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past four financial years, as extracted from the audited financial statements and the Prospectus, is set out on page 90 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

INITIAL PUBLIC OFFERING

On 21 December 2006, the listing of and dealings in the shares of the Company successfully commenced on the Main Board of the Stock Exchange by the offering of initially 386,000,000 new shares at the offer price of HK$3.08 per share. In January 2007, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited, Wise Creative Limited and Surfmax-Estar Fund A, LLC (the "Selling Shareholders") sold 57,900,000 shares pursuant to the exercise of the over-allotment option granted by the Selling Shareholders to Goldman Sachs (Asia) L.L.C. in connection with the initial public offering of the Company.

USE OF PROCEEDS

The net proceeds from the Company's offering of new shares at its listing on the Stock Exchange amounting to approximately HK$1,087 million are intended to be applied for the following purposes:

- approximately HK$550 million is intended for the expansion of the production capacity of the production facilities;
- approximately HK$70 million is intended for the installation of a manufacturing execution system (MES) and logistics management system;
- approximately HK$250 million is intended for implementing the overseas expansion strategies through acquisition of suitable business targets;
- approximately HK$180 million is intended for the set-up of international development departments;
- the remaining balance of approximately HK$37 million is intended to be used as general working capital.

Up to 31 December 2006, the Group has not yet utilised any of the net proceeds and the amount is temporarily placed in short term deposits with licensed banks in Hong Kong.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the share premium and contributed surplus net of retained losses which in aggregate amounted to approximately RMB885.9 million as at 31 December 2006 (2005: RMB95.6 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association (the "Articles of Association"), dividends shall be distributed out of the retained profits or other reserves including share premium and contributed surplus, of the Company.

BANK BORROWINGS AND CONVERTIBLE BONDS

Particulars of bank borrowings and convertible bonds of the Group as at 31 December 2006 are set out in the notes 25 and 26 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. LIU Jinlan (Chairman)	(appointed on 28 April 2005)
Mr. LIU Xiang	(appointed on 23 August 2005)
Mr. TAO Jinxiang	(appointed on 23 August 2005)
Mr. WU Xinghua	(appointed on 23 August 2005)
Mr. CAO Junyong	(appointed on 23 August 2005)
Mr. ZHANG Yuxiao	(appointed on 23 August 2005)

Non-executive Directors:

Mr. LU Guangming George	(appointed on 25 April 2005)
Ms. WU Xiaohui	(appointed on 23 August 2005)
Mr. ZHOU Mingchen	(appointed on 23 August 2005)
Mr. LIM Meng Ann	(appointed on 23August 2005 and resigned with effect from 3 December 2006)

Independent Non-executive Directors:

Mr. KOO Fook Sun, Louis	(appointed on 23 August 2005)
Mr. William John SHARP	(appointed on 23 August 2005)
Ms. XU Chunhua	(appointed on 23 August 2005)

DIRECTORS - continued

Pursuant to Article 87 of the Articles of Association, Mr. Liu Jinlan, Mr. Lu Guangming George, Mr. Wu Xinghua and Ms. Xu Chunhua will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The biographical details of the Directors and senior management of the Group are set out on pages 16 to 20 of this annual report.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, as at the date of this annual report, all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years. Thereafter, the term will continue subject to termination by the Company by giving three months' prior written notice to the relevant Director.

Each of the non-executive Directors has entered into a service agreement with the Company for a period of three years, upon the expiration of which the service agreement shall lapse and expire, and subject to termination at any time by either party giving not less than three months' prior notice in writing to the other party.

Each of the independent non-executive Directors has signed a letter of appointment for a term of three years which is determinable by either party at any time by giving to the other not less than three months' prior written notice. Thereafter, the term shall continue subject to termination by either party by giving to the other not less than three months' prior written notice.

None of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) , as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code"), were as follows:

(1) Long positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of issued share capital of the Company as at 31 December 2006
Liu Jinlan	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 1 and 5)*	844,133,164	65.64%
Liu Xiang	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 2 and 5)*	844,133,164	65.64%
Tao Jinxiang	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 3 and 5)*	844,133,164	65.64%
Zhang Yuxiao	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 4 and 5)*	844,133,164	65.64%
Lu Guangming George	Interests of controlled corporations *(notes 6 and 7)*	230,490,000	17.92%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES - continued

(1) Long positions in shares, underlying shares and debentures of the Company - continued

Notes:

1. Mr. Liu Jinlan owned 100% of the issued share capital of Great Trade Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2006, Great Trade Limited held 270,000,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Jinlan was deemed to be interested in the shares held by Great Trade Limited. Mr. Liu Jinlan was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

2. Mr. Liu Xiang owned 100% of the issued share capital of In-Plus Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2006, In-Plus Limited held 153,000,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Xiang was deemed to be interested in the shares held by In-Plus Limited. Mr. Liu Xiang was also a party to the Five Parties' Agreement, and was deemed to be interested in shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

3. Mr. Tao Jinxiang owned 100% of the issued share capital of Perfect Sino Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2006, Perfect Sino Limited held 126,000,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Tao Jinxiang was deemed to be interested in the shares held by Perfect Sino Limited. Mr. Tao Jinxiang was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

4. Mr. Zhang Yuxiao owned 100% of the issued share capital of Power Aim Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2006, Power Aim Limited held 45,000,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Zhang Yuxiao was deemed to be interested in the shares held by Power Aim Limited. Mr. Zhang Yuxiao was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

5. Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao, being parties to each of the Tetrad Bond Agreement (as defined in the Prospectus) and the Henda Bond Agreement (as defined in the Prospectus), were deemed to be interested in the shares in which the other parties to such agreements (being Mr. Hang Youming, Tetrad Ventures Pte Ltd and Henda Limited) were interested for the purpose of Part XV of the SFO. Tetrad Ventures Pte Ltd and Henda Limited were holders of convertible bonds issued by the Company which are convertible into an aggregate of 205,133,164 shares in the Company subject to the terms and conditions thereof.

6. Mr. Lu Guangming George legally owned 100% of the issued share capital of Surfmax Corporation, which was the member manager of Surfmax-Estar Fund A, LLC. As at 31 December 2006, Surfmax-Estar Fund A, LLC held 222,210,000 shares in the Company. Mr. Lu Guangming George also legally owned approximately 45.48% of the issued share capital of Win Wide International Ltd., which held 8,280,000 shares in the Company as at 31 December 2006. For the purpose of Part XV of the SFO, Mr. Lu Guangming George was deemed to be interested in the shares held by Surfmax-Estar Fund A, LLC and Win Wide International Ltd. respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES - continued

(1) Long positions in shares, underlying shares and debentures of the Company - continued

7. As at 31 December 2006, 57,900,000 shares in the Company (being part of the 222,210,000 shares then held by Surfmax-Estar Fund A, LLC) were being lent by Surfmax-Estar Fund A, LLC to Goldman Sachs International under a securities lending agreement dated 14 December 2006 in order to facilitate the over-allocations in connection with the international offering of shares in the Company as described in the Prospectus. Accordingly, as at 31 December 2006, Surfmax-Estar Fund A, LLC had a derivative interest in 57,900,000 shares in the Company as a result of its right to have the same number of shares returned to it at a later date under the said securities lending agreement. Since Mr. Lu Guangming George legally owned 100% of the issued share capital of Surfmax Corporation, which was the member manager of Surfmax-Estar Fund A, LLC, he was deemed to have the derivative interest in the said 57,900,000 shares in the Company held by Surfmax-Estar Fund A, LLC for the purpose of Part XV of the SFO.

(2) Short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Number of ordinary shares relating to the relevant short position	Approximate percentage of issued share capital of the Company as at 31 December 2006
Liu Jinlan	Held by controlled corporation *(note 1)*	18,152,000	1.41%
Liu Xiang	Held by controlled corporation *(note 2)*	10,286,000	0.80%
Tao Jinxiang	Held by controlled corporation *(note 3)*	8,471,000	0.66%
Zhang Yuxiao	Held by controlled corporation *(note 4)*	3,025,000	0.24%
Lu Guangming George	Held by controlled corporation *(note 5)*	14,941,000	1.16%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES - continued

(2) Short positions in shares, underlying shares and debentures of the Company - continued

Notes:

1. Mr. Liu Jinlan owned 100% of the issued share capital of Great Trade Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2006, Great Trade Limited held 270,000,000 shares in the Company, of which 18,152,000 shares were being offered for sale by Great Trade Limited upon the exercise of the Over-allotment Option (as defined in the Prospectus) as described in the Prospectus. For the purpose of Part XV of the SFO, Mr. Liu Jinlan was deemed to be interested in the short position held by Great Trade Limited.

2. Mr. Liu Xiang owned 100% of the issued share capital of In-Plus Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2006, In-Plus Limited held 153,000,000 shares in the Company, of which 10,286,000 shares were being offered for sale by In-Plus Limited upon the exercise of the Over-allotment Option as described in the Prospectus. For the purpose of Part XV of the SFO, Mr. Liu Xiang was deemed to be interested in the short position held by In-Plus Limited.

3. Mr. Tao Jinxiang owned 100% of the issued share capital of Perfect Sino Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2006, Perfect Sino Limited held 126,000,000 shares in the Company, of which 8,471,000 shares were being offered for sale by Perfect Sino Limited upon the exercise of the Over-allotment Option as described in the Prospectus. For the purpose of Part XV of the SFO, Mr. Tao Jinxiang was deemed to be interested in the short position held by Perfect Sino Limited.

4. Mr. Zhang Yuxiao owned 100% of the issued share capital of Power Aim Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2006, Power Aim Limited held 45,000,000 shares in the Company, of which 3,025,000 shares were being offered for sale by Power Aim Limited upon the exercise of the Over-allotment Option as described in the Prospectus. For the purpose of Part XV of the SFO, Mr. Zhang Yuxiao was deemed to be interested in the short position held by Power Aim Limited.

5. Mr. Lu Guangming George legally owned 100% of the issued share capital of Surfmax Corporation, which was the member manager of Surfmax-Estar Fund A, LLC. As at 31 December 2006, Surfmax-Estar Fund A, LLC held 222,210,000 shares in the Company, of which 14,941,000 shares were being offered for sale by Surfmax-Estar Fund A, LLC upon the exercise of the Over-allotment Option as described in the Prospectus. For the purpose of Part XV of the SFO, Mr. Lu Guangming George was deemed to be interested in the short position held by Surfmax-Estar Fund A, LLC.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES - continued

(3) Long position in shares and underlying shares of the associated corporation of the Company

Name of Director	Capacity	Associated corporation	Number of ordinary shares in associated corporation	Approximate percentage of registered capital of the associated corporation as at 31 December 2006
Zhang Yuxiao	Beneficial Owner	Jiangsu Xingda Steel Tyre Cord Co., Ltd.	100	0.000074%

Save as disclosed above, as at 31 December 2006, none of the Directors, the chief executives of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company in accordance with section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of an acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

DEED OF NON-COMPETITION

On 4 December 2006, (i) Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder), (ii) the Directors, and (iii) the 98 Owners (as defined in the Prospectus) (not being controlling shareholders) (collectively the "Covenantors"), as covenantors, entered into a deed of non-competition ("Non-competition Deed") in favour of the Company pursuant to which each of the Covenantors has undertaken to the Company (for itself and for the benefits of its subsidiaries) that, among other matters, it shall not, and shall procure that his/her/its associates will not, directly or indirectly be interested or involved or engaged in or acquire or hold any right or interest in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business of the Group. Details of the terms of the Non-competition Deed have been set out in the paragraph headed "Deed of non-competition entered into by the controlling shareholder" under the section headed "Controlling shareholder and substantial shareholders" of the Prospectus.

DEED OF NON-COMPETITION - continued

The Company has received the annual declaration from Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder) in respect of their respective compliance with the terms of the Non-competition Deed.

The Directors have confirmed that they have not engaged in any business which competes or is likely to compete with the business of the Group, and the Directors are not aware that any of the Convenantors or their respective associates has engaged in any business which competes or is likely to compete with the business of the Group.

The independent non-executive Directors have reviewed the annual declaration and are not aware that any of the Convenantors or their respective associates has engaged in any business which competes or is likely to compete with the business of the Group.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSANT TO PART XV OF THE SFO

As at 31 December 2006, the interests and short positions of the persons (other than the Directors or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO were as follows:

(1) Long positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of issued share capital of the Company as at 31 December 2006
Great Trade Limited	Beneficial owner	270,000,000	21.00%
In-Plus Limited	Beneficial owner	153,000,000	11.90%
Perfect Sino Limited	Beneficial owner	126,000,000	9.80%
Hang Youming	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)*	844,133,164	65.64%
Surfmax-Estar Fund A, LLC	Beneficial owner	222,210,000	17.28%
Surfmax Corporation	Interest of a controlled corporation *(note 2)*	222,210,000	17.28%

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSANT TO PART XV OF THE SFO

- continued

(1) Long positions in shares and underlying shares of the Company - continued

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of issued share capital of the Company as at 31 December 2006
Tetrad Ventures Pte. Ltd	Beneficial owner and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 3)*	806,256,942	62.69%
GIC Special Investments Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	806,256,942	62.69%
Government of Singapore Investment Corp. Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	806,256,942	62.69%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	806,256,942	62.69%
Minister of Finance (Incorporated)	Interest of a controlled corporation *(notes 3 & 4)*	806,256,942	62.69%
The Goldman Sachs Group, Inc.	Interests of controlled corporations *(note 5)*	124,707,008	9.70%

Notes:

1. Mr. Hang Youming owned 100% of the issued share capital of Wise Creative Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2006, Wise Creative Limited held 45,000,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Hang Youming was deemed to be interested in the shares held by Wise Creative Limited. Mr. Hang Youming is also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao) were interested for the purpose of Part XV of the SFO. Mr. Hang Youming, being a party to each of the Tetrad Bond Agreement (as defined in the Prospectus) and the Henda Bond Agreement (as defined in the Prospectus), was also deemed to be interested in the shares in which the other parties to such agreements (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Tetrad Ventures Pte Ltd and Henda Limited) were interested for the purpose of Part XV of the SFO. Tetrad Ventures Pte Ltd and Henda Limited were the holders of convertible bonds issued the Company, which were convertible into an aggregate of 205,133,164 shares in the Company subject to the terms and conditions thereof.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSANT TO PART XV OF THE SFO - continued

(1) Long positions in shares and underlying shares of the Company - continued

2. Surfmax Corporation was the member manager of Surfmax-Estar Fund A, LLC. For the purpose of Part XV of the SFO, Surfmax Corporation was deemed to be interested in the shares held by Surfmax-Estar Fund A, LLC.

3. Tetrad Ventures Pte Ltd was the holder of convertible bonds issued by the Company, which were convertible into an aggregate of 167,256,942 shares in the Company subject to the terms and conditions thereof. Tetrad Ventures Pte Ltd, being a party to the Tetrad Bond Agreement, was deemed to be interested in the shares in which the other parties to such agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

4. Tetrad Ventures Pte Ltd is a wholly owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated). Tetrad Ventures Pte Ltd is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corp. Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated).

5. The Goldman Sachs Group, Inc. was deemed to be interested in 124,707,008 shares as at 31 December 2006 by virtue of its control over its subsidiary companies. The following companies controlled by The Goldman Sachs Group, Inc. had direct interest in the shares of the Company: Goldman Sachs Strategic Investment Asia L.L.C. held 52,639,008 shares, Goldman Sachs (Asia) L.L.C. held 57,900,000 shares, Goldman, Sachs & Co. held 1,150,000 shares, Goldman Sachs International held 5,927,000 shares, Goldman, Sachs & Co. Bank held 11,000 shares and Goldman Sachs (Asia) Finance held 7,080,000 shares.

(2) Short positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares relating to the relevant short position	Percentage of issued capital as at 31 December 2006
Great Trade Limited	Beneficial owner *(note 1)*	18,152,000	1.41%
Surfmax-Estar Fund A, LLC	Beneficial owner *(note 2)*	14,941,000	1.16%
Surfmax Corporation	Held by controlled corporation *(note 3)*	14,941,000	1.16%
The Goldman Sachs Group, Inc.	Held by controlled corporations *(note 4)*	67,857,000	5.28%

Notes:

1. As at 31 December 2006, Great Trade Limited held 270,000,000 shares in the Company, of which 18,152,000 shares were being offered for sale by Great Trade Limited upon the exercise of the Over-allotment Option (as defined in the Prospectus) as described in the Prospectus.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSANT TO PART XV OF THE SFO - continued

(2) Short positions in shares and underlying shares of the Company - continued

2. As at 31 December 2006, Surfmax-Estar Fund A, LLC held 222,210,000 shares in the Company, of which 14,941,000 shares were being offered for sale by Surfmax-Estar Fund A, LLC upon the exercise of the Over-allotment Option as described in the Prospectus.

3. Surfmax Corporation was the member manager of Surfmax-Estar Fund A, LLC. For the purpose of Part XV of the SFO, Surfmax Corporation was deemed to be interested in the short position held by Surfmax-Estar Fund A, LLC.

4. The Goldman Sachs Group, Inc. was deemed to hold short position in respect of 67,857,000 shares as at 31 December 2006 by virtue of its control over its subsidiary companies. The following companies controlled by The Goldman Sachs Group, Inc. held direct short interests in the shares of the Company: Goldman Sachs International held short position in respect of 57,900,000 shares and Goldman Sachs (Asia) Finance held short position in respect of 9,957,000 shares.

Save as aforesaid and as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has not been notified of any interest or short position in the shares or underlying shares of the Company as at 31 December 2006 which are required to be recorded in the register maintained under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Department on the basis of their merit, qualifications and competence and reviewed by the executive Directors.

The ordinary remuneration of the Directors is subject to approval by the board of Directors in general meetings. The Remuneration and Management Development Committee (the "Remuneration Committee") comprising two independent non-executive Directors has been established to make recommendations to the board of Directors on the Group's policy and structure for all remuneration of Directors and senior management of the Group. The Remuneration Committee will consult the chairman of the board of Directors in respect of their recommendations in determining the remuneration of the Directors and senior management of the Group. No individual Director would be involved in deciding his own remuneration.

In determining or recommending the remuneration packages of the Directors and senior management, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In reviewing and approving performance-based remuneration, reference will be made by the Remuneration Committee to the Group's corporate goals and objectives resolved by the board of Directors from time to time.

EMOLUMENT POLICY - continued

The recommended remuneration package comprises salaries, directorship fees, bonuses, discretionary bonuses, benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of office or appointment.

HIGHEST PAID INDIVIDUALS

The relevant information of the five individuals with the highest remuneration in the Group for the year ended 31 December 2006 is disclosed in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group contributed approximately 53% of the Group's total revenue for the year and the largest customer contributed approximately 14% of the Group's total revenue. The five largest suppliers represented approximately 60% of the Group's total purchases for the year and the largest supplier represented approximately 19% of the Group's total purchases.

None of the Directors, their associates or any shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient prescribed public float under the Listing Rules.

AUDITORS

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
LIU Jinlan
Chairman

3 April 2007

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

To promote high level of transparency, accountability and independence in the interests of the shareholders, the Company is committed to maintain high standards of corporate governance.

The Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules came into effect prior the Company being listed on the Main Board of the Stock Exchange on 21 December 2006 (the “Listing Date”). The Company has applied the principles in and complied with the code provisions of the CG Code since the Listing Date, except for the deviation from code provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman of the Board, Mr. Liu Jinlan, provides overall leadership for the Board and takes the lead to ensure the Board acts in the best interest of the Company. The Company does not have the position of chief executive officer and the daily operation of the Group is assigned among the executive Directors. In addition to the fact that the responsibilities of the chairman are shared by the remaining five executive Directors, the Executive Committee of the Company (comprising four executive Directors since the Listing Date) which has been established for determining, approving and overseeing the day-to-day control over the allocation of the Group’s resources also segregates the duties of Mr. Liu Jinlan.

THE BOARD

The Board is responsible for formulation and execution of the Company’s long term strategies and determination of the direction of future development, setting of financial and operational targets, approval of material transactions and significant investment as well as evaluation of the performance of the senior management. The Board has reserved its decision over the major acquisitions and disposals, annual budgets, interim and annual results, recommendations on directors’ appointment or reappointment, approval of major capital investment and other significant operational and financial matters of the Group. The Board has to act in the best interest of the Company and its shareholders as a whole.

The Board currently comprises twelve members, including six executive Directors, three non-executive Directors and three independent non-executive Directors. The biographical details of the Directors are set out on pages 16 to 20 of the annual report. Mr. Liu Jinlan, being the chairman of the Board and an executive Director, is the father of Mr. Liu Xiang, an executive Director. Save for the aforesaid, there is no financial, business, family or other material or relevant relationships among the members of the Board.

The executive Directors are responsible for business management of the Group, formulation and implementation of business strategies, daily business decision and coordination of overall business operation. Mr. Liu Jinlan and the other three executive Directors, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao, have many years of experience in radial tire cord manufacturing industry. The remaining two executive Directors, Mr. Cao Junyong and Mr. Wu Xinghua who have worked with investment banks and commercial banks for many years, strengthen both financial and treasury operations of the Company.

THE BOARD - continued

The non-executive Directors and the independent non-executive Directors, who possess wide expertise, bring relevant experience and knowledge in various aspects to the Board. The Company has received confirmation from each independent non-executive Director about his/her independence as set out in Rule 3.13 of the Listing Rules and considers each of them to be independent. One of the independent non-executive Directors possesses appropriate professional qualifications in accounting or related financial management expertise as required under the Listing Rules.

The Board will meet regularly at least four times a year at approximately quarterly intervals. For the year ended 31 December 2006, the Board held two meetings to discuss and approve various important matters. The Board did not hold any meeting during the period from the Listing Date to 31 December 2006. The table below sets out the attendance of each Director at the meetings of the Board and other Board committees held during the year ended 31 December 2006:

	Board	Audit Committee	Remuneration and Management Development Committee	Nomination Committee	Executive Committee	Manufacturing and Operations Committee	Investment and International Development Committee
Executive Directors							
Mr. LIU Jinlan	2/2	—	—	1/1	1/1	1/1	1/1
Mr. LIU Xiang	2/2	—	—	—	—	1/1	—
Mr. TAO Jinxiang	2/2	—	—	—	—	1/1	1/1
Mr. WU Xinghua	2/2	—	—	—	—	—	1/1
Mr. CAO Junyong	2/2	—	—	—	1/1	1/1	—
Mr. ZHANG Yuxiao	2/2	—	—	—	1/1	—	1/1
Non-executive Directors							
Mr. LU Guangming George	2/2	—	—	1/1	1/1	1/1	1/1
Ms. WU Xiaohui	2/2	—	—	—	—	—	—
Mr. ZHOU Mingchen	1/2	—	—	1/1	—	—	—
Mr. LIM Meng Ann (resigned with effect from 3 December 2006)	1/2	—	2/2	—	—	—	—
Independent non-executive Directors							
Mr. KOO Fook Sun, Louis	2/2	2/2	2/2	—	—	—	—
Mr. William John SHARP	2/2	2/2	2/2	—	—	—	—
Ms. XU Chunhua	1/2	1/2	—	—	—	—	—

THE BOARD - continued

The management of the Company shall submit all relevant materials for the discussion in the meeting in advance. Notice convening the meeting shall be sent to the Directors at least fourteen days before the meeting so that they can make necessary arrangement to attend the meeting either in person or by telephone. Documents and all relevant materials required for the Board meeting shall be sent to the Directors at least three days in advance, which ensures enough time is given to the Directors to review the documents and get prepared for the meeting.

The matters processed by the Board in the meetings are all recorded and kept pursuant to relevant laws and regulations. All Directors have full access to the minutes and papers of the Board meetings and Board committee meetings and all other relevant information of the Group. Minutes of the Board meetings and Board committee meetings recorded in sufficient detail the matters considered in the meetings and the decisions reached. Draft and final versions of minutes of the Board and Board committees are sent to all Directors or committee members for comments and records respectively within a reasonable time after the meeting. The Directors have separate and independent access to the company secretary and qualified accountant of the Company at all times for discussion. The Directors are also entitled to receive independent professional advice in performing their Directors' duties at the Company's expenses.

The Company has arranged for appropriate Directors' and officers' liability insurance prior to the Listing Date to indemnify the Directors and officers for their liabilities arising out of corporate activities. The insurance coverage and premium is reviewed on an annual basis.

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years, upon the expiration of which the service agreement shall lapse and expire, and subject to termination at any time by either party giving not less than three months' prior notice in writing to the other party.

Each of the independent non-executive Directors has signed a letter of appointment for a term of three years which is determinable by either party at any time by giving to the other not less than three months' prior written notice. Thereafter, the term shall continue subject to termination by either party by giving to the other not less than three months' prior written notice.

Pursuant to Article 87 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation, and shall be eligible for re-election, at each annual general meeting. Mr. Liu Jinlan, Mr. Lu Guangming George, Mr. Wu Xinghua and Ms. Xu Chunhua will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

BOARD COMMITTEES

As part of good corporate governance practice, the Board has established six committees, namely the Audit Committee, the Remuneration and Management Development Committee, the Nomination Committee, the Executive Committee, the Manufacturing and Operations Committee and the Investment and International Development Committee, and two sub-committees under the Manufacturing and Operations Committee, namely the Manufacturing Sub-committee and the Operations Sub-committee, with respective terms of reference and delegated certain authorities to the committees. To further reinforce independence, the Audit Committee and the Remuneration and Management Development Committee are all consisting of independent non-executive Directors only.

Audit Committee

The Company established the Audit Committee on 23 August 2005. The Audit Committee consists of three independent non-executive Directors, namely Mr. William John Sharp, Mr. Koo Fook Sun, Louis and Ms. Xu Chunhua. The chairman of the Audit Committee is Mr. Koo Fook Sun, Louis.

The major roles and functions of the Audit Committee are as follows:

(a) to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services;

(d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and to review significant financial reporting judgements contained in them;

(e) to review the Company's financial controls, internal control and risk management systems;

(f) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(g) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(h) to review the financial and accounting policies and practices of the Company and its subsidiaries;

(i) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

Audit Committee - continued

(j) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(k) to report to the Board on the matters set out in the terms of reference for the Audit Committee.

The Audit Committee had two meetings during the year ended 31 December 2006. During the meetings held, the Audit Committee had performed the following work:

- reviewing the audited financial statements for the three years ended 31 December 2005 and six months ended 30 June 2006;
- reviewing and discussing the management letter issued by the external auditors; and
- engaging Ernst & Young to perform a review on the Group's internal control systems and discussing with them for the scope of work to be performed during the review.

On 2 April 2007, the Audit Committee met with the external auditors to discuss the general scope of their audit work and reviewed the financial statements for the year ended 31 December 2006 as well as the management letter issued by the external auditors for the annual audit for the year ended 31 December 2006.

Remuneration and Management Development Committee

The Company established the remuneration committee on 23 August 2005, which was then re-designated as the Remuneration and Management Development Committee (the "Remuneration Committee") on 30 September 2005. The major roles and functions of the Remuneration Committee are to evaluate the performance of all Directors and senior management of the Group and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, to determine the specific remuneration packages of all executive Directors and senior management, to make recommendations of remuneration for non-executive Directors to the Board, and to evaluate and make recommendations on any share option schemes that may be adopted by the Company from time to time. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. William John Sharp and Mr. Koo Fook Sun, Louis. The chairman of the Remuneration Committee is Mr. William John Sharp.

The Remuneration Committee met two times during the year ended 31 December 2006. A summary of work performed by the Remuneration Committee during the year is set out below:

- evaluating and making recommendations to the Board on the Group's policy and structure for the remuneration of the Directors and senior management of the Group for the year ended 31 December 2006;
- making recommendations of remuneration packages of the Directors and senior management to the Board for the year ended 31 December 2006;
- approving the terms of service agreements for the Directors;

Remuneration and Management Development Committee - continued

- consultation with the chairman of the Board in respect of its recommendations in determining the remuneration of the executive Directors and senior management of the Group for the year ended 31 December 2006.

Since the year-end of 2006, the Remuneration Committee had another two meetings on 29 March 2007 and on 2 April 2007. At such meetings, the Remuneration Committee considered, among other things, the performance of the executive Directors and the Group and the their total remuneration and compensation for the year 2006. It was then resolved that the total remuneration and compensation paid for the year ended 31 December 2006 was approved, ratified and recommended to the Board.

Nomination Committee

The Company established the Nomination Committee on 23 August 2005. The major roles and functions of the Nomination Committee are to evaluate the credentials of the candidates for directorship, to make recommendations to the Board regarding candidates to fill vacancies on the Board and to ensure that no Director or any of his associates is involved in approving his/her or any of his/her associates' nomination. The Nomination Committee consists of three Directors with a majority of non-executive directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George and Mr. Zhou Mingchen. The chairman of the nomination committee is Mr. Zhou Mingchen. The Nomination Committee had one meeting during the year ended 31 December 2006.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship with reference to the selection guidelines which include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills. The Nomination Committee also considers referrals and engagement of external recruitment professionals when necessary and makes recommendations to the Board for selection and approval. There was no nomination of directors to fill Board vacancies in 2006.

Executive Committee

The Company established the Executive Committee on 30 September 2005. The principal functions and responsibilities of the Executive Committee are to determine, approve and oversee the day-to-day control over the allocation of the resources of the Group. The Executive Committee consists of four Directors, namely Mr. Liu Jinlan, Mr. Zhang Yuxiao, Mr. Lu Guangming George and Mr. Cao Junyong. The chairman of the Executive Committee is Mr. Zhang Yuxiao. The Executive Committee had one meeting during the year ended 31 December 2006.

Manufacturing and Operations Committee

The Company established the Manufacturing and Operations Committee (with the Manufacturing Sub-committee and the Operations Sub-committee) on 30 September 2005. The principal functions and responsibilities of the Manufacturing and Operations Committee and the respective sub-committees are to consider, approve and oversee our day-to-day manufacturing and operations related strategic development and allocations of resources and make recommendations on new initiatives to the Board for approval. The Manufacturing and Operations Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Lu Guangming George, Mr. Tao Jinxiang and Mr. Cao Junyong. The chairman of the Manufacturing and Operations Committee is Mr. Liu Jinlan. The Manufacturing and Operations Committee had one meeting during the year ended 31 December 2006.

Investment and International Development Committee

The Company established the Investment and International Development Committee on 30 September 2005. The principal functions and responsibilities of the Investment and International Development Committee are to consider, approve and oversee the Group's international market development and investment related initiatives and allocations of resources, and make recommendations on new development initiatives to the Board for approval. The Investment and International Development Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George, Mr. Zhang Yuxiao, Mr. Wu Xinghua and Mr. Tao Jinxiang. The chairman of the Investment and International Development Committee is Mr. Lu Guangming George. The Investment and International Development Committee had one meeting during the year ended 31 December 2006.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges the responsibilities of overseeing the preparation of the financial statements for the year ended 31 December 2006, which give a true and fair view of the state of affairs of the Group for that year. In preparing the financial statements for the year ended 31 December 2006, the Directors have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on the on-going concern basis. The statement of the external auditors about their reporting responsibilities is set out in the Independent Auditor's Report on pages 43 and 44 of this annual report.

AUDITORS' REMUNERATIONS

For the year ended 31 December 2006, the Group paid approximately RMB1,120,000 to the external auditors in respect of audit services. Other than the service fee for reporting accountants of approximately RMB7 million which was incurred in 2005 and 2006 for the listing of the Company's shares on the Main Board of the Stock Exchange, no remuneration has been paid to the external auditors for non-audit services during the year ended 31 December 2006.

INTERNAL CONTROL

The Board acknowledges the responsibilities for the Group's system of internal controls, and is committed to the ongoing development of an effective internal control system to safeguard assets, and to enhance risk management and compliance with applicable legislation and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting. The internal control systems are designed to ensure that the financial and operational functions, compliance control, asset management and risks management functions are in place and functioning effectively. In order to monitor the system effectively, the Group established an internal audit department in January 2007. The internal audit department is responsible for performing regular reviews on the internal control systems of the Group to provide reasonable assurance on the effectiveness, soundness, adequacy and completeness of the Group's internal control systems.

INTERNAL CONTROL - continued

To further strengthen the internal control system of the Group, the Group has engaged Ernst & Young to assist with its review of the internal controls, by conducting an entity-level control review based on the Committee of Sponsoring Organizations of the Treadway Commission internal control framework and assisting the management of the Group in conducting an initial risk assessment. The entity-level control review and initial risk assessment are anticipated to be completed by the end of May 2007 and June 2007, respectively. The Audit Committee will report the findings and recommendations to the Board in the coming board meeting in July 2007 and will follow up on any action plans agreed by the management.

The Board will continue to conduct annual reviews on the internal control system either through the Audit Committee or professional firms in the future and will take all necessary measures to safeguard the Group's assets and shareholders' interests.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. After having made specific enquiry with all Directors by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code from the Listing Date to the date of approval of the annual report.

The Company has also adopted procedures on terms no less exacting than the Model Code in respect of the securities transactions of the employees who are likely to be in possession of unpublished price-sensitive information.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company values its relationship with investors and shareholders and communications with them is a high priority. The Company has assigned its chief financial officer and the company secretary to be the spokespersons of the Company and be responsible for meeting with financial analysts and institutional investors.

In addition to the annual general meeting which is opened to all shareholders and members of the press, the Company will hold analysts briefings and press conferences in the future through various channels to maintain communications for the shareholders with the management of the Company.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xingda International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 89, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
3 April 2007

Consolidated Income Statement

For the Year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Revenue	6	**2,516,189**	2,357,420
Cost of sales		**(1,784,329)**	(1,648,118)
Gross profit		**731,860**	709,302
Other income	7	**73,555**	57,676
Government grants	8	**10,062**	46,649
Selling and distribution expenses		**(90,047)**	(84,324)
Administrative expenses		**(132,872)**	(143,478)
Finance costs	9	**(88,614)**	(84,806)
Loss on fair value adjustment on the convertible bonds		**(158,597)**	(179,599)
Loss on dilution of interest in a subsidiary	10	**—**	(824)
Profit before tax		**345,347**	320,596
Income tax (charge) credit	11	**(478)**	1,526
Profit for the year	12	**344,869**	322,122
Profit attributable to:			
Equity holders of the Company		**194,235**	116,171
Minority shareholders		**150,634**	205,951
		344,869	322,122
Dividend attributable to:	14		
Equity holders of the Company		**18,627**	15,721
Minority shareholders of a subsidiary		**8,200**	11,199
		26,827	26,920
Earnings per share	15		
Basic (RMB fen)		**21.31**	12.91
Diluted (RMB fen)		**21.31**	12.91

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,879,021**	1,670,780
Land use rights	17	**117,783**	120,185
Available-for-sale investments	18	**500**	500
Deposits paid for purchase of property, plant and equipment		**1,017**	1,843
		1,998,321	1,793,308
CURRENT ASSETS			
Land use rights	17	**2,487**	2,485
Inventories	19	**226,045**	303,058
Trade and other receivables	20	**1,573,895**	990,172
Amount due from a minority shareholder	21	**—**	958
Bank balances and cash	23	**1,370,242**	294,301
		3,172,669	1,590,974
TOTAL ASSETS		**5,170,990**	3,384,282
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	24	**129,405**	83
Reserves		**1,776,410**	642,064
		1,905,815	642,147
MINORITY INTERESTS		**652,329**	509,895
TOTAL EQUITY		**2,558,144**	1,152,042
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	25	**200,000**	30,000
Convertible bonds	26	**741,791**	578,297
Government grants	28	**15,000**	7,500
		956,791	615,797

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
CURRENT LIABILITIES			
Trade and other payables	29	**454,139**	437,794
Amounts due to directors	30	**319**	179
Amount due to a related company	31	**607**	15,000
Amounts due to minority shareholders	32	**8,996**	48,408
Tax payable		**24,541**	31,661
Bank borrowings – due within one year	25	**1,159,960**	1,077,560
Convertible bonds	26	**7,493**	5,841
		1,656,055	1,616,443
TOTAL LIABILITIES		**2,612,846**	2,232,240
TOTAL EQUITY AND LIABILITIES		**5,170,990**	3,384,282
NET CURRENT ASSETS (LIABILITIES)		**1,516,614**	(25,469)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,514,935**	1,767,839

The consolidated financial statements on pages 45 to 89 were approved and authorised for issue by the Board of Directors on 3 April 2007 and are signed on its behalf by:

LIU Jinlan
Director

ZHANG Yuxiao
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital contribution reserve RMB'000	Statutory common reserve RMB'000 (note a)	Statutory public welfare fund RMB'000 (note b)	Retained earnings RMB'000	Total RMB'000	Attributable to minority interests RMB'000	Total RMB'000
At 1 January 2005	92,264	—	110,445	(250,510)	34,629	17,315	333,020	337,163	404,301	741,464
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	116,171	116,171	205,951	322,122
Appropriations	—	—	—	—	35,505	17,752	(53,257)	—	—	—
Dividend	—	—	—	—	—	—	(15,721)	(15,721)	(11,199)	(26,920)
Issue of shares upon incorporation	1	—	—	—	—	—	—	1	—	1
Exchange of shares upon group reorganisation (note c)	(92,182)	—	92,182	—	—	—	—	—	—	—
Contribution from shareholders	—	—	—	123,808	—	—	—	123,808	88,192	212,000
Dilution of interest in a subsidiary	—	—	—	—	—	—	—	—	2,074	2,074
Acquisition of additional interest in subsidiaries resulting from group restructuring (note d)	—	—	80,725	—	—	—	—	80,725	(179,424)	(98,699)
At 31 December 2005 and 1 January 2006	83	—	283,352	(126,702)	70,134	35,067	380,213	642,147	509,895	1,152,042
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	194,235	194,235	150,634	344,869
Appropriations	—	—	—	—	34,439	—	(34,439)	—	—	—
Dividend	—	—	—	—	—	—	(18,627)	(18,627)	(8,200)	(26,827)
Transfer (note e)	—	—	—	—	35,067	(35,067)	—	—	—	—
Capitalisation issue (note f)	90,500	(90,500)	—	—	—	—	—	—	—	—
Issue of shares through initial public offering	38,822	1,156,907	—	—	—	—	—	1,195,729	—	1,195,729
Transaction costs attributable to issue of shares	—	(107,669)	—	—	—	—	—	(107,669)	—	(107,669)
At 31 December 2006	129,405	958,738	283,352	(126,702)	139,640	—	521,382	1,905,815	652,329	2,558,144

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

Notes:

(a) According to the Articles of Association of the subsidiaries, Jiangsu Xingda Steel Type Cords Co., Ltd. ("Jiangsu Xingda"), Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd. ("Xinghua Lianxing") and Shanghai Xingda Steel Tyre Cords Co., Ltd. ("Shanghai Xingda"), they are required to transfer 10% of the profit after tax to the statutory common reserve until the reserve reaches 50% of the registered capital. Transfer to this fund must be made before distributing dividends to shareholders. The statutory common reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

(b) According to the Articles of Association of the subsidiaries, Jiangsu Xingda, Xinghua Lianxing and Shanghai Xingda, they are required to transfer 5% to 10% of the profit after tax to the statutory public welfare fund. Transfer to this fund must be made before distributing dividends to shareholders. This fund can be used for the collective welfare of the employees of the subsidiaries in the People's Republic of China (the "PRC"). The public welfare fund is not distributable to shareholders. There has been no utilisation of the public welfare fund during both years.

(c) Special reserve represents the difference between the paid-in capital of Faith Maple International Ltd ("Faith Maple") acquired by the Company and the nominal value of the share capital of the Company through an exchange of shares.

(d) Special reserve arising from the acquisition of additional 11.14% equity interest in Jiangsu Xingda and additional 40% equity interest in Xinghua Lianxing during the group restructuring in 2005.

(e) In accordance with the latest PRC relevant laws and regulations, the unutilised statutory public welfare fund should be transferred to statutory common reserve.

(f) On 3 December 2006, the Company capitalised an amount of HK$89,922,000 (approximately RMB90,500,000) from the amount standing to the credit of the share premium account to pay up in full at par 899,220,000 shares for allotment and issue to persons whose names appear on the register of shareholders of the Company at the close of business on 30 November 2006 in proportion to their then respective shareholdings in the Company.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**345,347**	320,596
Adjustments for:		
Depreciation and amortisation	**152,078**	125,930
Interest income	**(26,823)**	(18,203)
Gain on disposal of property, plant and equipment	**—**	(170)
Impairment loss recognised on trade and other receivables	**4,833**	—
Finance costs	**88,614**	84,806
Expenditure on research and development	**15,723**	26,345
Loss on fair value adjustment on the convertible bonds	**158,597**	179,599
Exchange gain arising on the convertible bonds	**(20,618)**	—
Loss on dilution of interest in a subsidiary	**—**	824
Operating cash flows before movements in working capital	**717,751**	719,727
Decrease (increase) in inventories	**77,013**	(155,399)
Increase in trade and other receivables	**(592,396)**	(227,881)
Increase in trade and other payables	**45,606**	19,302
Increase (decrease) in amounts due to directors	**140**	(1,628)
Increase (decrease) in amount due to a related company	**607**	(3,127)
Cash generated from operations	**248,721**	350,994
Income tax paid	**(7,598)**	(36,763)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**241,123**	314,231
INVESTING ACTIVITIES		
Purchase of and deposit paid for property, plant and equipment	**(407,606)**	(573,130)
Expenditure on research and development	**(15,723)**	(26,345)
Purchase of land use rights	**(123)**	(45,254)
Interest received	**26,823**	18,203
Repayment from a minority shareholder	**958**	7,670
Loans to third parties	**—**	(20,000)
Repayment of loans by third parties	**—**	20,000
Acquisition of additions interest in subsidiaries	**—**	(98,699)
Proceeds on disposal of property, plant and equipment	**—**	513
NET CASH USED IN INVESTING ACTIVITIES	**(395,671)**	(717,042)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
FINANCING ACTIVITIES		
New bank loans raised	**1,917,510**	1,571,060
Proceeds from initial public offering	**1,195,729**	—
Issue of the convertible bonds	**31,706**	414,538
Receipt of government grants	**7,500**	7,500
Repayment of bank loans	**(1,665,110)**	(1,467,260)
Transaction costs attributable to issue of shares	**(82,454)**	—
Interest paid	**(88,614)**	(84,806)
(Repayment to) advance from a minority shareholder	**(45,412)**	11,970
Dividend paid	**(20,827)**	(12,500)
(Repayment to) advance from a related party	**(15,000)**	15,000
Interest paid on the convertible bonds	**(3,910)**	—
Transaction cost in respect of issuance of the convertible bonds	**(629)**	(9,999)
Contribution from shareholders	**—**	212,000
Capital contribution from minority interests	**—**	1,250
Issue of shares	**—**	1
Settlement of contribution payable to shareholders	**—**	(250,510)
Repayment to directors	**—**	(3,070)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**1,230,489**	405,174
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,075,941**	2,363
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**294,301**	291,938
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**1,370,242**	294,301

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of its business is Xinghua City, Jiangsu Province, The People's Republic of China (the "PRC").

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group, as set out in "Corporate Structure and Reorganisation" in the prospectus issued by the Company, dated 8 December 2006. The Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

The Company is an investment holding company and the Group is engaged in the manufacturing and trading of radial tire cords and bead wires.

2. APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

At the date of authorisation of these financial statements, the following new standards, amendment and interpretations were in issue but not yet effective:

IAS 1(Amendment)	Capital Disclosures[1]
IFRS 7	Financial Instruments: Disclosures[1]
IFRS 8	Operating Segments[2]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of Embedded Derivatives[5]
IFRIC 10	Interim Financial Reporting and Impairment[6]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[7]
IFRIC 12	Services Concession Arrangements[8]

2. APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 March 2006

[4] Effective for annual periods beginning on or after 1 May 2006

[5] Effective for annual periods beginning on or after 1 June 2006

[6] Effective for annual periods beginning on or after 1 November 2006

[7] Effective for annual periods beginning on or after 1 March 2007

[8] Effective for annual periods beginning on or after 1 January 2008

The Group has not early applied the above new standards, amendment and interpretations. The directors anticipate that the application of these standards, amendment and interpretations in future periods will have no material financial impact on how the results and financial position of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination (see below) and the minority share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries not involving entitles under common control is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

Goodwill arising on an acquisition of a subsidiary and acquisition of additional interest in a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents accounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Operating leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss for the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Government grants

Government grants are recognised as income on a systematic and rational basis over the periods necessary to match them with the related costs. If the grant is not related to any future expenses and the grant is unconditional, it is recognised when it becomes receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Subsequent to initial recognised for initially-generated intangible assets is cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. When no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Land use rights

Land use rights are accounted for as prepaid lease payments and amortised on a straight-line basis over the lease terms. Land use rights which are to be amortised in the next twelve months or less are classified as current assets.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and amount due from a minority shareholder and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprised of the convertible bonds. Convertible bonds are regarded as compound instruments, consisting of a liability component and the conversion option component, in the case that the conversion option is not settled by the exchange of a fixed monetary amount for a fixed number of equity instruments, the accounting standard requires the issuer to recognize the compound financial instrument in the form of financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The Group, however, has elected to designate all its convertible bonds with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognized directly in profit or loss in the year/period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Other financial liabilities

Other financial liabilities (including bank borrowings, trade and other payables, amounts due to directors, amount due to a related company and amounts due to minority shareholders) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration is recognised in profit or loss.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

4. KEY ACCOUNTING SOURCES OF ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below.

Impairment of trade receivables

An impairment losses in respect of trade receivables is recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment, the Group takes into consideration the estimation of future cash flows discounted at the receivables original effective interest rate. In case where the actual future cash flows generated are less than expected, a material impairment loss may arise.

Valuation of the convertible bonds

The fair value for the convertible bonds is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the area that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the convertible bonds.

5. SEGMENT INFORMATION

The Group's operations are located in the PRC and substantially all of the Group's consolidated revenue and segment profit from operations are derived from the manufacture and trading of radial tire cords and bead wires. Accordingly, no analyses by business segment and geographical area of operations are provided.

6. REVENUE

Revenue represents amounts receivable for sales of radial tire cords and bead wires in the normal course of business, net of discount.

7. OTHER INCOME

	2006	2005
	RMB'000	RMB'000
Sales of scrap materials	**26,762**	29,457
Interest income	**26,823**	17,599
Interest income on loans receivable *(note)*	**—**	604
Gain on disposal of property, plant and equipment	**—**	170
Sundry income	**5,288**	3,893
Net foreign exchange gain	**14,682**	5,953
	73,555	57,676

Note:

It represents interest income on loans of RMB20,000,000 granted by the Group to four individuals holding managerial position in a customer of Jiangsu Xingda during the year ended 31 December 2005. The PRC legal adviser to the Group confirmed and endorsed that the loans granted to the four independent individuals, which had been properly approved and documented, were legal and valid under the relevant laws in the PRC. The directors are of the opinion that the loans were taken out by the four individuals in their personal capacity for the purposes of management buy-out of their own company.

The loans were unsecured and bearing interest at 5.58% per annum. The principal and interest of the loans were originally scheduled to be repaid on 7 March 2007. However, they were fully settled during the year ended 31 December 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. GOVERNMENT GRANTS

	2006 RMB'000	2005 RMB'000
Government grants in terms of incentive fund for the promotion of technological transformation 技改扶持獎勵資金 *(note a)*	—	25,483
Incentive subsidies *(note b)*	10,062	21,166
	10,062	46,649

Notes:

(a) The Group was recognised by The People's Government of Xinghua Municipality 興化市人民政府 as a core entity and a major contributor to the local economy of Xinghua Municipality, the PRC. Subsidies, representing incentive fund for the promotion of technological advance in the area, were granted for its continuing application of advanced technology and research and development activities. There were no specific conditions attached to the grants and, therefore, the Group recognised the grants when it becomes receivable. The subsidies were granted on a discretionary basis to the Group during the year ended 31 December 2005. The Group did not anticipate continuing receipts of the grants in the future.

(b) During the years ended 31 December 2005 and 2006, the Group received incentive subsidies, which were calculated as a percentage of income tax and value-added tax paid, from The People's Government of Xinghua Municipality 興化市人民政府 for the Group's technology research and advancement activities. They were granted on the basis that the Group has achieved economic benefit which was higher than the average result achieved by other enterprises in Xinghua Municipality. There were no specific conditions attached to the grants and, therefore, the Group recognised the grants when it becomes receivable.

9. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on:		
Bank loans wholly repayable within five years	72,328	59,004
Note receivables discounted	16,286	25,802
	88,614	84,806

10. LOSS ON DILUTION OF INTEREST IN A SUBSIDIARY

It represents loss on dilution of interest in Xinghua Lianxing. In February 2005, Xianghua Lianxing which is directly owned by Jiangsu Xingda, raised additional capital from its existing shareholders. The minority shareholder has taken up a larger portion of the additional capital, resulting in Jiangsu Xingda's interest in Xinghua Lianxing being diluted from 90% to 55%. The Group's share of the net assets of Xinghua Lianxing was reduced by RMB824,000, as the amount of additional capital injected by the minority shareholder was lower than the share of net assets of Xinghua Lianxing given up by Jiangsu Xingda.

11. INCOME TAX CHARGE (CREDIT)

	2006	2005
	RMB'000	RMB'000
The charge (credit) comprises:		
Current tax		
Current year	**1,087**	2,633
Overprovision in prior year	**(609)**	—
	478	2,633
Deferred tax *(note 27)*	**—**	(4,159)
	478	(1,526)

The tax charge for the years ended 31 December 2005 and 2006 represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the group entity in the PRC.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's profits neither arises in, nor is derived from, Hong Kong for both years.

Jiangsu Xingda became a sino-foreign joint venture upon becoming a subsidiary of Faith Maple on 10 December 2004. Pursuant to the Foreign-Invested Enterprises and Foreign Enterprise Income Tax Law 外商投資企業和外國企業所得稅法 in the PRC, Jiangsu Xingda was entitled to the exemptions from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. Jiangsu Xingda was exempted from FEIT for the years ended 31 December 2005 and 2006.

11. INCOME TAX CHARGE (CREDIT) - continued

The tax charge (credit) for the year can be reconciled to the profit before tax per the income statement as follows:

	2006 RMB'000	2005 RMB'000
Profit before tax	**345,347**	320,596
Tax at the PRC tax rate of 33%	**113,965**	105,797
Tax effect of fair value adjustment on the convertible bonds not deductible for tax purposes	**52,337**	59,268
Tax effect of expenses not deductible for tax purposes	**54,279**	8,250
Tax effect of income not taxable for tax purposes	**(7,308)**	(1,793)
Tax effect of tax exemption	**(212,163)**	(173,048)
Overprovision in prior year	**(609)**	—
Others	**(23)**	—
Tax charge (credit) for the year	**478**	(1,526)

Details of movements in deferred tax liabilities has been set out in note 27.

12. PROFIT FOR THE YEAR

	2006 RMB'000	2005 RMB'000
Profit for the year has been arrived at after charging and (crediting):		
Staff cost, including directors' remuneration *(note 13)*		
Salaries, wages and other benefits	**180,150**	149,496
Retirement benefits scheme contributions *(note 37)*		
Current year	**4,132**	7,466
Overprovision in prior year	**(4,132)**	—
Total staff costs	**180,150**	156,962
Auditors' remuneration	**1,120**	166
Amortisation of land use rights	**2,523**	1,718
Depreciation for property, plant and equipment	**149,555**	124,212
Gain on disposal of property, plant and equipment	**—**	(170)
Research and development expenditure	**15,723**	26,345
Transaction costs in respect of issue of the convertible bonds	**629**	9,999
Impairment loss recognised in respect of trade and other receivables	**4,833**	—

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

The emoluments paid or payable to each of 13 (2005: 13) directors are as follows:

	2006 RMB'000	2005 RMB'000
Fees	**4,859**	404
Salaries and other allowances	**6,569**	2,603
Bonus *(note)*	**18,942**	10,041
Retirement benefits scheme contributions	**4**	5
	30,374	13,053

Note: The bonus is determined based on the performance of the Group and individual directors.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - continued

Directors - continued

Details of emoluments of individual directors are set out as follows:

Year ended 31 December 2006

	Fee RMB'000	Salary and other allowance RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive Directors					
LIU Jinlan	—	3,116	5,438	1	8,555
LIU Xiang	—	942	5,952	1	6,895
TAO Jinxiang	—	867	6,016	1	6,884
WU Xinghua	—	720	203	—	923
CAO Junyong	—	720	333	—	1,053
ZHANG Yuxiao	—	204	1,000	1	1,205
Non-executive Directors					
LU Guangming George	2,042	—	—	—	2,042
WU Xiaohui	541	—	—	—	541
ZHOU Mingchen	541	—	—	—	541
LIM Mengann	511	—	—	—	511
Independent Non-executive Directors					
KOO Fook Sum, Louis	408	—	—	—	408
William John SHARP	408	—	—	—	408
XU Chunhua	408	—	—	—	408
	4,859	6,569	18,942	4	30,374

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - continued

Directors - continued

Year ended 31 December 2005

	Fee RMB'000	Salary and other allowance RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive Directors					
LIU Jinlan	—	684	2,696	2	3,382
LIU Xiang	—	503	1,729	1	2,233
TAO Jinxiang	—	430	2,736	1	3,167
WU Xinghua	—	433	240	—	673
CAO Junyong	—	433	240	—	673
ZHANG Yuxiao	—	120	600	1	721
Non-executive Directors					
LU Guangming George	—	—	1,800	—	1,800
WU Xiaohui	—	—	—	—	—
ZHOU Mingchen	—	—	—	—	—
LIM Mengann	—	—	—	—	—
Independent Non-executive Directors					
KOO Fook Sum, Louis	135	—	—	—	135
William John SHARP	135	—	—	—	135
XU Chunhua	134	—	—	—	134
	404	2,603	10,041	5	13,053

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - continued

Employees

Of the five individuals with the highest emoluments in the Group, there were three (2005: three) directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 **RMB'000**	2005 RMB'000
Salaries and other allowances	**333**	178
Bonus	**6,767**	3,976
Retirement benefits scheme contributions	**2**	2
	7,102	4,156

Their emoluments are within the following bands:

	2006 (Number of employees)	2005
RMBnil to RMB2,000,000	**—**	1
RMB2,000,001 to RMB2,500,000	**—**	1
RMB3,000,001 to RMB3,500,000	**1**	—
RMB3,500,001 or above	**1**	—
	2	2

None of the directors waived any emoluments for both years.

14. DIVIDEND

	2006 **RMB'000**	2005 RMB'000
Ordinary shares:		
Interim paid – US$232.96 per share	**18,627**	—

14. DIVIDEND - continued

A subsidiary declared dividend to its shareholders prior to the Group Reorganisation and during the year (after elimination of intra-group dividends) as follows:

	2006	2005
	RMB'000	RMB'000
Equity holders of the Company	**—**	15,721
Minority shareholders	**8,200**	11,199
	8,200	26,920

The final dividend of 4.00 HK cents (2005: nil) per share has been proposed by the directors and is subject to approval by the shareholders at the forth coming annual general meeting of the Company.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit attributable to the equity holders of the Company for the year and by reference to the weighted average number of shares of 911,632,877 (2005: 900,000,000).

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share for both years.

The basic earning per share of the Company is the same as the diluted earnings per share for both years.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2005	308,727	—	1,031,077	7,101	12,471	15,126	1,374,502
Additions	33,694	—	39,817	1,891	7,828	588,754	671,984
Reclassifications	4,621	—	203,271	—	—	(207,892)	—
Disposals	—	—	—	—	(515)	—	(515)
At 31 December 2005	347,042	—	1,274,165	8,992	19,784	395,988	2,045,971
Additions	3,168	1,600	46,816	1,625	2,400	302,187	357,796
Reclassifications	59,311	—	184,612	—	—	(243,923)	—
At 31 December 2006	409,521	1,600	1,505,593	10,617	22,184	454,252	2,403,767
DEPRECIATION							
At 1 January 2005	37,866	—	205,813	3,330	4,142	—	251,151
Provided for the year	16,102	—	104,252	1,470	2,388	—	124,212
Eliminated on disposals	—	—	—	—	(172)	—	(172)
At 31 December 2005	53,968	—	310,065	4,800	6,358	—	375,191
Provided for the year	17,767	400	126,001	1,635	3,752	—	149,555
At 31 December 2006	71,735	400	436,066	6,435	10,110	—	524,746
CARRYING VALUES							
At 31 December 2006	337,786	1,200	1,069,527	4,182	12,074	454,252	1,879,021
At 31 December 2005	293,074	—	964,100	4,192	13,426	395,988	1,670,780

16. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment are depreciated over their estimated useful lives and after taking into account of their estimated residual value, on a straight-line basis at the following rates per annum:

Buildings	20 years
Leasehold improvement	Over the term of the lease
Plant, machinery and equipment	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties of the Group were revalued as at 30 September 2006 by DTZ Debenham Tie Leung Limited, an independent valuer. The valuation gave rise to a revaluation surplus of approximately RMB43,785,000 from the carrying amount of the buildings and construction in progress at that date. However, the revaluation surplus was not incorporated in the consolidated financial statements for the year ended 31 December 2006 as the Group accounts for its property interests at cost. Had such revaluation surplus been recognised in the consolidated financial statements for the year ended 31 December 2006, additional depreciation charges of approximately RMB1,970,000 per annum would be incurred.

The Group has pledged property, plant and equipment with a carrying value of approximately RMB764,268,000 (2005: RMB572,521,000) to secure its bank borrowings.

17. LAND USE RIGHTS

	RMB'000
At 1 January 2005	79,134
Additions	45,254
Charge to income statement	(1,718)
At 31 December 2005	122,670
Additions	123
Charge to income statement	(2,523)
At 31 December 2006	120,270

17. LAND USE RIGHTS - continued

Analysed as:

	2006 RMB'000	2005 RMB'000
Non-current assets	**117,783**	120,185
Current assets	**2,487**	2,485
	120,270	122,670

Land use rights are amortised on a straight-line basis over the lease terms from 50 to 70 years as stated in the land use rights certificates.

The Group has pledged land use rights with a carrying value of approximately RMB44,274,000 (2005: RMB4,356,000) to secure its bank borrowings.

18. AVAILABLE FOR SALE INVESTMENTS

	2006 RMB'000	2005 RMB'000
Listed available-for-sale investments	**500**	500

The above investments represent investments in Qingdao Yellowsea Rubber Co., Ltd., listed equity securities in the PRC. The investments provide the Group with an opportunity for return through dividend income and gain on disposal.

As of the balance sheet date, the investment is stated approximately at fair value with reference to the bid price quoted in the active market.

19. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**140,299**	181,759
Work in progress	**17,848**	26,083
Finished goods	**67,898**	95,216
	226,045	303,058

20. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2006	2005
	RMB'000	RMB'000
Trade receivables		
0 - 90 days	**632,378**	638,108
91 - 180 days	**236,585**	90,597
181 - 360 days	**54,528**	405
Over 360 days	**6,082**	4,252
	929,573	733,362
Less: Accumulated impairment loss	**(6,082)**	(4,572)
	923,491	728,790
Note receivables		
0 - 90 days	**356,474**	127,610
91 - 180 days	**181,142**	25,430
181 - 360 days	**2,636**	408
	540,252	153,448
Advance to suppliers of raw materials	**71,903**	60,136
Import tax and value added tax receivable from the PRC customs	**7,619**	10,777
Refundable deposits paid for purchase of land use rights	**—**	8,593
Other receivables and prepayments	**30,750**	28,948
Less: Accumulated impairment losses	**(120)**	(520)
	110,152	107,934
	1,573,895	990,172

20. TRADE AND OTHER RECEIVABLES - continued

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2006 US$000	2005 US$000
United States dollars ("US$")	6,378	1,076

Trade and other receivables at the balance sheet date principally comprise amounts receivable from sale of radial tire cords and bead wires to third parties. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

21. AMOUNT DUE FROM A MINORITY SHAREHOLDER

	2006 RMB'000	2005 RMB'000
Xinghua Municipality Xingdai Trading, Industrial and Agricultural Company ("TIAC")	—	958

TIAC is a minority shareholder of Jiangsu Xingda.

The amount was non-trading in nature. It was unsecured, non-interest bearing and was fully settled during the year.

22. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

Credit risk

The Group's financial assets are available-for-sale investments, trade and other receivables, amount due from a minority shareholder and bank balances and cash. The balances stated on the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to financial assets at the balance sheet date.

The Group's credit risk is primarily attributable to its trade and other receivables (including note receivables). The amounts presented in the balance sheet are net of accumulated impairment loss on receivables. An impairment loss is recognised where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

22. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES - continued

Credit risk - continued

In order to minimise the credit risk, management of the Company has delegated a team from Finance Department responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

Concentration of credit risk

The Group has been largely dependent on a small number of customers for a substantial portion of its business. The top five customers in aggregate accounted for a total of 53% (2005: 59%) of the Group's revenue for the year. The failure of these customers to make required payments could have an adverse financial impact on the Group. The Group has a team from Sales and Finance Department to monitor the trade receivables of each major customer.

Currency risk

A subsidiary of the Company has foreign currency purchases and sales, which expose the Group to foreign currency risk. Certain trade payables, trade receivables, the convertible bonds and proceeds from listing of the Company are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate bank borrowings and convertible bonds. The Group currently does not enter into interest rate swaps to hedge against its exposure to changes in fair value of the bank borrowings and convertible bonds. However, management monitors the fair value interest rate risk and will consider hedging significant fixed-rate bank borrowings and convertible bonds should the need arise.

Price risk

The Group is exposed to security price risk in respect of the conversion option embedded in the convertible bonds which allows the bond holders to convert to the Company's ordinary shares.

In addition to the above financial instruments related risks, the Group is also exposed to price risk in relation to the Group's principal raw material, steel wire rod, that are used in the production have experienced significant price fluctuations. The Group currently have no long-term supply contracts with their suppliers. However, management monitors price exposure and will consider hedging significant price exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits, with an original maturity of three months or less. The bank balances carry variable interest rates ranging from 0.72% to 4.20% (2005: 0.72% to 3.40%) for the year. The directors consider that the carrying amount of bank balances and cash at the respective balance sheet dates approximates to their fair value.

24. SHARE CAPITAL

	Number of shares	Amount	Equivalent to
		US$	RMB'000
Authorised:			
Ordinary shares of US$1 each on incorporation at 31 December 2005 and 1 January 2006 *(note a)*	50,000	50,000	413
		HK$	
Re-denomination from US$ to HK$ *(note e)* and subdivision of shares by 1 into 78 shares of HK$0.10 each *(note f)*	3,900,000	390,000	413
Increase on 3 December 2006 *(note g)*	2,996,100,000	299,610,000	300,997
At 31 December 2006	3,000,000,000	300,000,000	301,410
		US$	RMB'000
Issued and fully paid:			
Ordinary shares of US$1 on incorporation *(note b)*	1	1	—
Increase on 28 April 2005 *(note c)*	99	99	1
Further increase on 28 April 2005 *(note d)*	9,900	9,900	82
At 31 December 2005 and 1 January 2006	10,000	10,000	83
		HK$	
Re-denomination from US$ to HK$ *(note e)* and subdivision of shares by 1 into 78 shares of HK$0.10 each *(note f)*	780,000	78,000	83
Capitalisation of the share premium account *(note h)*	899,220,000	89,922,000	90,500
Issue of shares on 21 December 2006 *(note i)*	386,000,000	38,600,000	38,822
At 31 December 2006	1,286,000,000	128,600,000	129,405

24. SHARE CAPITAL - continued

Notes:

(a) The Company was incorporated on 19 April 2005 with an authorised share capital of US$50,000.

(b) On 25 April 2005, 1 share of US$1 was issued at par to the subscriber to provide the initial capital to Company.

(c) On 28 April 2005, 99 shares of US$1 each were issued at par.

(d) On 28 April 2005, a further 9,900 shares of US$1 each were issued for an exchange of aggregate amount of nominal value of issued share capital of Faith Maple.

(e) On 3 December 2006, the authorised and issued share capital of US$50,000 and US$10,000 of US$1 each were re-denominated to HK$390,000 and HK$78,000, respectively, by adopting the exchange rate of US$1.00 to HK$7.8.

(f) On 3 December 2006, every issued and unissued share of HK$7.8 was sub-divided into 78 shares of HK$0.10 each.

(g) On 3 December 2006, the authorised share capital was increased from HK$390,000 to HK$300,000,000 by the creation of 2,996,100,000 shares.

(h) On 3 December 2006, conditional upon the share premium account being credited as a result of the issue of shares pursuant to the initial public offering, the Company issued an aggregate 899,200,000 shares of HK$0.10 each by way of capitalisation of the amount of HK$89,922,000 from the amount standing to the credit of the share premium account.

(i) On 21 December 2006, 386,000,000 shares of HK$0.10 each were issued at HK$3.08 each pursuant to the initial public offering.

25. BANK BORROWINGS

	2006 RMB'000	2005 RMB'000
Bank borrowings	**1,359,960**	1,107,560
Secured	**589,960**	368,000
Unsecured	**770,000**	739,560
	1,359,960	1,107,560
The borrowings are repayable as follows:		
On demand or within one year	**1,159,960**	1,077,560
In the second year	**75,000**	30,000
In the third year	**125,000**	—
	1,359,960	1,107,560
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(1,159,960)**	(1,077,560)
Amount due for settlement after 12 months	**200,000**	30,000

The weighted average interest rate paid were as follows:

	2006	2005
Fixed-rate bank borrowings	**5.86%**	5.63%

The directors consider that the carrying amount of bank borrowings approximates to their fair value based on the prevailing borrowing rates available for loans with similar terms and maturities.

Bank borrowings were secured by the Group's property, plant and equipment and land use rights with an aggregate carrying value of approximately RMB808,542,000 (2005: RMB576,877,000).

26. CONVERTIBLE BONDS

The movement of the fair value of the convertible bonds with embedded derivative is as follows:

	2006 RMB'000	2005 RMB'000
Nominal value of the convertible bonds issued	**414,998**	404,539
Changes in fair value	**338,196**	179,599
Coupon interest payment	**(3,910)**	—
At 31 December	**749,284**	584,138
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(7,493)**	(5,841)
Amount due for settlement after 12 months	**741,791**	578,297

On 7 May 2005, 29 December 2005 and 18 January 2006, the Company issued convertible bonds (referred to as the "Convertible Bonds" in this note) for an aggregate principal amount of US$30,400,000 ("First Tranche"), US$19,667,000 and US$3,933,000 (together as "Second Tranche"), respectively, to two independent third parties who are entitled to interest payable at 1% per annum. On 13 September 2006, one of the Convertible Bonds holders transferred part of the First Tranche bonds of a face value of approximately US$5,257,000 ("Transferred First Tranche") to another independent third parties.

The terms of conversion are as follows:

For the First Tranche and Second Tranche bonds excluding the Transferred First Tranche bonds, 50% of the outstanding amounts may be converted into shares at any time during the period from six months after 21 December 2006 (the "Listing date") to 30 days prior to maturity date of the Convertible Bonds, which are 7 May 2008, 29 December 2008 and 18 January 2009 (the "Maturity date"). The remaining 50% of the outstanding amounts may be converted in to shares at any time during the period from twelve months after the Listing date to 30 days prior to Maturity date. Each bondholder may require the Company to convert the whole or any part of the principal amount outstanding under the Convertible Bonds into shares at the conversion price of HK$1.853, subject to adjustments. The Maturity date may be extended by the bondholders for a period of one year by giving notice in writing to the Company not less than 14 days to the Maturity date.

For the Transferred First Tranche bond, the bondholder may, at any time during the period from the six months after the Listing date to 30 days prior to the maturity date of the First Tranche bond, which is 7 May 2008, require the Company to convert the entire principal amount outstanding of the Transferred First Tranche bond into shares at the conversion price of HK$1.853, subject to adjustments. The maturity date may be extended by the bondholder for a period of one year by giving notice in writing to the Company not less than 14 days prior to 7 May 2008.

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26. CONVERTIBLE BONDS - continued

On the maturity dates, 7 May 2008, 29 December 2008 and 18 January 2009, the Company is required to redeem all the Convertible Bonds at the redemption amount of US$30,400,000, US$19,667,000 and US$3,933,000, respectively, (plus accrued interest due and payable) if not already converted by that date.

The bondholders may request redemption before maturity date if certain conditions occur.

The Convertible Bonds were fair valued by the directors with reference to a valuation report carried out by Vigers Appraisal & Consulting Limited, independent and recognised international business valuers, whose address is 10/F The Grande Building, 398 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong, on 31 December 2006 at approximately RMB749,284,000 (2005: RMB584,138,000). The change in fair value of the Convertible Bonds amounting to approximately RMB158,597,000 (2005: RMB179,599,000) has been recognised in the consolidated income statement.

The assumptions adopted for the valuation of the Convertible Bonds are as follows:

(1) The estimation of risk free rate has made reference to the yield of Exchange Fund Notes with same duration as the Convertible Bonds;

(2) The estimation of volatility for the underlying share price has considered the historical price movements of those companies engaged in relatively similar industry; and

(3) The dividend yield on the Company's share is approximately 5% per annum.

The bondholders could elect to extend the Convertible Bonds for a period of one year by giving notice in writing to the Company not less than 14 days prior to the maturity date.

The effective interest rate of the Convertible Bonds is ranging from 7.22% to 7.52%.

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities in respect of taxable temporary difference recognised by the Group and movements thereon:

	Taxable temporary difference RMB'000
At 1 January 2005	4,159
Credit to income statement	(4,159)
At 31 December 2005 and 2006	—

The Group has no significant unprovided deferred tax at the balance sheet date.

28. GOVERNMENT GRANTS

	RMB'000
Additions and at 31 December 2005	7,500
Additions	7,500
At 31 December 2006	15,000

The amounts represent government grants received to be used mainly for a technological advancement project which is expected to be completed in 2007. They are recorded as liabilities because the Group has yet to complete the project which will be subject to approval by the Technology Bureau of Taizhou.

29. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	RMB'000	RMB'000
Trade payables		
0 - 90 days	**146,334**	108,257
91 - 180 days	**18,224**	26,579
181 - 360 days	**5,427**	14,169
Over 360 days	**9,071**	6,364
	179,056	155,369
Value-added tax payables and other tax payables	**13,715**	18,560
Accrued staff costs	**78,998**	64,296
Payables for purchase of property, plant and equipment	**113,884**	164,471
Accrued listing expenses	**21,375**	—
Others	**47,111**	35,098
	275,083	282,425
	454,139	437,794

The directors consider that the carrying amount of trade and other payables approximates to their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29. TRADE AND OTHER PAYABLES - continued

The Group's trade and other payables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2006	2005
	(Foreign currencies in thousands)	
Euro	**778**	2,413
United States dollars	**333**	—

30. AMOUNTS DUE TO DIRECTORS

	2006	2005
	RMB'000	RMB'000
WU Xinghua	**208**	—
LIU Xiang	**—**	8
TAO Jinxiang	**41**	—
ZHANG Yuxiao	**70**	171
	319	179

The amounts represent advances from directors, which are non-trading in nature.

The amounts are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying amounts of amounts due to directors approximate to their fair value because of the short maturity of the liabilities.

31. AMOUNT DUE TO A RELATED COMPANY

As at 31 December 2006, the amount represents hotel and catering service fee payable to Xinghua Municipality Xingda Xiu Yuan Hotel Co., Ltd. 興化市興達綉園酒店有限公司 ("Xingda Xiu Yuan"), which is non-trading in nature.

As at 31 December 2005, the amount represented an advance from the preparation committee of Xinghua Municipality Xingda Thermo Power Company Limited 興化市興達熱電有限公司 ("Xinghua Municipality"), which was established on 4 August 2005. Mr. Liu Xiang, is a common director of the Company and Xinghua Municipality.

The directors consider that the carrying amount of amount due to a related company approximates to its fair value because of the short maturity of the liability.

32. AMOUNTS DUE TO MINORITY SHAREHOLDERS

As at 31 December 2006, the amounts mainly represent dividend payable to Jiangsu Xing Hong Da Industrial Co., Ltd. ("Xing Hong Da") and union fees payable to Labour Union of Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Xingda Labour Union").

As at 31 December 2005, the amounts mainly represented dividend payable to Xing Hong Da and cash advanced from Xingda Labour Union, which would be used to settle the construction costs of the staff quarters. Jiangsu Xingda acted as an agent for Xingda Labour Union for the construction of the staff quarters.

The amounts are non-trading in nature. They are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying amount of amounts due to minority shareholders approximate to then fair values.

33. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and related parties are disclosed below:

Name of related party	Nature of transaction	Notes	2006 RMB'000	2005 RMB'000
Xingda Municpality Xingda Xiu Yuan Hotel Co., Ltd. ("Xingda Xiu Yuan")	Provision of hotel and catering services	(a)	**3,482**	3,861
Xingda Labour Union	Rental expenses	(b)	**720**	2,307
	Union fees	(c)	**3,094**	2,663
Surfmax Corporation	Incentive compensation paid for negotiating and procuring the execution of the Convertible Bonds agreements	(d)	**317**	4,045

Notes:

(a) Xingda Xiu Yuan is a limited company whose equity interest is held as to 49% by Xingda Labour Union.

(b) The Group entered into tenancy agreements with Xingda Labour Union, pursuant to which Xingda Labour Union agreed to lease to the Group the premises located in Shanghai and Beijing at a monthly rental of RMB50,000 and RMB60,000, respectively. Leases are negotiated and rentals are fixed for terms from one to three years.

In addition, Xingda Labour Union also agreed to lease the land use rights to the Group at a monthly rental of approximately RMB217,000 for May and June 2005.

(c) The union fees were calculated at 2% on the annual staff salaries and wages of Jiangsu Xingda.

(d) Surfmax Corporation is wholly-owned by Mr. Lu Guangming, George, a common shareholder and director of Surfmax Corporation and the Company. An incentive compensation was calculated at 1% on the principal amount of the convertible bonds issued.

As at 31 December 2005, TIAC acted as a guarantor in respect of the bank loans amounting to RMB445,000,000 granted to the Group. There is no guarantee granted by TIAC to the Group as at 31 December 2006.

During the year ended 31 December, 2005, Faith Maple acquired an additional 11.14% equity interest in Jiangsu Xingda and Jiangsu Xingda acquired an additional 40% equity interest in Xinghua Lianxing from TIAC and Xingda Labour Union.

Details of the balances with related parties are set out in the consolidated balance sheet on pages 46 and 47 and notes 21, 30, 31 and 32 to the consolidated financial statements.

33. RELATED PARTY TRANSACTIONS - continued

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	RMB'000	RMB'000
Short-term benefits	**32,355**	16,584
Post-employment benefits	**6**	6
	32,361	16,590

The remuneration of directors and key management is determined by the Remuneration and Management Development Committee having regard to the performance of individuals and market trends.

34. MAJOR NON-CASH TRANSACTIONS

(1) During the years ended 31 December 2005 and 2006, dividend declared but not yet paid of approximately RMB28,840,000 and RMB6,000,000, respectively, were included in amounts due to shareholders.

(2) During the years ended 31 December 2005 and 2006, property, plant and equipment acquired but not yet paid of approximately RMB164,471,000 and RMB113,884,000, respectively, were included in trade and other payables.

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35. OPERATING LEASE COMMITMENTS

	2006 RMB'000	2005 RMB'000
Minimum lease payments under operating leases during the year	**3,624**	2,541

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2006 RMB'000	2005 RMB'000
Within one year	**2,706**	3,508
In the second to fifth year inclusive	**1,404**	5,204
	4,110	8,712

Leases are negotiated and rentals are fixed for terms from one to three years.

36. CAPITAL COMMITMENTS

	2006 RMB'000	2005 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**85,519**	152,308
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**—**	290,230

37. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 22% of the employees' salaries subject to the minimum requirement in the Xinghua Municipality, which are charged to operations as expenses when the contributions are due.

The Group's contributions to the retirement benefit scheme are charged to the consolidated income statement as follows:

	2006	2005
	RMB'000	RMB'000
Retirement benefit scheme contributions		
Current year	**4,132**	7,466
Overprovision for prior year	**(4,132)**	—
	—	7,466

38. CONTINGENT LIABILITIES

On 1 September 2004, The Shanghai Intermediate People's Court 上海市第二中級人民法院 served a formal notice to Jiangsu Xingda that 30,000,000 shares of Jiangsu Xingda held by Xing Hong Da were frozen. The notice was silent on the prohibition of payment of dividends by Jiangsu Xingda to Xing Hong Da. However, advised by the PRC legal adviser to the Group, pursuant to the 最高人民法院關於人民法院執行工作若干問題規定 (Provisions of People's Court on Several Issues Concerning the Execution (for Trial Implementation)), the relevant enterprise, of which share capital is the subject of the frozen shares, shall be formally notified by the People's Court of the PRC not to (i) take any procedures to effect any transfer of the frozen shares nor (ii) pay any dividends to the person, whose interest in the frozen shares are the subject matter of the prohibition judgment, after the date of receipt of such notice.

Inadvertently, Jiangsu Xingda paid a dividend of RMB6,000,000 to Xing Hong Da on 24 January 2005. The legal adviser to the Group advised that the legal consequence for the payment of the dividend will only be confined to a monetary liability of up to RMB6,000,000 and that the probability of being liable for repayment of the amount is remote.

No provision has been made at 31 December 2005 and 2006 as the directors concur with the legal opinion that the chance of being liable for repaying RMB6,000,000 is remote.

In connection with the above, Jiangsu Xingda has obtained an indemnity from the parties who were shareholders of the Company prior to the listing, to indemnify the Company from time to time against any actions, claims losses, damages, costs, charges and expenses which may be made against, suffered or incurred in respect of arising, directly or indirectly, from or in connection with the dividend payment. The indemnity amount of each shareholder is calculated by the actual amount compensated by Jiangsu Xingda multiplied by the proportional interest of each shareholder.

Notes to the Consolidated Financial Statements

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2006 are disclosed as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Faith Maple International Ltd.	The British Virgin Islands	USD14,083	100%	Investment holding
Jiangsu Xingda Steel Tyre Cord Co., Ltd. 江蘇興達鋼簾線股份有限公司	PRC	RMB134,600,000	69.54%	Manufacture and sale of radial tire cords and bead wires
Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd. 興化市聯興機械製造有限公司	PRC	RMB1,000,000	66.06%	Assembly of plant, machinery and equipment
Shanghai Xingda Steel Tyre Cord Co., Ltd. 上海興達鋼簾線有限公司	PRC	RMB500,000	69.19%	Trading of radial tire cords and bead wires
Xingda International (Shanghai) Special Cord Co., Ltd. 興達國際（上海）特種簾線有限公司	PRC	US$12,000,000	100%	Not yet commenced business

Financial Summary

	Year ended 31 December			
	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	962,789	1,683,179	2,357,420	**2,516,189**
Profit before tax	350,272	515,755	320,596	**345,347**
Income tax (charge) credit	(51,037)	(117,671)	1,526	**(478)**
Profit for the years	299,235	398,084	322,122	**344,869**
Profit attributable to:				
Equity holders of the Company	135,780	185,911	116,171	**194,235**
Minority shareholders	163,455	212,173	205,951	**150,634**
	299,235	398,084	322,122	**344,869**

	As at 31 December			
	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES				
Total assets	1,766,088	2,445,431	3,384,282	**5,170,990**
Total liabilities	(1,165,792)	(1,703,967)	(2,232,240)	**(2,612,846)**
	600,296	741,464	1,152,042	**2,558,144**
Equity attributable to equity holders of the Company	272,367	337,163	642,147	**1,905,815**
Minority interests	327,929	404,301	509,895	**652,329**
	600,296	741,464	1,152,042	**2,558,144**