

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.

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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	—	—	—	—	—

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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.

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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;

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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;

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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 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.

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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.

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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.