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.

Management Discussion and Analysis

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.

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.

Management Discussion and Analysis

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.