

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.

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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.

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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 23 August 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)

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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.

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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 (<i>notes 1 and 5</i>)	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 (<i>notes 2 and 5</i>)	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 (<i>notes 3 and 5</i>)	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 (<i>notes 4 and 5</i>)	844,133,164	65.64%
Lu Guangming George	Interests of controlled corporations (<i>notes 6 and 7</i>)	230,490,000	17.92%

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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.

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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%

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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.

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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.

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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 PURSUANT 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%

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

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(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 (<i>note 3</i>)	806,256,942	62.69%
GIC Special Investments Pte. Ltd.	Interest of a controlled corporation (<i>notes 3 & 4</i>)	806,256,942	62.69%
Government of Singapore Investment Corp. Pte. Ltd.	Interest of a controlled corporation (<i>notes 3 & 4</i>)	806,256,942	62.69%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Interest of a controlled corporation (<i>notes 3 & 4</i>)	806,256,942	62.69%
Minister of Finance (Incorporated)	Interest of a controlled corporation (<i>notes 3 & 4</i>)	806,256,942	62.69%
The Goldman Sachs Group, Inc.	Interests of controlled corporations (<i>note 5</i>)	124,707,008	9.70%

Notes:

- 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.

Directors' Report

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

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(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 (<i>note 1</i>)	18,152,000	1.41%
Surfmax-Estar Fund A, LLC	Beneficial owner (<i>note 2</i>)	14,941,000	1.16%
Surfmax Corporation	Held by controlled corporation (<i>note 3</i>)	14,941,000	1.16%
The Goldman Sachs Group, Inc.	Held by controlled corporations (<i>note 4</i>)	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.

Directors' Report

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

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(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.

Directors' Report

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