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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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	Salary and other allowance	Bonus	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

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	2005
	RMB'000	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	2005
	(Number of employees)	
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	2005
	RMB'000	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 RMB'000	2005 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 RMB'000	2005 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	2005
	US$000	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	2005
	RMB'000	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.

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.

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25. BANK BORROWINGS

	2006	2005
	RMB'000	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	2005
	RMB'000	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.

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.

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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 RMB'000	2005 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

For the year ended 31 December 2006

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